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Balanced growth and economic planning: A critique of S 1795.

Linda Curry Bartholomew

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BALANCED GROWTH AND ECONOMIC PLANNING:
A CRITIQUE OF S.1795

by

Linda Curry Bartholomew

A Thesis

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Professor in Charge

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# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstract</td>
<td>1</td>
</tr>
<tr>
<td>Introduction</td>
<td>4</td>
</tr>
<tr>
<td>A Legislative Approach for Solving the Economic Crisis</td>
<td>6</td>
</tr>
<tr>
<td>Interdependent World Makes Holistic Problem-solving Necessary.</td>
<td>11</td>
</tr>
<tr>
<td>Purpose of the Paper</td>
<td>13</td>
</tr>
<tr>
<td>Chapter 1: The Crisis of U.S. Political Economy—Three Perspectives</td>
<td>16</td>
</tr>
<tr>
<td>A Business Perspective</td>
<td>20</td>
</tr>
<tr>
<td>A Reformist Perspective</td>
<td>21</td>
</tr>
<tr>
<td>A Radical Perspective</td>
<td>23</td>
</tr>
<tr>
<td>Causes of the Economic Crisis: A Business Analysis</td>
<td>25</td>
</tr>
<tr>
<td>Causes of Inflation and Recession: A Reformist Analysis</td>
<td>30</td>
</tr>
<tr>
<td>Causes of Inflation and Unemployment: A Radical Analysis</td>
<td>34</td>
</tr>
<tr>
<td>Solutions to the Crisis: A Business Approach</td>
<td>37</td>
</tr>
<tr>
<td>Solutions to the Crisis: A Reformist Approach</td>
<td>41</td>
</tr>
<tr>
<td>Solutions to the Crisis: A Radical Approach</td>
<td>45</td>
</tr>
<tr>
<td>Counterarguments to Proposed Solutions</td>
<td>49</td>
</tr>
</tbody>
</table>
## CHAPTER 2: WILL NATIONAL ECONOMIC PLANNING HELP SOLVE THE U.S. ECONOMIC CRISIS?

- Political Aspects of National Economic Planning ........................................ 62
- Reducing Inflation and Unemployment through National Economic Planning .... 63
- Reducing Structural Inequities through National Economic Planning ............. 67
- Reducing Government Spending through National Economic Planning ........... 72
- Holistic Policy-Making through National Economic Planning ....................... 75


- Solving the Economic Crisis through Enactment of S1795 .......................... 92
- Reducing Inflation and Unemployment through Enactment of S1795 .............. 93
- Reducing Structural Inequities through Enactment of S1795 ......................... 99
- Slowing Runaway Government Expenditures through S1795 ....................... 101
- Holistic Policy-Making under S1795 ......................................................... 102
- Effective Plan Implementation under S1795 ............................................. 107

## CHAPTER 4: CONCLUSION ................................................................. 111

## BIBLIOGRAPHY ............................................................................. 119

## VITA ....................................................................................... 124
ABSTRACT

The decade from 1965 to 1975 is generally considered as a period of ill health for the U.S. economy. Economic crisis is defined as a time when there exists a combination of severe (greater than 5%) inflation and unemployment; thirty percent of the last decade would be classified as a crisis period under this definition.

Four goals for the U.S. political economy are discussed: reduction of simultaneous inflation and unemployment; reduction of structural inequities; reduction of the government's tendency to outspend its level of revenues; and having a holistic approach to national policy-making.

The economic crisis is examined from three perspectives: a business perspective articulated by Albert T. Sommers, Chief Economist of the Conference Board; a reformist viewpoint voiced by John Kenneth Galbraith; and a radical critique by neo-Marxist James O'Connor. The three economists diagnose the economic crisis as stemming from a variety of causes: rising demands for distributive and social justice; uneven development of two segments of the economy -- the planning system and the market system; and the inherent contradiction of the capitalistic system.
In keeping with their divergent diagnoses, the political economists propose a variety of contradictory solutions to help solve the U.S. economic crisis. Despite their diverse outlooks and proposed solutions, all seem to feel that national economic planning merits further investigation as a possible solution to the U.S. economic crisis.

The paper examines the following propositions:

1. National economic planning (NEP) and enactment of the Humphrey-Javits Balanced Growth and Economic Planning Act in particular could help solve the economic crisis. However, other goals which are set for the political economy may not be achieved by national economic planning, and will not be achieved by S1795.

2. A holistic approach to national economic planning is necessary. The Humphrey-Javits bill provides a mechanism for such an approach. However, the bill does not mandate consideration of the global or social ramifications of plans made under the auspices of S1795.

3. The Humphrey-Javits bill will lead to effective implementation of the plan developed through its mechanism. However, heavy reliance on voluntary compliance is likely to lead to difficulties.

The paper concludes that:

1. National economic planning could help achieve the goal of reduced inflation and unemployment; however, the ability of NEP to alter the political decisions and actions which have contributed to the economic crisis is highly questionable.
2. S1795 has potential for reducing simultaneous inflation and unemployment, as well as some possibility for providing a basis for the coordination necessary for a holistic approach to natural problem solving, although such an approach is not mandated. The other two goals for the political economy probably would not be achieved by enactment of the measure.

3. S1795 does not provide satisfactory assurance that the balanced economic growth plan would be effectively implemented in its totality. Heavy reliance on voluntary compliance makes it likely that unless the political power centers are altered, only those parts of the plan which favor those particular entities would be implemented.
BALANCED GROWTH AND ECONOMIC PLANNING: A CRITIQUE OF S1795

INTRODUCTION

There appears to be general agreement that the U.S. economy is in the throes of a crisis, characterized by rapid inflation coupled with high unemployment and heavy reliance of the economy on government intervention and expenditures. The existence of such a crisis has presented an opportunity for examination of an assortment of goals which various theorists have suggested that the economy should achieve, including redistribution of wealth and income, reduced inflation, lowered unemployment, reduction of government deficit spending, and accommodation of demands for achievement of social goals such as environmental protection and good global citizenship.

Since goals for the functioning of the economy differ, it is not surprising that theorists posit a variety of solutions to the current crisis of the economy. At one end of the spectrum is the voice of the U.S. Chamber of Commerce, arguing that in order for inflation to be reduced, the government should refrain from excessive interference with the economy in order to permit the free enterprise system to right itself from the precarious position in which the government has placed it. Close to the Chamber's position is that expressed by Albert T. Sommers, Chief Economist of The Conference Board, who feels that inflation and unemployment should be
reduced by restraining social demands which have stretched the
economy beyond its ability to accommodate such demands.  
At the
other end of the spectrum are neo-Marxists like James O'Conner who
assert that the fiscal crisis of the state is the harvest of capitalistic
seeds. Since "the capitalistic state must try to fulfill two basic and
often mutually contradictory functions - accumulation and legitimiza-
tion," it brings the fiscal crisis upon itself by socializing more and
more of the capital costs of the economy but permitting the profits of
the economy to be privately appropriated. Critics such as O'Connor
see "a socialist perspective that seeks to redefine needs in collective
terms" as the only complete solution to the fiscal crisis of the
state. O'Connor would set redistribution of income and wealth as
primary goals for the economy, in addition to the reduction of
unemployment and inflation. Somewhere between the spectrum's two
extremes lies another theorist, John Kenneth Galbraith, who is
sensitive to the goal which is emphasized by the business community -

1 Albert T. Sommers, "Inflation, Unemployment and Stabilization
Policy," The Conference Board Record, XIII, 9 (September 1976),
p. 57.

2 James O'Connor, The Fiscal Crisis of the State (New York:

3 Ibid., p. 9.

4 Ibid., p. 255.
reduced inflation - but also feels that lowering unemployment and reducing structural inequities of the society are other important goals which the political economy should achieve. 

A LEGISLATIVE APPROACH FOR SOLVING THE ECONOMIC CRISIS

Two prominent U.S. Senators, Hubert Humphrey and Jacob Javits, have recognized the crisis of the U.S. economy, and have proposed a legislative measure which they believe will provide a mechanism for solving the crisis. These two ranking members of the Joint Economic Committee have co-sponsored S1795, The Balanced Growth and Economic Planning Act, which would establish a procedure for creating a long-term national economic plan. Such a plan is deemed necessary because

the United States is suffering its worst economic decline since the 1930's. The combination of severe inflation and recession has disrupted the Nation's economy and has caused hardship for millions of Americans. Recession and inflation have both revealed basic structural deficiencies in the United States economy and have been intensified by conflicting and erratic short-term economic policies without in many cases providing long-term solutions.

The findings of the bill state that the lack of a long-term national


national economic policy has caused "fundamental imbalances in the economy." 7

The purposes of the Humphrey-Javits bill include: establishment of an Economic Planning Board which would be responsible for developing a draft balanced economic growth plan every two years, taking into consideration long-range economic trends and resource constraints; and provision for appropriate public participation in refining the plan.

Senator Humphrey provided a concise description of the proposed planning procedure in his introductory remarks in the May 21, 1975 Congressional Record:

The bill creates an Economic Planning Board in the Office of the President, composed of three persons nominated by the President with the advice and consent of the Senate.

The function of the Board is to draft a proposed balanced economic growth plan. It does this with the assistance of the Council on Economic Planning, made up of the President's Cabinet and other high-ranking officials, and an Advisory Committee on Economic Planning composed of 12 persons, 4 appointed by the President and 8 appointed by the Congress.

The bill also provides congressional and local participation roles that are of central importance in the planning process. Under the bill, the President will submit his proposed plan to Congress every 2 years. He will also submit copies of his proposed plan to the Governors of each State at the same time that the plan is submitted to Congress.

7Ibid., Sec. 202 (b).
The Joint Economic Committee will be responsible for holding hearings on the proposed plan and for reporting a concurrent resolution to the House and the Senate, approving, rejecting, or modifying the proposed plan.

Prior to holding its hearings, the Joint Economic Committee will receive views and comments on the proposed plan from each of the standing committees of Congress. In addition, the Governor of each State is given the opportunity to submit a report to the Joint Economic Committee responding to the proposed plan. Each Governor's report, as we envision it, will include the views of other local officials and citizens within the State, in accordance with procedures to be established by the Governor. 8

Senators Humphrey and Javits are the prime sponsors of the bill. Other prominent senators such as Henry Jackson, George McGovern, Birch Bayh, and Thomas Eagleton co-sponsored the bill upon its introduction. Several days later Senator Metcalf and Senator Williams were added to the list of co-sponsors.

Upon introducing the bill, Senator Humphrey commented that the Balanced Growth and Economic Planning Act was an extremely important bill, perhaps the most important one which he had authored in his Senate career. He said it represented months of effort on his and Senator Javits' part. 9

Initial public reaction to the planning bill was not nearly so negative as might have been the case in past decades. For

8Congressional Record, 21 May 1975, p. S8831.

9Ibid.
example, an article previewing S1795 by Jack Friedman in the May 18, 1975 New York Times concluded that "At this time Congress, the Administration, the business sector and labor are increasingly receptive to planning - if it does not lead to government control over industry. Sentiment is growing in the United States for more long-term, coordinated government approaches to economic problems. And this is the substance of planning."¹⁰

When hearings were held June 12, 1975, George G. Hagedorn, Vice President and Chief Economist of the National Association of Manufacturers, testified on the Balanced Growth and Economic Planning Act. He stated that

Government economic programs and policies need to be better planned in several respects. More careful consideration needs to be given to which economic functions can best be performed by government, and which are best left to the free market. More attention needs to be given to the long-range effects of government actions, as compared with their immediate effects. Greater recognition needs to be given to the indirect impact of government policies ... which is often not visible to the untrained eye, and is usually not intended by the authors of the policies.

Planning that leads in this direction can provide better guides to government decision-making than we have had in the recent past. Superficial planning, more concerned with setting impressive numerical goals than with devising realistic means for achieving them, can make things worse.¹¹


¹¹George G. Hagedorn, unpublished testimony before the Joint Economic Committee of Congress (June 12, 1975) pp. 9-10.
The bill also has received the support of notables such as Wassily Leontief, recipient of the Nobel Prize in economics and Leonard Woodcock, president of the United Auto Workers.\textsuperscript{12}

After the initial focus on the Humphrey-Javits Balanced Growth and Economic Planning Act, public attention was redirected to the less-comprehensive Humphrey-Hawkins Full Employment and Balanced Growth Act, (S50, HR50), which had a goal of 3\% unemployment within three years. Initial reaction to that bill was much more negative than to the Humphrey-Javits bill, perhaps because S50 was more specific with respect to unemployment goals, while not paying as much attention to the problem of inflation in the economy. A modification of the purpose of the Humphrey-Hawkins bill, but not support for the bill itself, was adopted as a plank of the Democratic party platform for the 1976 presidential campaign.

Thus while the short-term outlook for the Humphrey-Javits Balanced Growth and Economic Planning Act is uncertain, since it died in committee at the end of the 94th Congress and its reintroduction is not guaranteed, it appears quite likely that the concept of national economic planning is one which is beginning to receive serious national consideration, and certainly one which merits further analysis.

INTERDEPENDENT WORLD MAKES HOLISTIC PROBLEM-SOLVING NECESSARY

The world is interdependent economically, socially, and politically, mandating a holistic approach to effective problem-solving at the national level. To illustrate the United States' economic dependence on other nations, it is necessary to look no further than the disrupting effect of the 1973-1974 OPEC oil embargo on the United States' economy. Despite such disruption and nearly two years of rhetoric about becoming energy independent, the dependent condition remains. Latest figures indicate that 41% of the petroleum consumed in the United States is imported.\textsuperscript{13} The United States is also quite dependent on other nations for basic raw materials such as zinc, chromium, etc. - critical items for a highly-industrialized economy such as that of the United States in the 1970's. The country also needs other nations as markets for the output of its industrialized economy. Conversely, the developing nations (e.g., OPEC countries) are dependent upon the United States and other developed countries for technological equipment and processes, and need the industrialized countries as markets for their raw materials.

Global social interdependence is again easy to identify. Perhaps the best illustration is the total disregard for nation-

\textsuperscript{13} U.S., Department of the Interior, August 21, 1976.
state boundaries displayed by environmental pollution. One nation's smokestacks make another nation suffer. Another example is the global communications network which provides the means for cultural interaction and adaptation. Improvement in communications networks also provides increased opportunities for economic interdependence.

Political interdependence can be seen in many ways - groups of nations covenanting to come to the aid of one another in the event of attack (NATO, SEATO, etc.), which in turn contributes to a political determination of the level of a country's military spending, based on the level of spending of one's allies and perceived enemies. The authors of *Mankind at the Turning Point*, a sequel to the Club of Rome-sponsored *Limits to Growth*, suggest that the real limits to growth for the world will be political, not economic, technological, or resource-based. 14

Robert L. Heilbroner ably pictures the current state of global interdependency in *An Inquiry into the Human Prospect*. He concludes that every nation, and particularly the United States, must learn to live as a good global citizen if the civilization of

the planet is to survive.  

PURPOSE OF THE PAPER

This critique of the Humphrey-Javits Balanced Growth and Economic Planning Act will proceed from the proposition that there does exist an economic crisis in the United States which is viewed from various perspectives. As mentioned earlier, this proposition is one which seems to have support from groups as widely divergent as the U.S. Chamber of Commerce and the neo-Marxists. O'Connor, a neo-Marxist, defines the fiscal crisis of the state as the "tendency for government expenditures to outrace revenues."  

George Hagedorn, speaking for the National Association of Manufacturers, characterized the economic crisis as a "steady worsening in the character of business recessions: We had a 'mini-recession' in 1967; an ordinary 'garden-variety recession' in 1970; and finally, what has to be called a 'maxi-recession' in 1975."  

Albert T. Sommers, Chief Economist of the Conference Board, a business research organization, has commented that "the economic record of the United States over the past decade has been such as to justify


16 O'Connor, p. 2.

17 Hagedorn, p. 5.
concern among reasonable persons."¹⁸ John Kenneth Galbraith, noted Harvard economist, comments on the economy's susceptibility to inflation and recession.¹⁹ The Humphrey-Javits bill sees the combination of severe inflation and recession as indicating that there are deficiencies in the structure of the economy of the United States. The bill states that many conflicting short-term economic policies have contributed to the economic crisis without providing long-term solutions.²⁰

This paper will define the primary characteristic of an economic crisis as rapid inflation (greater than 5%) coupled with high unemployment (greater than 5%) over a prolonged (one year or longer) period of time. It will consider a variety of possible causes of the economic crisis by discussing the analyses of Albert T. Sommers, John Kenneth Galbraith, and James O'Connor. Proceeding from this base of analysis, the paper will consider national economic planning as a possible solution to the crisis. Finally, the Humphrey-Javits Balanced Growth and Economic Planning Act will be evaluated as a possible national economic planning mechanism which would solve the U.S. economic crisis.

¹⁸ Sommers, p. 52.
¹⁹ Galbraith, p. 188.
²⁰ S. 1795, Sec. 202 (a).
The following propositions will be examined in this paper:

1. National economic planning (NEP) and enactment of S1795 in particular could help solve the economic crisis of the United States. That is, NEP and S1795 could enable the inflation rate to be reduced to a manageable level while unemployment is also being reduced. However, other goals which are set for the political economy may not be achieved by national economic planning, and will not be achieved by S1795. These goals include changes in the structural inequities underlying the economy, such as the wide disparity between rich and poor. Another goal is the slowing of the tendency for government spending to outrun revenues: NEP may not achieve this goal and S1795 probably will not.

2. A holistic approach to national economic planning is necessary. The Humphrey-Javits bill provides a mechanism for such an approach. Yet the bill does not mandate consideration of the global ramifications of plans made under the auspices of S1795. Moreover, the bill does not overtly consider the necessity or desirability of social planning, nor does it recognize that social planning is a de facto concomitant of economic planning.

3. The Humphrey-Javits Balanced Growth and Economic Planning Act will lead to effective implementation of the plan developed through its mechanism. However, heavy reliance on voluntary compliance is likely to lead to problems such as implementation of only those parts of the plan which serve the interests of society's major power centers (the planning system, monopoly sector, big business, big labor).
CHAPTER 1: THE CRISIS OF U.S. POLITICAL ECONOMY--THREE PERSPECTIVES

During the decade from 1965 to 1975, many traditional indicators of economic health have registered as "sick." This paper will base its reading of economic health on two of these indicators -- the unemployment rate (total) and the inflation rate as measured by the Consumer Price Index (CPI) for all items, seasonally adjusted. In early 1965 the unemployment rate rose above 5%, but quickly declined below that level until mid-1970. At that time, unemployment increased sharply, leading to a prolonged period of between 5 and 6% unemployment through early 1973. From early 1973 to January of the next year, unemployment decreased below the 5% level, then entered another period of sharp increase to a high of 9% in mid-1975. From that time till the end of 1975, the unemployment rate was still above 8%, and showed no real decrease in the first half of 1976. During the period from 1965 to 1975, the unemployment rate was greater than 5% for 5 years, or roughly 50% of the decade. Considering the inflation rate over the same period of time, one finds that from 1965 through mid-1968, inflation was below 5%. From mid-1970 through the end of 1972, the inflation rate dipped below 5% for the last time in the decade. The years 1973 through the end of 1974 saw unprecedented double digit inflation rates of 10%, 11%, and even 12%. In 1975, the rate
lowered slightly, but it was still far above the 5% level. Even the first half of 1976 showed the inflation rate hovering about the 5% level. Over the decade from 1965 to 1975, the inflation rate was greater than 5% for 4 years, or roughly 40% of the time.

Other measures of economic and societal well-being do not generate such universal concern as have the rates of inflation and unemployment. Some of these - such as the ratio of wealthy people to poor people and the small percentage of people holding a large portion of the nation's wealth - have remained fairly constant over a long period of time. For example, in 1947, the upper 20% of families received 43% of total income, while in 1962 the same percentage of families received 42% of total income, and in 1974 the same top 20% received 41% of aggregate national income. Similarly, the lowest 20% of families received only 5% of total U.S. income in 1947, 5% again in 1963, and 5.5% of total U.S. of total U.S. income in 1974. More inequitable than the distribution of income is the distribution of wealth. For example, the Federal Reserve Board reported that the top 5% of the U.S. adult

population held 53% of the wealth of the nation, and the top 20% held 77% of the wealth.\(^2\)

Another indicator of economic well-being has decreased markedly over time. It has generally been considered desirable for government expenditures to be kept at a minimal level; yet total expenditures by all levels of government have been calculated to have increased from 12.8% of GNP in 1945-1950 to 22.4% in 1966-1970.\(^3\) Similarly, attempts to have a national budget which was balanced were seemingly discarded with the adoption, in 1972, of the full-employment budget. This budget serves as a guide to federal spending based on revenues which would be collected by a full-employment economy, rather than on actual revenues collected.\(^4\) Full employment is currently defined as 4% unemployment, although there has been talk of that level being changed to 5%.

The definition employed in this paper for determining a time of economic crisis is when there exists a combination of severe inflation (greater than 5% annually) and severe unemployment (greater than 5% annually). One reason for choosing to consider


\(^3\) O'Connor, p. 97.

\(^4\) Ibid., p. 97.
the combination of severe inflation and unemployment is that in current economic theory, such economic indicators are generally held to be inversely related, i.e., as inflation increases, unemployment decreases, and vice versa. Since recent years have given some evidence that such a relationship, commonly known as the Phillips curve, may not hold true in all circumstances, it was felt that defining the economic crisis as the combination of severe inflation and employment might prove a fruitful starting place. In terms of this definition of economic crisis, 3 of the past 10 years can be considered as crisis years, i.e., 30% of the last decade was a crisis period. Interestingly, all of these crisis years occurred within the last 5 years.

The severity of the crisis has elicited a variety of opinions as to the cause of the problem, and a corresponding number of proposed solutions to the economic crisis. This chapter will examine three different perspectives on the crisis: a business perspective, formulated by Albert T. Sommers, Chief Economist of The Conference Board, a research organization which focuses on business affairs; a reformist perspective, espoused by John Kenneth Galbraith, recently-retired from Harvard University, where he served as Paul W. Warburg Professor of Economics, and former president of the American Economic Association; Sommers, p. 53.
and a radical perspective, propounded by James O'Connor, on the faculty of California State University at San Jose.

A BUSINESS PERSPECTIVE

According to Sommers, the chief cause of the economic crisis is the rise in demands for social and distributive justice which has occurred in the past decade. He bases his analysis on the neoclassical model, which can be characterized as follows: most firms are subject to the market insofar as supply, demand, and price determinations are concerned. The only exceptions to the rule are oligopolies (where the market is shared by only a few firms which can set prices) and monopolies (only one firm for a particular market, with prices generally regulated to prevent excess profits). The role of the state is considered to be supplementary and regulatory. The state is not viewed as being dominated by firms; rather, the state is subject to the voters' wishes through the actions of their elected representatives. Government expenditures are made in response to the will of the people, according to the neoclassical model. It is generally accepted

that the state is responsible for the management of the economy, a notion introduced by Keynes. 7

A REFORMIST PERSPECTIVE

Galbraith views the cause of the crisis in a different light. He believes that uneven development of the economy has given rise to the current economic crisis. He believes that the neoclassical model does not correspond to the current reality of the U.S. economy. In Galbraith's view, the failure of the model to correspond to reality has lead to economic policies which are ineffective in combatting the economic crisis. Galbraith believes that the neoclassical model should be modified to incorporate two separate models of the firm: firms of the planning system and firms of the market system. The planning system, he believes, is comprised of about one thousand big firms which together produce about one half of all the goods and services not provided by the state. These firms, in his estimation, have a much greater ability to set prices, control costs, and control demand for goods. The remaining twelve million smaller firms - the market system - produce the other half of all goods and services not provided by the state. These firms of the market system are subject to market conditions and do indeed behave as the neoclassical model suggests. 8

7 Galbraith, pp. 20-23.
8 Ibid., pp. 42-43.
The role of the state is quite different when viewed from the planning system perspective than when it is viewed from the market system. The planning system has a very close relationship with the state. It relies on the state for stimulation of demand, supply of educated manpower, and the provision and maintenance of the necessary infrastructure for transportation, communication, etc. Without government intervention, the planning system is inherently unstable. 9

In marked contrast, the market system does not have the same need for or entree to the government that the planning system has. 10 The market system, in isolation from the planning system, is inherently self-correcting and stable within boundaries. However, when operating in the same environment as that in which the planning system functions, the market system suffers from government policies which are undertaken to help stabilize the planning system. 11 Galbraith feels that the distribution of public resources reflect the power of the planning system and the relative lack of power of the market system over the state. 12

9Ibid., p. 156.
10Ibid., pp. 159-160.
11Ibid., p. 181.
12Ibid., p. 200.
A RADICAL PERSPECTIVE

James O'Connor believes that the chief cause of the economic crisis is the inherent contradiction of capitalism, that is, that the state must try to fulfill two basic conflicting functions: accumulation and legitimization. By this he means that the capitalist state must provide or maintain conditions under which profitable accumulation of capital is possible in order for the free enterprise system to function. At the same time, the state must create or continue a situation in which social harmony prevails. According to O'Connor, the state is forced to socialize more and more costs to fulfill its role of legitimization; yet at the same time the profits of the system which is legitimized continue to be privately appropriated.

He believes that the economy should be divided into three sectors for proper analysis - the monopoly sector, the competitive sector, and the state sector. In O'Connor's model, the monopoly sector comprises about one third of the labor force of the United States. Firms of this sector can be characterized as those with markets which are national or international in scope. Growth of

13 O'Connor, p. 6.
14 Ibid., pp. 6-9.
production in these firms depends on increases in the ratio of physical capital per worker, and on technological advance rather than on increases in employment.  

Wages and prices in this sector are not set by the market. Prices are administered by the corporations themselves, and wages are determined by productivity, the cost of living, and settlements with the unions. According to O'Connor, the money wages thus set are the main determinant of monopoly sector prices.

The competitive sector, which also employs about one third of the U.S. labor force, can be characterized as being composed of those firms with a low physical capital to labor ratio and low productivity, that is, low output per worker. Growth of production in the competitive sector depends on the growth of employment more than on the growth of capital investment and technical progress. Wages are determined by total demand for the product; upward surges in the wage rate are due to inflation, but they do not keep in line with inflation. Prices in this sector are subject to market conditions; they fall in proportion to increases in productivity.

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15 Ibid., pp. 15-16.
16 Ibid., pp. 20-21.
18 Ibid., p. 19.
The state sector is comprised of the remaining third of the labor force which is involved with production of goods and services organized by the state itself or in production organized by industries under contract with the state. Growth of the state sector serves as a basis for the growth of the monopoly sector, and conversely. This phenomenon is partly attributable to the state's attempt to maintain social harmony while at the same time enabling capital to be accumulated.  

CAUSES OF THE ECONOMIC CRISIS: A BUSINESS ANALYSIS

With their perspectives based on such different models of the economy, and with such different goals for the economy, it is not surprising that each of the three economists/political economists views the economic crisis as stemming from widely divergent causes. Sommers believes that severe inflation is the result of several factors. First, he believes that economic theory has not been comprehensive insofar as determining the effects of economic stabilizers such as social security, unemployment insurance, and government expenditures. Those stabilizers have had secondary, unintended, and unexpected consequences which have contributed to inflation.  

19 Ibid., pp. 7-8.  

20 Sommers, "Inflation, Unemployment and Stabilization Policy," pp. 54-56.
Inflation of the past decade has also been caused in part by a series of what he terms inflationary accidents, including: the rise in the price of oil; the worldwide explosion of food prices; the devaluation of the dollar; imposition of wage and price controls which ended up stimulating inflation; and advanced levels of activity of most major Western economies in the 1973-1974 period, driving up the prices of basic industrial materials; all this coupled with the rapid growth of money supply in the Western world. Sommers also lists the monetarist explanation of inflation -- that it is caused by the rapid growth of money supply in the United States. He cites the fiscalist explanation as well -- that inflation has been caused by a rapid rise in government spending, coupled with a rapid rise in the public deficit. 21

Most of the inflationary accidents listed by Sommers have political causation. For example, the rise in the price of oil was the result of a political determination of the OPEC countries that if they acted as an economic unit rather than as individual countries, they could resist the pressure placed on them by their market, the developed countries, to keep the price of oil, and hence OPEC's

21 Ibid., pp. 56-57.
profits, low. Similarly, the imposition of wage and price controls was a political decision which could be interpreted as the state's acting to maintain social order. Other observers have interpreted the granting to the President of power to impose wage and price controls as a partisan measure which could have placed former-President Nixon in a precarious political position: if he didn't impose controls, he could be criticized for failure to use the tools available to him. This was particularly significant with Nixon's second-term campaign only a year in the future at the time when the power to impose controls was granted to him. However the imposition of wage and price controls is interpreted, the fact remains that it was a political decision. Similarly, the devaluation of the dollar and the rapid growth of money supply in the West also stem from political actions.

Sommers believes that some of the causes of unemployment have little bearing on the rate of economic inflation. In particular he cites the temporary phenomenon of a rapid influx of young workers into the labor force; the rising percentage of women seeking employment; and discrimination in employment.  


Some of these phenomena also have been augmented by political
determination. For example, the increasing numbers of women
seeking work outside the home is related to the enactment of
legislation which prohibits discrimination on the basis of sex; other
legislation which provides funding for day care centers; and tax
legislation which increases tax deductions for child care payments.

Although Sommers believes that some of the causes of un-
employment are independent of the rate of inflation, he does
believe that the evidence supports an inverse relationship between
inflation and unemployment, that is, the relationship portrayed by
the Phillips curve. Sommers describes that relationship as follows:

The Phillips curve does not demonstrate that low un-
employment causes high inflation, or that high un-
employment causes the inflation rate to fall; it states
simply that these pairs of conditions are associated
in the historical record. However, it is often inter-
preted to indicate that the available supply of labor
influences the price of labor, and that the price of labor
is a major element in shaping the trend of prices in general.\textsuperscript{24}

The Conference Board Chief Economist suggests that the evidence
of the past ten years gives reason to believe that inflation and un-
employment are alternating in 4-year cycles, i.e., up and down
the Phillips curve. He does not see this 4-year fluctuation as
being related to the 4-year presidential election cycle, although

\textsuperscript{24} Ibid., p. 53.
others have suggested that such a correlation should be examined. Dr. Charles C. Holt, Director, Inflation and Unemployment Research, with the Urban Institute, has suggested that there is a correlation between the business-cycle and the election cycle in other countries. He also observed that the 1972 election is a good example of over-stimulation of the economy for political ends.²⁵

Sommers believes that the Phillips curve seems to be drifting upward, that is, for any given level of inflation, there exists more unemployment than there was ten years ago.²⁶ He would attribute this upward drift, in part, to the rise in social demands and pressures, without identifying the role of the political in accommodating such demands.

Taken together, the growth of the resource-using programs and the transfers programs augment the pressures of government and of the consumer on the available supply, and tend to constrict the supply available to the private investment sector. In late stages of the 1972-1973 expansion, business borrowed violently in order to augment its bids for its necessary supply; while the emerging scarcities provided an environment in which prices rose rapidly.

²⁵Sommers, Answers to Inflation and Recession, p. 144.

Finally, the United States system has gradually come to accept a commitment to "high employment," as have all major developed nations. The commitment recognizes and expresses the determination of modern societies to provide jobs for all those who seek them. It carries the suggestion that a job is a right conferred by membership in the society; and it may well be that in societies as complex as the United States and comparably developed economies, social and economic conditions, as much as the skills and industry of the individual, control the likelihood of employment. In any event, the presence of the full-employment commitment makes modern societies, and modern labor forces, more impatient with recession and unemployment, and less tolerant, therefore, of the underside of the business cycle than they used to be in a less socially committed area.

More importantly, perhaps, the full-employment commitment (and its associated mechanism of unemployment insurance) greatly reduces the weight of unemployment in wage determination, and imparts an inflationary bias to wage outcomes. Monetarists argue that this bias would not find expression in wage outcomes if it were not underwritten by expansionary monetary policy; that is, under conditions of a relatively stable money supply, wage increases would be self-limiting because they would produce unemployment. But this argues, rather circularly, that the inflationary effects of the commitment to full employment can be restrained by violating the commitment. A practical view of the history of the past decade is that the appearance of unemployment leads to a response of both monetary and fiscal policy, and the more unemployment, the greater the response. In effect, policy "validates" the cost inflation, directing it toward price inflation and away from unemployment.27

CAUSES OF INFLATION AND RECESSION: A REFORMIST ANALYSIS

Sommers’ somewhat piecemeal explanation of the causes of unemployment coupled with inflation stand in marked contrast to the

27 Ibid., p. 56.
comprehensive simplicity of Galbraith's analysis. The controversial economist believes that inflation, which he describes as an enduring increase in prices, is caused by the rise of the planning system, plus the associated appearance of large labor unions. He attributes the cause of what he terms systemic inflation to the interaction of prices and wages within the planning system. This is due in large measure to the fact that the traditional methods of controlling inflation have little impact on the planning system. For example, the reduction of government expenditures generally does not have a major impact on the planning system, since purchases of goods and services from these firms in the planning system usually "can't" be reduced very much, since they involve areas such as national security. Another traditional inflation-controlling measure, increasing interest rates, also has minimal effect on the planning system, according to Galbraith, since the planning system has generally reduced its dependence on borrowed funds by relying on its own earnings. Increasing taxes is another traditional method of controlling inflation; again, such action has little effect on the planning system, since firms in that system have a large degree of control over their own prices, allowing them to pass increased taxes on to the customer.

Galbraith, p. 189.
In contrast to the minimal effect which such measures have on the planning system, the effects on the market system are correspondingly more severe. For example, cuts in government spending generally cause cuts in welfare, housing, education, urban services, etc. - some of which are supplied by the market system and some of which are provided by the civilian portion of the public sector. Increases in the interest rates hurt the market system, which relies heavily on borrowed funds. Increased taxes decrease the profits of the market system, since prices are set by market conditions, not by the firms.  

Galbraith feels that the existence of the planning system prevents the economy from being self-correcting, as the neoclassical model posits. He believes the neoclassical theory holds within the market system, but only in isolation from the operations of the planning system. If demand drops, prices fall in the market system, and unemployment occurs for a short period of time; but since wages can be and usually are cut, the consumption to savings ratio increases, demand rises, and the unemployment drops in the market system. Thus the self-correction of the system takes place. The same is not the case, however, in the planning system. If insufficient demand occurs, then inventories

\[ \text{Ibid., pp. 191-194.} \]
will rise, orders will fall, production will decrease, and unemployment will go up. The difference in the response of the two systems is attributable to the fact that in the planning system, which has control over its prices to a large extent, prices don't fall when demand does; wages can't fall due to union agreements; demand stays low; and unemployment endures.  

Galbraith contends that since the market system operates in the same context as the planning system, unemployment in the planning system affects the market system as well. A recession in the planning system leads to a fall in demand for the market system's goods and services, which leads people in the market system - many more are employed in the market system than in the planning system - to lend political support for government intervention in the economy. Such intervention generally takes the form of government expenditures for planning system products. There is also a ripple effect of unemployment in the market system. Unemployment in the planning system tends to increase unemployment in the market system as well, since those jobless from the planning system search for work in the market system as well as in the planning system.

30 Ibid., pp. 181-183.

31 Ibid., p. 184.
O'Connor views the causes of inflation and unemployment differently. He believes that permanent inflation is a side-effect of the fact that "most gains from productivity increases arising from technical progress . . . are not distributed evenly throughout the population, but rather are 'bottled up' in the monopoly sector by corporations and organized labor." 32 Inflation, that is, wages and prices continually moving upward, would be mitigated if productivity gains were evenly distributed through lowered prices. O'Connor attributes wage inflation in the state sector, where productivity gains are minimal, to the following:

The state sector expands because state agencies and contractors must supply social capital to the monopoly sector and because monopoly sector growth in turn requires that the state devote even more funds to social expenses. Costs of expanding state agencies and programs increase rapidly for two reasons: first, productivity increases are relatively small and thus a rising portion of the total productive forces must flow into the state sector to maintain a constant level of state services per unit of growing outputs. Second, wages are relatively high and increase relatively rapidly. Wages are high because many if not most state services require a skilled and experienced labor force. And wages increase rapidly.

32 O'Connor, p. 21.
because state sector rates tend to be tied to monopoly sector productivity. 33

He also attributes a portion of inflation to the fact that occasionally, when particular state expenditures like distant wars become unpopular, the state resorts to inflationary finance rather than raise taxes. 34 He believes that the cost-push theory of inflation is correct in the sense that the effect of inflation on living standards forces monopoly sector workers to demand higher wages, which leads to more inflationary pressure. Unemployment results when the monopoly sector introduces labor-saving methods in order to protect profits. Such action pushes additional workers into the competitive sector or into dependence on the state. 35

Underlying these causes of inflation and unemployment is what O'Connor considers to be the root cause - that the capitalist state must try to have social harmony while making capital accumulation possible. In his opinion, the stability of the U.S. society has depended on three things:

33 Ibid., p. 30.
34 Ibid., p. 43.
economic expansion overseas and worldwide economic hegemony; the maintenance of harmonious production relations in the monopoly sector; and the socialization of monopoly sector production costs and expenses, together with the private appropriation of profits and the absence of socialization of wage payments. All of those conditions are closely related and each has proved to be inflationary. In a nutshell, stability has required continuing fiscal crisis (or "inflation" of the state budget). 36

O'Connor believes that the U.S. monopoly sector needs foreign markets in order to keep demand at the level of its productive capacity; he cites as evidence the transformation of many corporations into multinationals. 37 The need for foreign markets gave added support for the military-industrial complex, which not only relies upon the U.S. Department of Defense as a market for its products, but also influenced U.S. foreign policy to seek to expand and maintain its foreign markets, according to O'Connor's interpretation. Both such actions have proved to be inflationary. Part of the inflation arises from the low productivity of the monopoly sector; this stems from the lack of incentive for cost control and from the "one-of-a-kind" contracts given by the government for defense. 38 In addition, 36 Ibid., p. 46.

37 Ibid., p. 152.

38 Ibid., pp. 150-158.
O'Connor believes that the government used inflation as a means of financing the war in Southeast Asia, rather than attempt to tax the people and thereby further inflame the protest over that unpopular war. Thus he feels that in the past moderate inflation has been required to maintain social harmony. However, O'Connor believes that the fiscal crisis of the state and the rate of inflation have now reached such mammoth levels that controlling the inflation rate is now required for social stability. This critical dilemma is summarized this way:

On the one hand, monopoly industries must grant increases in money wages to avoid a rupture in relations with labor, even though unit labor costs and prices continuously rise. On the other, domestic inflation worsens the fiscal crisis and tends to reduce foreign demand for U.S. products, cutting into exports and worsening the balance of trade.

SOLUTIONS TO THE CRISIS: A BUSINESS APPROACH

With such diversity of analysis as to the root cause of the economic crisis, it is no wonder that consideration of solutions to the problem produces a wide range of options, from doing nothing and seeing if the system will "right" itself; to basing economic policy on a revised model of the economy; to the creation of a social-industrial complex; to the abolition of capitalism.

39 Ibid., p. 47.
40 Ibid.
Sommers claims that it is clear that there is no one simple solution, or even many complex solutions. He believes that, practically speaking, the goal should be to manage those problems rather than attempt to solve them. He cautions that "the options open are ... necessarily of an evolutionary, developmental character; proposals for sudden, dramatic or violent alteration, whatever their merit, may be simply unlegislatable in an American context." 41

Sommers himself does not support the option held by some in the business community, that is, to do nothing and let the system "right" itself. While he does consider this a defensible position, he feels that inaction now could prove very costly later. Action should be taken now, before another inflationary boom gathers its energy and collides with our national economic policies to produce even worse unemployment effects than we have experienced during the last decade. 42

Sommers arrays a whole grocery list of options which are available in the areas of fiscal policy, monetary policy, labor relations, and other legislative options. He believes that:

41 Sommers, "Inflation, Unemployment and Stabilization Policy," p. 57.
42 Ibid.
Many of the significant options open to us affect the critical interface between government and the private sector, where private efficiency confronts public values. And most of the other options affect the interface between labor and management, where shares of income are determined. Imperfections and anachronisms in these interfaces seem to be responsible for much of our recent cyclical experience of both inflation and unemployment. They are where improvement must be sought. But the interfaces are also the territorial boundaries of ideologies, and any movement of them can be interpreted as an invasion. Our progress thus seems to depend on a suppression of ideological fervor -- a truce to permit pragmatic innovation and evolutionary change.\(^{43}\)

Some of the fiscal options which Sommers lists include:

- requiring that the budget process tie government spending to some percent of aggregate output; using government spending as a means of guaranteeing full employment (this option would almost certainly lead to high inflation unless accompanied by other policies to deter this effect, according to Sommers); and by possibly making the debt limits less easily revisable.

- Options for revision of tax policy include: enlarging the discretionary power of the Executive branch to raise or lower tax rates within a range set by Congress; indexing the rates of the personal income tax to decrease the effect of inflationary rises in income placing people in higher tax brackets without their having

\(^{43}\)Ibid., p. 64.
received a real increase in spending power; and instituting more indirect taxes such as a value-added tax, which would give some incentive for saving, and hence prove to be anti-inflationary. With respect to monetary policy, he raises the question as to whether the Federal Reserve Board's policies should be coordinated more closely with the goals of Congress and the Executive.

Possibilities for revising labor market institutions include: establishment of some type of wage and price guidelines/controls; more aggressive enforcement of antitrust laws; and abandonment of the minimum wage. Sommers believes that the political feasibility of the latter option is quite low, and himself questions how efficacious such an action would be in the mitigation of a crisis such as the country is now faced with. Other legislative options which Sommers suggests might be examined include: public ownership of certain "needed" industries - for example, railroads; a combination of public and private business, which would utilize the government's access to capital and private industry's efficiency of operation; and finally, the option of national aggregate economic planning.  

44 Ibid., pp. 58-64.
Sommers does not offer a comprehensive solution to the economic crisis. In one sense he does not seem to offer much hope that the crisis can be solved. He believes that options such as those listed above should be explored in order to find a way to manage the crisis -- to weather out the storm. He stresses the need for evolutionary change, not radical alteration of the system. Although he does not state it explicitly, one cannot help but wonder whether he considers some of the options he listed as band-aids which will help maintain political stability while the system evolves. The problem is that he offers no model toward which the system should evolve. Thus it appears that one is being asked to have faith that evolutionary change will be for the public good - that progress will be better for all concerned. Both Galbraith and O'Connor question whether such faith is warranted. Their solutions to the current economic crisis are quite different from Sommers' options.

SOLUTIONS TO THE CRISIS: A REFORMIST APPROACH

Galbraith believes that the place for reform to begin is with the emancipation of belief -- that is, that a substitute is needed for the neoclassical model. The next step in reform would be to free

45 Galbraith, p. 230.
the state from the strong influence of the planning system. Galbraith asserts that the state needs to: enhance the power and competence of the market system (health, housing, etc.); redefine policy to discipline the planning system so that it serves the public purpose, through measures to regulate pollution and to eliminate government expenditures which don't serve the public purpose but only foster the growth of the planning system; manage the economy -- or rather, the two economies of the planning system and the market system; offset and hopefully overcome the tendency to inequality between the planning and market systems by adopting measures to directly enhance the equality of return to firms in each system; and take steps to "eliminate the systematically... inflationary tendencies of the planning system. These must not, as in the past, be a source of added power for the planning system. They must not discriminate against the market system. And they must be consistent with greater equality in income distribution as between the two systems."

46 Ibid., p. 241.
47 Ibid., p. 250.
48 Ibid., p. 251.
49 Ibid., pp. 221-222.
50 Ibid., p. 251.
Galbraith outlines specific reform measures which need to be undertaken with respect to the market system. First, he would provide a general exemption from antitrust prohibitions against combination with the intent of stabilizing wages and prices for all small businesses, i.e., those classified as part of the market system. He would also provide for direct government regulation of all prices and production therein. He would encourage the development of strong labor unions in the market system, and push for a large increase in the minimum wage. He also recommends tariff protection for commodities of the market system. He would provide government support for the technological, capital, and educational needs of the market system. And finally, he would provide a guaranteed or alternative income for those who are unable to find employment.51

There are also specific reform measures which Galbraith feels are needed for the planning system. He views the differentials in compensation as well as the level of wages as issues which should be raised in collective bargaining. Tax policy should aim for greater equality within the planning system, as should wage and price policy. He states that "the ultimate structure of the

51 Ibid., pp. 256-262.
A firm should be one in which compensation differentials are greatly narrowed.\textsuperscript{52}

In addition to these specific reform measures for each system, Galbraith outlines some measures to be undertaken for general reform. Government expenditures should be related to the public purpose, not the planning system's benefit. After the needs of the public are determined, taxes should be set accordingly. In his view, taxes should be strongly progressive, both corporate and personal income taxes. Because he believes that the chief cause of the economic crisis is uneven development of the market and planning system, he contends that the taxes which best serve the public goal of greater equality are those which are most efficient in achieving stabilization.\textsuperscript{53} He would advocate a reduction in the use of monetary policy for reducing the economic crisis, since he believes that:

Those who least need to borrow and those who are most favored as borrowers are in the planning system. The planning system is the most highly developed part of the economy, the market system the least developed. Monetary policy thus favors the strongest and most developed part of the economy, discriminates against the weakest and least developed part.\textsuperscript{54}

\textsuperscript{52}Ibid., p. 266.

\textsuperscript{53}Ibid., pp. 305-306.

\textsuperscript{54}Ibid., p. 308.
Finally, Galbraith would impose wage and price controls in the planning system only. He does not believe that such action would necessarily freeze wages and prices at present levels; rather, he feels that increases in wages should be roughly equivalent to the average productivity gain within the planning system. Similarly, the average price of a given product should be fixed, but not the prices of individual products for a particular firm. The goal of the wage controls for the planning system should be to narrow the income differentials, both within the planning system and between

SOLUTION TO THE CRISIS: A RADICAL APPROACH

O'Connor views solution of the economic crisis in yet another way. Theoretically, he states that there are three methods for a state to ameliorate inflation and the fiscal crisis: a managed recession, wage and price controls, or increased productivity. In his analysis, neither of the first two are viable solutions, for reasons which will be enumerated later. Improved productivity in the state and monopoly sectors is the only practical long-run option available to the state, apart from socialism, in O'Connor's view. Improved productivity in the monopoly sector would help to restrain prices and increase production and profits. Increased

55 Ibid., pp. 312-314.
productivity in the state sector would help ease the strain on the state budget. He holds little hope for productivity increases in the competitive sector, due to the small scale of production, the quantity of firms involved, and the lack of coordination within the sector. Even the monopoly sector provides a challenge for increasing productivity, since he feels that direct intervention by the state is only acceptable in times of national emergency, e.g., wartime. Thus O'Connor believes that the state will be compelled to use indirect methods to increase productivity in the monopoly sector; the only place where productivity can be increased directly is in the state sector—a place where improvement is difficult to accomplish and even more difficult to measure. He holds out more hope for indirect improvement of productivity in the monopoly sector.

Such productivity increases in the monopoly sector would best be accomplished through the development of what he terms the "social-industrial complex." Such a development would require certain political changes: monopoly capital would have to establish new (and strengthen existing) ties with the state; the competitive sector's influence (both in the market and politically)

56 O'Connor, p. 51.

57 Ibid., p. 54.
would have to be weakened; and monopoly capital must build new alliances with organized labor to ensure that workers won't be harmed by (and therefore resist) the growth of the social-industrial complex. "In short, the success of the social-industrial complex requires that gains from technical progress be redistributed; they must devolve to monopoly capital and competitive sector workers, not to monopoly and state sector workers."  

O'Connor describes the social-industrial complex as follows:

Politically, the complex consists of the slowly evolving alliance between sections of monopoly capital and the surplus population, together with low-paid monopoly sector labor. Economically, the complex consists of the transformation of social expenses into social capital by mounting socioeconomic programs both to provide new subsidized investment opportunities for monopoly capital and to ameliorate the material impoverishment of the surplus population. Sociologically, the complex consists of the creation of a new stratum of indirectly productive workers -- the small army of technologists, administrators, paraprofessionals, factory and office workers, and others who plan, implement, and control the new programs in education, health, housing, science, and other spheres penetrated by social-industrial capital.

58 Ibid., pp. 56-57.
59 Ibid., p. 57.
60 Ibid., p. 221
O'Connor believes that the social-industrial complex could succeed because its development might make each dollar spent by the government more efficient in the sense that it would help increase economic production, thus broadening the tax base and hence increase the state's income. Viewing the possibilities of the development of such a complex in a realistic manner, O'Connor notes that the competitive sector has little to gain from such a development; organized labor has little or nothing to gain; and the military-industrial complex seems to be ambivalent. Thus he does not view the development of a social-industrial complex as a distinct possibility, given the groups which would not benefit. His major contention is that:

Finally, in the absence of a socialist perspective that puts forth alternatives to every facet of capitalist society and that can help people comprehend every issue from the class nature of budgetary control to the nature of tax exploitation to the process by which the use of technology and science are decided, unionists, organizers, and activists will continue to function in a relative theoretical vacuum. Precisely because we live at a time when all strata of the working class relate to each other more and more politically (and at a time when ultimate contradiction is the use of political or social means to achieve individual ends), what is needed is a socialist perspective that seeks to redefine needs in collective terms.  

61 Ibid., pp. 221-222.  
62 Ibid., p. 255.
That is, while O'Connor considers the development of the social-industrial complex as an option which could possibly extend the life of the current capitalistic system, he believes that ultimately the economic crisis will resurface, perhaps in a different form. Thus from O'Connor's perspective, the only comprehensive, long-term solution to the economic crisis is socialism.

COUNTERARGUMENTS TO PROPOSED SOLUTIONS

This chapter has reviewed three different perspectives on the U.S. economic crisis of the 1965 to 1975 period. The analyses, root causes, and solutions to the crisis have proved to be quite different. One other aspect of the perspectives should be considered -- that is, how each critic views the proposed solutions offered by the other two. Such a comparison is not meant to exhaust all possible combinations of critics and solutions, but is rather designed to give the flavor of a debate or panel discussion among the three political economists.

Earlier it was mentioned that Sommers believes that one possible solution would be more rigorous enforcement of antitrust laws. From Galbraith's perspective, such action would be counterproductive. If the antitrust laws' enforcement produced the desired result of stimulating competition, Galbraith points out that this would only result in greater expansion of the industry...
against which the antitrust suit was filed. Since the planning system
exerts a fair amount of control over its own prices, the increased
activity of that particular industry would not lower prices, a primary
goal of increasing competition, and greater development of the
planning sector would result. This is precisely what Galbraith
has identified as being the root cause of the crisis: uneven devel-
opment between the market and planning systems. Thus Galbraith
believes that vigorous antitrust enforcement would exacerbate the
present economic crisis. Sommers argues that most businesses
say that they don't have appreciable power in the selling markets.
They credit -- at least in part -- this minimum power over selling
prices to the antitrust laws. Sommers himself doesn't believe that
antitrust enforcement would completely solve the crisis, particularly
in the context of a commitment to full employment. Unless the full
employment commitment is abandoned or ignored, Sommers
believes that even fully competitive industries will pass on all
cost increases affecting the entire industry, with no fear of
pricing themselves out of the market. Thus antitrust enforcement
would only mitigate the crisis if coupled with other less popular
actions.

63 Galbraith, pp. 216-217.
64 Sommers, "Inflation, Unemployment and Stabilization
Another option considered by Sommers is the adoption of wage and price controls. Galbraith believes that wage and price controls should be imposed only on the planning sector. Such controls would not necessarily freeze wages and prices, but would rather tie them to increases in productivity averaged over the planning system. O'Connor argues that imposing controls on the monopoly sector or on any industry in which wages rise more rapidly than productivity really operates to the advantage of monopoly capital, since the burden of keeping wages down shifts to the government. He also believes that such controls aid the monopoly sector in that they reduce the risk of a downturn in employment, income, production, and finally profits. From the state sector's point of view, controls are advantageous in that the race of state wages to keep up with monopoly sector wages will be slowed. However, since organized labor hates controls, O'Connor thinks that the major disadvantage of wage and price controls from the standpoint of the existing system is that it offers an opportunity for the development of class consciousness—alliances between workers in the monopoly and competitive sectors against the state, rather than having conflicts between labor and capital, as is now the case. O'Connor feels that this potential disadvantage outweighs all the advantages, thus limiting the application of wage and price controls.
controls as a viable solution for preserving capitalistic society.  

O'Connor believes that a socialist perspective is the only lasting solution to the current U.S. economic crisis. Galbraith disagrees to the extent that he believes that the state must be emancipated from the control of the planning system before public ownership could even be considered as a viable option. He offers this contention based on the idea that the planning system's source of power is organization and technical expertise.

According to Galbraith:

> Goals may differ. A public organization will not need a minimum level of earnings to protect its autonomy. Technological virtuosity for its own sake may be more important than growth. But it will not be less concerned with pursuing goals important to its members than the private organization. Nor will there be any greater certainty that these goals will accord with public purpose. In recent times there has been at least as much complaint about the indifference of the Atomic Energy Commission to public interest as that of General Motors.

Galbraith is not totally against public ownership, however. He feels that the case for full public ownership becomes stronger after the state is broken free of the planning system. He also believes that public ownership is almost indispensible in parts of the market system "where inability to deploy power and to

65 O'Connor, p. 50.

66 Galbraith, pp. 219-220.
command resources is the problem." Interestingly, Sommers does not inveigh against public ownership as might be expected. He suggests that although there appears to be an American consensus against what he terms substantial public ownership of private facilities, perhaps this is one place where American attitudes need to be reexamined. Galbraith would probably view this suggestion as substantiation of his contention that the state needs to be emancipated from control by the planning sector, since an eminent business economist such as Sommers would probably not suggest such an unorthodox solution if adoption would be detrimental to the interest which he represents. In the same vein, O'Connor would view such a proposal as the next logical step in the rise of state capitalism. Neither Galbraith nor O'Connor would view Sommers' proposal as a step toward socialism; rather they would probably interpret his suggestion as another means by which, in Galbraith's words, the state would be made to serve the private, rather than the public purpose. Sommers would argue that public goals are being foisted upon private industry, and that if public goals are to be served, then

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67 Ibid., p. 220.

some modification of private ownership is perhaps necessary to preserve the vigor of the economy as a whole (within the context of the free enterprise system). He argues that the current conflict between "social goals and private means is painfully evident in the multiplication of government agencies to foster the achievement of the goal indirectly." Thus Sommers would argue for limited government ownership of productive facilities if public goals are to be achieved; Galbraith would argue against such a development unless the state were freed from the influence of the planning system; and O'Connor would oppose any solution apart from complete public ownership as a perpetuation of the trend which he believes only exacerbates the fiscal crisis on the state.

Sommers believes that the search to solve the economic crisis should not seek to obliterate the business cycle itself. He regards the fluctuation of the free market economy as healthy. He cites the historical record as evidence that the business cycle itself is not solely dependent on inflationary pressures for its energy, but rather as a phenomenon which occurs even during stable price periods and declining price intervals. He adopts the traditional view of the business cycle as a necessary evil:

69 Ibid.
A degree of fluctuation in the system acts to free and reengage resources -- of capital and of labor -- releasing them from inefficient or uneconomic application, and then moving them to more efficient, more economic uses. This is not to say that there are no discomforts associated with this ordinary business cycle fluctuation; there is some destruction of financial wealth and some loss of real output in the course of even a modest recession, and more importantly, there are the human costs of unemployment. But in return for the cruelties to individual owners and workers, the system as a whole reaps a reward in vigor, efficiency, and long term growth of living standards. This trade-off of short-term discomfort for some against longer-term improvement for all may not be perfectly satisfactory, but the cost to the system of obliterating the mixed blessings of the ordinary business cycle is generally thought of as rather high -- in terms of intervention within the structure of the system to stabilize its internal relationships; in terms of the consequent concentration of power in government; and, perhaps, also in terms of losses of personal freedom. All Western economies face this structural (and philosophical) trade-off. The greater the effort to stabilize the natural cycle, the more interventions of government, the more discretionary power required by government and (some would argue) the less the long-term vigor.

O'Connor does not overtly state that an economy operating under a socialist perspective would eliminate the business cycle, but he does criticize the managed recession as a solution to the economic crisis. He believes that with the state's commitment to legitimization as well as accumulation, it cannot afford to permit or engineer recessions to maintain economic health. His argument runs as follows:

\[\text{\textsuperscript{70}}\text{Ibid.}, \text{p. 54.}\]
The first option open to the state is to use fiscal and monetary policy to reduce aggregate demand, increase unemployment, and weaken unions in the monopoly and state sectors. Assuming that labor's bargaining power is effectively reduced, the positive result of managed recession from the standpoint of capital and the government is to reduce the rate of increase of money wages (and potentially unit labor costs) and interest rates, and indirectly to slow down the growth of price inflation. But there are negative effects. One is the reduction of aggregate demand and sales which creates unused productive capacity. This tends to reduce labor productivity and raise unit labor costs, which produces a special kind of cost-push inflation. Another negative effect is to increase unemployment and underemployment and thus the number of people dependent on the state budget. Managed recession simultaneously reduces aggregate wage and profit income, lowers the tax base, and cuts into tax receipts, which squeezes the budget from the revenue side.\(^7^1\)

O'Connor sees the managed recession as contributing to the fiscal crisis of the state. Sommers would say that this is true only in the context of a full employment commitment. O'Connor would return that that is the only context in which any method should be considered.

Finally, it is instructive to consider briefly the views of each political economist on the subject of national economic planning. This topic will be examined in greater depth in the next chapter, but a brief look at each man's opinion will be included here for completeness.

\(^7^1\)O'Connor, p. 48.
Sommers contends that aggregate economic planning would be a highly educational exercise. However, he feels that while "an intensified effort at planning is certainly a reasonable option, ... both the hopes and fears raised by the term may be exaggerated by ideological rhetoric."\textsuperscript{72}

Galbraith is convinced of the need for national coordination. So long as there is private planning, he believes there will be a need for public planning. However, he cautions that it will be most difficult to foster planning which serves the public, rather than the private planning system's purpose.\textsuperscript{73}

O'Connor states that the development of a social-industrial complex will "require much more economic and social planning in transportation, urban development, education, and other spheres -- precisely the kind of planning that monopoly capital (especially in technology-intensive growth industries) is capable of and that small-scale business abhors."\textsuperscript{74}

\textsuperscript{72}Sommers, "Inflation, Unemployment and Stabilization Policy," p. 64.

\textsuperscript{73}Galbraith, pp. 318-319.

\textsuperscript{74}O'Connor, p. 225.
Thus we see that regardless of their perspective on the root cause(s) of the economic crisis, these three political economists view national economic planning as an option which should be considered. The next chapter will deal with this option in greater depth.
CHAPTER 2: WILL NATIONAL ECONOMIC PLANNING HELP SOLVE THE U.S. ECONOMIC CRISIS?

In order to test the proposition that national economic planning (NEP) could help solve the U.S. economic crisis, it is necessary to consider whether NEP will help in achieving the goals which various theorists feel that the political economy should achieve:

1. National economic planning will enable the inflation rate to be reduced to a manageable level while unemployment is also being reduced;

2. National economic planning will change the structural inequities underlying the economy; for example, it will change the wide disparity in levels of income, and the unequal distribution of wealth;

3. National economic planning will slow the tendency of government spending to outrun revenues;

4. National economic planning will provide a holistic approach to national policy-making - an approach which is necessary since the U.S. must learn to live as part of an interdependent world.

National economic planning is a concept which has a variety of definitions and connotations. As Herbert Stein, Professor of Economics at the University of Virginia, has noted:

Careful consideration of the proposals for more economic planning is made almost impossibly difficult by the lack of any precise and agreed meaning for the term "economic planning." Its opponents sometimes talk as if it means converting the United States into the Gulag Archipelago. Its supporters sometimes seem to mean that the American economy should be run like a progressive kindergarten, in which the pupils reach a consensus each morning on what
they will do that day - who will pour the lemonade and who will serve the cookies. But the first interpretation is not inevitable and the second is not possible.\(^1\)

Stein goes on to consider a variety of possible definitions of planning, as compiled by Vera Lutz in her book, *Central Planning for the Market Economy*.

Any discussion of comparative economic systems must keep in mind that the terms "central economic planning" and "planned economy" have both in recent times been applied to differing concepts which still need to be kept apart. The first term, sometimes replaced by the second, is used to refer to three distinct things:

a. a system of integral planning from the centre, implying that all economic operations are centrally "guided," "coordinated," or "directed" by a "National Plan";

b. a system of partial planning from the centre, entailing measures of government intervention for purposes of modifying specific aspects of the pattern of production, consumption, or distribution;

c. the government's programme for the public sector of the economy, or what M. Masse calls the "Plan of the State" as distinct from the "National Plan" of which it would constitute only a part.

The second term is used in still a further sense:

d. to denote that every economy is "planned" in the sense that the various economic agents (government departments, local authorities, public enterprises, private firms, households, etc.) almost all engage individually in some sort of forward planning or "programming" of their activities.\(^2\)

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This paper will consider national economic planning in the sense of definition (a), that is, national economic planning will be considered as a centrally-guided system of planning for the entire economy.

This chapter will first examine the ability of centrally-guided NEP to reduce inflation and unemployment simultaneously. Chapter one listed a number of possible contributory factors to the simultaneous inflation and unemployment experienced in the past decade, including: rising demands for social and distributive justice; failure of current economic theory to identify secondary effects of economic stabilizers such as social security and unemployment compensation; worldwide rise in the prices of oil and food; devaluation of the dollar; wage and price controls; uneven development of two different parts of the economy - the planning system and the market system; failure to distribute productivity gains evenly throughout the economy; and the increasing number of workers who are dependent on the state.

Of this list of possible contributory factors to the economic crisis, only one can be considered as being essentially economic - the failure of economic theory to identify the secondary effects of economic stabilizers such as unemployment compensation and social security, although these measures themselves were instituted.
for political reasons. Thus it seems important to consider the political aspects of national economic planning when attempting to assess whether NEP will help achieve certain goals set for the economy.

POLITICAL ASPECTS OF NATIONAL ECONOMIC PLANNING.

Buchanan and Tullock, of Virginia Polytechnic Institute's Center for Public Choice, argue that a change in bureaucratic structure (for example, the establishment of an Economic Planning Board) will not change the political interests which now oppose many of the changes advocated by those who support national economic planning as a means of achieving their goals for the political economy. Buchanan and Tullock also question the assumption made by many supporters of national economic planning that ignorance is preventing the achievement of many economic goals.\(^3\) That is, the two economists vehemently disagree with those who believe that if enough economic data is gathered, organized, disseminated, and used as the basis of policy-making, then hitherto unachievable goals will be reached, due to improved information. They feel that if goals are not achieved under the present economic system, it is chiefly due to political considerations; and in order to consider whether NEP is the best way to

attain goals not being achieved currently, they believe it is necessary for overt recognition of the political aspects of planning. 4

With Buchanan and Tullock's arguments regarding the political aspects of NEP as a backdrop, the next consideration is the question of the ability of NEP to achieve the goal of simultaneous reduction of inflation and unemployment.

REDUCING INFLATION AND UNEMPLOYMENT THROUGH NATIONAL ECONOMIC PLANNING

Rising demands for social justice and equity of economic distribution were listed as possible contributory factors to the current economic crisis. If NEP were able to weigh and constrain such demands to the level and pace which the economy could accommodate, then NEP could help reduce those portions of inflation and unemployment which were attributable to rising social demands. For example, the commitment to full employment has been maintained even at a time when there is a temporary rapid influx of young workers into the labor force, a rising proportion of women seeking employment in the marketplace, and an attempt to eliminate discrimination in employment. A national planning mechanism might have had the foresight to attempt to moderate the full employment commitment to take into account the changing

4Ibid., p. 265.
composition of the labor force. However, whether the groups supporting the interests of women, minorities, and young workers would have sanctioned such a modification of the full-employment goal is doubtful, unless guarantees were made that their particular interests would be protected in any modification of the full employment commitment.

Another contributory factor to the current bout of severe inflation and unemployment was the worldwide jump in the prices of oil and food. It is possible that had NEP been in effect prior to the OPEC oil embargo, some type of contingency plan might have been developed to provide directives as to what steps should be taken if "highly unlikely" but potentially disastrous events such as an oil embargo should occur, in order to minimize the impact of such events on the U.S. economy.

Wage and price controls were also listed as being contributory to the economic crisis. The application of controls was made in a political context, and there is no reason to believe that a national economic planning board would have been able to withstand the pressure for bringing inflation to a reasonable level prior to a presidential election, only to have the inflation reoccur at a later time with much greater momentum.
Uneven development of two different segments of the economy -- the planning system and the market system -- has also been listed as a cause of severe inflation coupled with severe unemployment. According to Galbraith's analysis, policies to combat the crisis would have to differentiate between the two types of firms. For example, if wage and price controls were directed solely to the planning system, they could help alleviate the crisis.  

National economic planning would have to prescribe differing policies -- one set prescribed to further the development of the market system, and one set designed to curb the planning system -- in order to reduce that portion of inflation and unemployment which is attributable to the planning system's developing at a faster rate than the market system. Whether such differentiation of NEP policies is politically feasible remains questionable. On the one hand, since the planning system does not represent many votes, it is possible that Congress could influence NEP in a manner which does favor the market system over the planning system. On the other hand, the power of the planning system, particularly with the aid of the Executive Branch, could counterbalance its lack of people.

One other factor which some consider as causing the rampant inflation and unemployment of the U.S. economy is the fact that the

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5 Galbraith, p. 314.
state is forced to socialize more and more costs in order to fulfill its role of fostering social harmony, while the profits continue to accrue to the private sector. One proponent of this view, James O'Connor, has argued that most of the productivity gains from technical advances are distributed solely to the monopoly sector, rather than being distributed to the entire society through lowered prices. Permanent inflation is seen as resulting from this uneven distribution of productivity gains. Unemployment is viewed as part of the larger problem of an ever-increasing number of workers who are dependent on the state. Monopoly sector growth tends to create technological unemployment, compelling more and more workers to seek employment in the competitive and state sectors. If these sectors cannot absorb the surplus population, unemployment increases.

National economic planning could possibly mitigate the situation if it would foster the growth of a social-industrial complex. O'Connor asserts that the development of the social-industrial

6 O'Connor, pp. 6-9.
7 Ibid., pp. 21-22.
8 Ibid., pp. 45-46.
complex will require more economic and social planning.  

According to O'Connor,

the hoped-for long-term effect of the more rapid development of the social-industrial complex is an increase in productivity throughout the economy. Such growth might help alleviate the fiscal crisis because each dollar of government expenditure might be more "efficient" in the sense of adding to the economy's long-run productive capacity, thus expanding total income and the tax base and easing the burden of financing the budget.  

However, O'Connor views the growth of the social-industrial complex as being - at best - a step which will merely extend the life of the state capitalistic system for awhile. In conjunction with this view, national economic planning will just help to ameliorate simultaneous inflation and unemployment for a short period of time, if at all. He believes that unless national economic planning to reduce inflation and unemployment is done in the context of a socialist perspective, the temporary mitigation of the crisis will reappear in a new form.

REDUCING STRUCTURAL INEQUITIES THROUGH NATIONAL ECONOMIC PLANNING

The second goal which some theorists believe the economy

10 Ibid., p. 225.

11 Ibid., p. 221.

12 Ibid., p. 255.
should achieve is a reduction of structural inequities which underlie the economy, such as wide gaps between levels of income, and the lopsided distribution of wealth. According to Buchanan and Tullock's argument, a change in the bureaucratic superstructure (such as the establishment of a national economic planning board) will not alter the strength and efficacy of the political interests which now oppose changes such as redistribution of income. The plausibility of such a hypothesis is supported by a statement by Albert Sommers, of the business-supported Conference Board, when speaking of modifying the structural inequities inherent in today's economy. He believes that "the options open are thus necessarily of an evolutionary, developmental character; proposals for sudden, dramatic or violent alteration, whatever their merit, may be simply unlegislatable in an American context."\(^{13}\) He says that he doesn't mean to imply that innovation should be ruled out completely, but he does believe that "the introduction of new devices deemed to be desirable in principle must proceed carefully, with frequent pragmatic checkpoints..."\(^{14}\)

\(^{13}\) Sommers, "Inflation, Unemployment and Stabilization Policy," p. 57.

\(^{14}\) Ibid.
Galbraith concurs with Buchanan and Tullock's argument that establishment of a new bureaucratic mechanism such as national economic planning will not in and of itself assure that structural inequities of the economy will be altered. He believes that unless actions are taken to free the state from the influence of the planning system, national economic planning would merely perpetuate the planning system's influence, disguised as the public purpose. The corollary of this would be that the structural inequities would only be modified insofar as the planning system would profit from such modification.

However, Galbraith also sees that national economic planning does provide an opportunity for reducing structural inequities if the state is freed from the influence of the private planning system. Should this occur, he feels that public planning can be organized in such a way that it can "anticipate disparity and... ensure that growth in different parts of the economy is compatible. The latter on frequent occasion will require conservation -- measures to reduce or eliminate the socially least urgent use. On other occasion it will require public steps to expand output."

15 Galbraith, p. 241
16 Ibid., p. 318.
The measures by which inequities would be reduced under Galbraith's system were elaborated on in chapter 1: measures which would enhance the power and competence of the market system; measures which would discipline the planning system in order to bring its actions to serve the public purpose. Some of these included provision of a guaranteed or alternative income; tax policies which seek to achieve greater equity; and wage and price controls in the planning system only. Presumably, such measures would be enacted by the legislature acting in conjunction with policies set forth by the national economic planning body, although Galbraith is not clear as to what type of body would most effectively accomplish such public purpose planning, and how such planning would interface with existing legislative, judicial, and administrative bodies.

O'Connor's chief concern with structural inequities focuses on the fact that more and more social costs are born by the taxpayers in general while the profits accruing from such expenditures are privately appropriated. If a socialist perspective were adopted, needs would be redefined in collective terms and national economic planning would as a matter of course eliminate the inequities of the present system. Barring the acceptance of such a socialist outlook, O'Connor sees little hope for the economy achieving the
goals of more even distribution of wealth and income. If the social-industrial complex were to be developed, much more economic and social planning would be required in the areas of transport, education, and redevelopment of urban centers, in his view. Although he believes that such planning would probably be decentralized regional planning, his analysis of the effectiveness of such planning can be extended to the concept of centralized national planning. He believes that corporations of the monopoly sector would dominate the plans which would be formulated; such action would indubitably lead to perpetuation of the economy's structural inequities.

However, O'Connor does recognize that there are efforts by groups such as minorities, women, and community control movements which seek to socialize decision-making from below. Such movements, he feels, will agitate for a different "distribution of the social product between and within the main economic classes and the uses to which the social product is put." Should such groups win the struggle for control of planning, then the distribution of wealth and income would doubtlessly be altered. Whether the

17 O'Connor, p. 227.

18 Ibid., p. 228.
distribution would be any more equitable remains to be seen. Nonetheless, O'Connor does not hold much hope for such activity as effecting a lasting solution unless a socialist perspective is adopted, since he believes that such activities are functioning in a theoretical vacuum. 19

REDUCING GOVERNMENT SPENDING THROUGH NATIONAL ECONOMIC PLANNING

The third goal which some feel the economy should achieve is slowing of the tendency of government spending to outrun revenues. One factor listed as contributing to this problem is that government expenditures are made in response to the wishes of the people and are not constrained by any budgetary criteria, except the newly-created Congressional Budget Committees, which have yet to have a major impact on the economy. 20 If national economic planning would help constrain the rising demands for social and distributive justice to a level which the economy is able to accommodate, then the tendency for government spending to exceed its revenues could be diminished to the extent that such demands contribute to the problem.

19 Ibid., p. 255.

Another factor which contributes to the runaway expenditures problem, according to Galbraith, is the symbiotic relationship which exists between the planning system and the government. The planning system relies on the state for stimulation of demand, supply of educated manpower, and supply of the infrastructure (e.g., communications, transportation, etc.). Without government intervention, the planning system is inherently unstable. The market system in isolation from the planning system does not have the same need for or influence over state expenditures. However, government policies undertaken to help stabilize the planning system tend to cause more suffering (hence greater demand for government intervention) in the market system than in the planning system.

If the state is not freed from the influence of the planning system, national economic planning will not control the tendency of government spending to outrace revenues, unless the planning system begins suffering as much as or more than the market system does from the effects of such cost overruns. However, since planning system firms have tended to minimize their dependence on external financing and generally supply goods and  

21 Galbraith, pp. 156-181.
services to the government which the government terms as necessary, it appears unlikely that the fiscal crisis of the state will hurt the planning system more than it helps it, implying that there will be no serious effort on the part of the planning system to control the tendency of state spending to exceed revenues. Thus the only way such action will occur is if the national economic planning system serves the public purpose rather than that of the private planning system.

O'Connor focuses on the tendency for state expenditures to outrun revenues in his book, The Fiscal Crisis of the State. Since he believes that the fiscal crisis is caused by the inherent contradiction in the two basic functions of the capitalist state (accumulation and legitimitization), no amount of national economic planning which does not address itself to the root cause of the fiscal crisis will be able to eradicate this tendency.

Should a social-industrial complex develop, O'Connor would probably feel that economic planning could help control the tendency for government spending to outrun revenues. It would do this by making the dollars spent by the government more productive in the sense of making the monopoly sector more productive. This in turn increases the revenues of the government, thus bringing

\[22 \text{Ibid., pp. 191-193.}\]
the runaway expenditures under control. Nonetheless, he emphasizes that this is only an interim measure to ameliorate the fiscal crisis, and that the only lasting solution to the crisis is socialism.

HOLISTIC POLICY-MAKING THROUGH NATIONAL ECONOMIC PLANNING

The fourth goal which some economists feel should be achieved is provision of a holistic approach to policy-making, particularly insofar as it would enable the United States to live as a good global citizen, as suggested by Heilbroner in *The Human Prospect*. There is nothing inherent in national economic planning which would preclude such planning from taking place in a global context. That is, there is nothing which would prevent consideration of the effect of the economic policies of the rest of the world on the U.S. economy, and/or the global ramifications of national economic plans. On the other hand, if Buchanan and Tullock's hypothesis is correct, then the former is much more likely to occur than the latter. Many political interests have demonstrated a concern for policy-making which takes into account the impact of other nations' economic policies. Few pressure groups in the United States lobby for U.S. policies which are formulated with sensitivity to the global

\[23\] O'Connor, p. 221.
ramifications of such policies, particularly the effects on the politically powerless. One notable exception is the pro-Israel group, which devotes considerable effort to acquainting policymakers with the effects of their proposed policies on the state of Israel. A new lobbying group with international focus has just been formed. Its membership includes notables such as Dr. Margaret Mead. They plan to lobby for policies which they feel are consistent with good global citizenship. Unless more groups with similar goals are formed, it seems that national economic planning will probably not function as a mechanism for enabling the United States to live with concern for the negative effects which some of its economic policies have on other less-powerful nations.

A second aspect of holistic planning is whether national economic planning can be accomplished without some type of national social planning - either de facto or overt. Without a specific proposal for national economic planning, it is impossible to say with certainty whether this aspect of the holistic planning goal would be accomplished, although the very designation of

planning as being economic seems to indicate that social planning would be de facto, that is, happen as a by-product of economic planning, rather than overt. This aspect of holism will be examined in greater detail in Chapter 3 in the context of a particular NEP proposal.

Thus, centralized national economic planning does offer potential for simultaneous reduction of inflation and unemployment, at least to the extent that the economic crisis has resulted from factors for which there was no significant political motivation; examples of such non-political factors include lack or coordination of economic policies, and failure to provide adequate contingency planning for highly unlikely but potentially disastrous events such as the OPEC oil embargo. However, unless the political power shifts to other interest groups, changes in the structural inequities underlying the economy seem to be fairly unlikely, despite the institution of national economic planning. It also seems appropriate to assign the same low probability of change to the goal of diminishing the tendency for government spending to exceed revenues through the establishment of NEP. Holistic planning could be aided by NEP, but a determination as to its chances of being successful rests upon the content of specific national economic
planning proposals.

The next chapter will examine a particular national economic planning proposal, the Humphrey-Javits Balanced Growth and Economic Planning Bill, in light of these perspectives.

In May 1975, two ranking members of the U.S. Joint Economic Committee introduced a bill, S1795 - The Balanced Growth and Economic Planning Act - which would provide a means by which the United States could confront and hopefully solve the economic crisis. Senators Hubert Humphrey and Jacob Javits spent months of effort on this bill, according to Senator Humphrey's introductory remarks.¹ Their bill would establish a democratic procedure for creating a long-term national economic plan. They consider such a plan necessary because they recognize that the United States is faced with its worst economic decline since the Great Depression of the 1930's, and that many of the structural deficiencies of the U.S. economy have been intensified by "conflicting and erratic short-term economic policies without in many cases providing long-term solutions."² The findings of the bill state that fundamental economic imbalances have resulted from the lack of a long-term national economic policy.³ The bill recognizes that

¹ Congressional Record, 21 May 1975, p. S 8831.
² The Balanced Growth and Economic Planning Act, Sec. 202 (a).
³ Ibid., Sec. 202 (b).
no one government agency is charged with acquiring and maintaining a comprehensive detailed overview of the national economy and the complex interrelationships found therein; and that the lack of such information precludes the identification of emerging problems and detailed comparisons of available solutions. \(^4\) It also recognizes the lack of one governmental body which is responsible for formulating comprehensive "long-term national economic goals, ... identification of available and potential labor, capital, and natural resources; and recommendations for policies to reconcile goals and resources which would enable the Federal Government to determine and rationalize its own impact on the national economy." \(^5\) The Humphrey-Javits bill states that because the federal government's economic decisions directly affect individual citizen's lives, the process by which a national economic plan is formulated should be open and democratic "to enable the citizens of the United States to participate fully in the making of policies affecting the national economy." \(^6\) Finally, the bill states that the country requires national economic goals which are consistent with the nation's economic resources and policies which are

\(^4\) Ibid., Sec. 202 (c).
\(^5\) Ibid., Sec. 202 (d).
\(^6\) Ibid., Sec. 202 (f).
consistent with the goals. Both are necessary in order to "achieve balanced economic growth and promote the economic well-being of all ... citizens." 7

One purpose of the Balanced Growth and Economic Planning Act is to establish an Economic Planning Board, which every two years would be responsible for developing a draft economic plan and policies to achieve the plan's objectives. These objectives would have to take into account the country's anticipated economic needs and goals; available resources; ways to secure adequate raw materials and energy supplies; and long-range economic trends. In order for the Economic Planning Board to be able to prepare, revise, and evaluate the balanced economic growth plan and implementation of the plan, the bill provides for the Board's continued access to economic information and data needed to accomplish such a task. The proposed act also would provide for appropriate public participation in refining and assessing the plan, including participation by state and local governments and regional organizations, business, labor, and consumer groups, executive department and agency assessment, and Congressional review and approval or disapproval by concurrent resolution. 8

7 Ibid., Sec. 202 (g).
8 Ibid., Sec. 203.
The Economic Planning Board to be established by S1795 would be comprised of three members, appointed by the President and confirmed by the Senate. The term of the members is not specified; similar to the way the term of the Federal Reserve Board members is not specified. The Board would be located in the Executive Office of the President. It would be charged with preparing the balanced economic growth plan; seeking active participation by the public at all levels (state, local, regional, private sector) to make certain that all segments of the economy have their views considered in the plan's formulation; making progress reports on the previous (if any) plan's goals and objectives; reviewing federal programs to determine their consistency with the approved plan; and coordinating the long-range planning of federal departments and agencies to assure such consistency in the future. The Board is, of course, authorized to appoint staff to carry out their charge.  

Within the Economic Planning Board there is to be a Division of Economic Information. Through this Division the Board is to acquire from executive departments and agencies the economic information necessary to formulate and assess balanced economic growth plans and perform the other functions required of the Board. All information is to be disseminated so that those involved in assessing the plan (state, local, Congressional officials, businesses, etc.) can participate informedly. This furnishing of  

\[^{9}\text{Ibid., Sec. 204.}\]
information would not be a violation of any antitrust laws if S1795 were enacted.\textsuperscript{10}

There would also be a Council on Economic Planning established within the Economic Planning Board. This Council would consist of the Chairman of the Economic Planning Board; the Secretaries of State, Treasury, Defense, Interior, Housing and Urban Development, Transportation, Agriculture, Commerce, Labor, and Health, Education, and Welfare; the Attorney General; the Chairmen of the Federal Reserve Board, Council of Economic Advisers, and Advisory Committee on Economic Planning; the Federal Energy Administration Administrator; and the Director of the Office of Management and Budget. The Council on Economic Planning would review, revise as it felt appropriate, and approve the Economic Planning Board's draft balanced economic growth plan before it were sent to the President, where it would be submitted to the public for comment.\textsuperscript{11}

An Advisory Committee on Economic Planning would be set up in order to provide the Board with counsel as to the views and opinions of various segments of the public - e.g., business, labor, consumer groups, etc. The Advisory Committee would consist

\textsuperscript{10}\textit{Ibid.}, Sec. 205'.

\textsuperscript{11}\textit{Ibid.}, Sec. 206.
of twelve members, four appointed by the President, four by the House, and four by the Senate. Such members are to receive compensation for participation and reimbursement for expenses. The Committee is authorized to set up regional or industry subcommittees as it finds necessary. Such subcommittees are to be "broadly representative of the particular region or industry, including business, labor, and consumer interests."\(^\text{12}\)

The balanced economic growth plan, having been prepared by the Economic Planning Board with the advice of the Advisory Committee and having been approved by the Council on Economic Planning prior to transmittal to the President, is to be submitted by the President to Congress no later than April 1, 1977, and every two years thereafter. The plan is to contain economic objectives, with

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\text{particular attention to the attainment of the goals of full employment, price stability, balanced economic growth, an equitable distribution of income, the efficient utilization of both private and public resources, balanced regional and urban development, stable international relations, and meeting essential national needs in transportation, energy, agriculture, raw materials, housing, education, public services, and research and development.}\]\(^\text{13}\)

\(^{12}\text{Ibid., Sec. 207.}\)

\(^{13}\text{Ibid., Sec. 208 (a) (1).}\)
The plan is also supposed to identify resources necessary to achieve the stated objectives by forecasting "the level of production and investment by major industrial, agricultural, and other sectors, the levels of State, local, and Federal Government economic activity, and relevant international economic activity, for the duration of the plan."14 The plan is also charged with making recommendations as to appropriate legislative and administrative changes in order to achieve the plan's objectives, including suggestions regarding the growth of money supply, credit needs and interest rates, the federal budget, taxes and subsidies, policy pertaining to antitrust and merger matters, alterations of industrial structure and regulation, and international trade.15

Along with the plan, the President is required to submit a report which contains supporting data for the objectives and policy recommendations listed in the balanced economic growth plan. The report is also to consider longer-term economic trends, and to submit recommended objectives consistent with the same goals which constrain the balanced economic growth plan. The report is also to contain an assessment of the previous balanced economic

14 Ibid., Sec. 208 (a) (2).
15 Ibid., Sec. 208 (a) (3).
growth plan, comparing the actual results with the values forecast in that plan; giving reasons for failure to achieve any of that plan's objectives, any steps still being taken to achieve that plan's objectives, and any revisions to that plan. The report is also to include an analysis of the relationship between the report and the plan; the analysis is to be prepared by the Council of Economic Advisors. 17

At the same time that the President submits the plan and report to Congress, the President is to send copies of the plan to each state's governor, as well as to other appropriate state and local officials. Sixty days later, the governor is to return to the Joint Economic Committee a report containing comments and recommendations from citizens of that state, which were received in public hearings within the state. State, regional, and local planning agencies may have their plans reviewed by the Economic Planning Board to see if they are consistent with the national balanced economic growth plan. 18

16 Ibid., Sec. 208 (b).

17 Ibid., Sec. 2.

18 Ibid., Sec. 209.
The plan and report are to be referred to the Joint Economic Committee of Congress. Within sixty days, each standing committee of the House and Senate and each joint committee of Congress are to submit to the Joint Economic Committee a report with that committee's comments and recommendations regarding the aspects of the plan which fall under the jurisdiction of that committee. The Committees on the Budget of both Houses are to formulate budget policy recommendations for the same time period as the plan.

The Joint Economic Committee is to hold hearings as it deems appropriate to receive testimony from Congressional members, federal agencies and departments, interest groups, and the general public. The committee is also to consider the comments received from the states, containing local and regional comments.

The Joint Economic Committee must report to the House and Senate a concurrent resolution of approval or disapproval of the proposed plan, in whole or in part. If there is disapproval of any part of the plan, the Committee may include additions or alternatives to or modifications of the plan in the concurrent resolution. Such concurrent resolution is to be reported no later than one hundred five days after the plan was submitted to the Congress.
Congress must act upon the concurrent resolution within one hundred thirty five days of the time that the plan was originally received from the President. Once a resolution is adopted, it and all supporting documents and reports are to be submitted to the President. 19

The President may make changes in any part of the plan which was disapproved or not approved by Congress. If changes are made, the modified plan must be published, unless the entire plan had been disapproved by Congress, in which case the President would have to revise the plan and resubmit it to Congress within thirty days after receipt of the concurrent resolution. Congress then has thirty days to approve or disapprove, in whole or in part, the revised plan. 20

Any part of the plan which has been approved is to be implemented by the executive branch. The President, with the assistance of the Economic Planning Board, is to see that the executive departments and agencies carry out their programs in accordance with the approved objectives of the plan. One way of accomplishing that is that any budget requests, proposed legislation,

20 Ibid., Sec. 211.
rules, or regulations which the Board considers as having a potentially significant effect on the achievement of any part of the balanced economic growth plan may be required to be accompanied by a statement which shows how the proposed action is consistent with the plan, or a rationale for any significant departure therefrom. The President and the Board are also to take actions which will encourage the private sector and state and local governments to perform their activities in ways such that the plan's objectives will be aided. 21

The Act also establishes a Division of Balanced Growth and Economic Planning within the Congressional Budget Office, which is responsible for performing long-term economic analysis, including providing information regarding long-term trends and policies necessary for achieving long-term balanced economic growth, as well as other information needed by the committees of Congress in conjunction with the balanced economic growth plan. 22

Finally, the Act provides for an assessment of existing economic information data-gathering analysis and presentation 21Ibid., Sec. 212.
22Ibid., Sec. 213.
techniques, as well as information systems, together with recommendations for improvements and additional information required. This assessment would be submitted at the time of the submission of the first balanced economic growth plan to Congress.\(^{23}\)

Thus the Humphrey-Javits bill would create an Economic Planning Board, whose purposes are to draft a balanced economic growth plan every two years, and to provide for appropriate public participation in refining and approving the plan. In order to accomplish formulation of a draft plan, the Board is to have a Division of Economic Information, which is to obtain and disseminate the comprehensive economic information necessary for formulation and evaluation of such a plan. To provide public input to the plan in its formulative stages, there would be an Advisory Committee on Economic Planning established as an adjunct to the Board. The Committee would be comprised of members which are representative of broad segments of the public.

Once the draft plan is formulated, the Council on Economic Planning, comprised of Cabinet members and other high-ranking government officials of the executive branch, must approve or revise the plan before it is sent to the President. The plan is then

\(^{23}\text{Ibid., Sec. 3.}\)
disseminated to Congress and to state governors and other appropriate regional and local officials, who have sixty days to comment on the plan. The Joint Economic Committee of Congress receives the states' comments and also receives testimony at public hearings, as it deems appropriate. All comments are to be reviewed and incorporated into the report which accompanies the concurrent resolution of approval, disapproval, approval with modification, or partial disapproval. This concurrent resolution must be reported by the Joint Economic Committee within one hundred five days of the time when the plan was initially received by Congress.

Congress must then act upon the resolution within one hundred thirty five days from the time it originally received it from the President. The resolution is then sent to the President, who may accept Congress' modifications, or change any disapproved portions of the plan and resubmit them to Congress within thirty days after receipt of the concurrent resolution. Congress must act on the President's recommendations within thirty days after receipt of them.

The Economic Planning Board, acting in conjunction with the executive branch, is to oversee implementation of the plan, through
encouraging those affected by the plan to adhere to the objectives therein.

SOLVING THE ECONOMIC CRISIS THROUGH ENACTMENT OF SI795

In order to answer the question - "Will enactment of SI795, The Balanced Growth and Economic Planning Act, help solve the U.S. economic crisis?" - it is necessary to consider whether the bill will help achieve the goals listed in Chapter 1:

1. The Humphrey-Javits bill will enable the inflation rate to be reduced to a manageable level while unemployment is also being reduced;

2. The enactment of SI795 will change the structural inequities of the sub-economy, such as the wide gap in income levels and the disparate distribution of wealth;

3. The Balanced Growth and Economic Planning Act will reduce the government's tendency to spend more than it receives in revenues;

4. SI795 will provide a holistic approach to national policy-making.

In conjunction with these propositions, the effectiveness of the bill itself must be considered:

5. SI795 will implement the national economic planning policies formulated under its auspices in an effective manner. However, due to the measure's lack of specific penalties for non-implementation and/or incentive for compliance, it is possible that only those parts of the plan which serve the interests of society's major power centers would be implemented.
REDUCING INFLATION AND UNEMPLOYMENT THROUGH ENACTMENT OF S1795

This chapter will first consider the ability of the Humphrey-Javits measure to achieve the goal of reducing the severe levels of inflation and unemployment which now plague the United States. The bill specifically directs that the balanced economic growth plan contain economic objectives which are set with particular attention to the goals of full employment and price stability, among other things.

Rising demands for justice of distribution of income and increased social pressures are believed to have contributed to the current economic crisis by straining the economy beyond the limits of its capability to adjust. The Humphrey-Javits measure finds that the country requires national economic goals which are consistent with the nation's economic resources. The bill requires that the Economic Planning Board take into account the country's available resources as well as its anticipated needs and goals when the Board sets the objectives of the balanced economic growth plan. Thus there is a possibility that the bill could establish a plan which would constrain social demands to levels which the economy could accommodate. However, the determination of the level of social
demands which could be supported by the economy is almost
certain to be a political determination. If the level determined
politically does not equal or fall below that which would be the
optimum level from a theoretical economic viewpoint, then S1795
will not reduce that portion of inflation and unemployment
attributable to rising social demands.

The tremendous worldwide increase in the price of food and
oil, although related to the goal of recognizing that the nation must
function in a global context, has also been identified as a factor
contributing to the severe levels of inflation and unemployment.
The Balanced Growth and Economic Planning Bill requires that the
plan which is developed should identify resources necessary to
achieve its stated objectives by forecasting relevant levels of
economic activity by the domestic private and government sectors
and the levels of relevant international activity. There is of
course no guarantee that such inflationary events as the OPEC oil
embargo could be forecast accurately, particularly since they are
often politically motivated rather than endemic to the world
economy per se. Moreover, the bill does not explicitly state that
contingency planning should be done in order to help minimize the
effect on the U.S. economy of events which are largely outside the
control of the United States, should they occur. The only time that the impact of such events would possibly be incorporated into the national economic planning mechanism of S1795 is at the end of the two-year period, when the previous plan is to be reviewed and reasons for not achieving the plan's objectives are to be reported along with the new plan. The bill's failure to include a specific provision for contingency planning would probably limit its ability to minimize the inflationary impact of other global political/economic actions which might occur in the future.

Another factor which has been identified as contributing to inflation and unemployment is the failure of economic theory to determine the secondary effects of economic stabilizers such as social security, unemployment insurance, etc. The establishment of a Division of Economic Information within the Economic Planning Board should certainly improve the data base upon which analysis to determine secondary effects is performed, but there is no direct charge within the bill for investigation of the secondary effects of economic stabilizers. Thus it is unclear whether this particular factor would be dealt with under S1795. Moreover,
Buchanan and Tullock have questioned whether ignorance is truly the reason for failure to meet economic goals. Their hypothesis raises the question as to whether there were not political considerations which led to failure to determine the secondary effects of such stabilizers. If such is indeed the case, then there appears to be nothing in S1795 which would alter the political opposition to determining the side effects of economic stabilizers.

The unequal development of the planning and market systems has also been identified as crucial to understanding and solving inflation and unemployment. The Balanced Growth and Economic Planning Act is fairly neutral with respect to Galbraith's analysis, since no particular model of the economy is specified; that is, should Galbraith's model of the economy be adopted by the economic advisors of the Economic Planning Board, there is nothing in S1795 which would prohibit policies based on such a model. On the other hand, there is nothing in the bill which could be construed as actively encouraging policies which vary according to whether they are to be applied to firms in the planning system or the market system. Thus there is no way of determining whether the enactment of S1795 would foster or discourage the uneven development of economic systems.

\(^{24}\) Chickering, p. 265.
the economy which is believed to be contributing to the current situation of high inflation and unemployment. It does seem likely that the firms and unions which could be considered as part of the planning system would oppose any shift to Galbraith's model as the basis for policy-making under S1795, since the thrust of the Galbraithian solution is to discipline the planning system and encourage the development of the market system.

In a similar vein, O'Connor has identified monopoly sector growth as a factor which adds to technological unemployment. If policies would be adopted under S1795 which would slow monopoly sector growth, the total unemployment rate could perhaps be lowered through slowing the rate of technological unemployment. However, there is no guarantee that such policies would be a part of the balanced economic growth plan, since there is no definition as to what constitutes balanced economic growth, and whether the balancing of growth might be done on the basis of a sector-by-sector analysis in terms such as O'Connor uses. It seems unlikely that such analysis would occur without a major shift in U.S. political ideology.

Failure to distribute productivity gains throughout the entire society, although related to the goal of reducing structural
inequities of the system, has also been identified as a contributory factor to permanent inflation. The Humphrey-Javits bill includes equitable distribution of income as one of the goals which the balanced economic growth plan is to consider in establishing its objectives. However, it is not clear what weight would be assigned to a goal which has received such overwhelming non-support in the past - for example, during the 1972 Presidential campaign, when McGovern’s espousal of income redistribution measures alienated many individuals regardless of class.

Thus it appears that enactment of S1795 could help mitigate the severe inflation and unemployment the U.S. is now experiencing to the extent that the bill could constrain social demands to the level which the economy could support. It is not clear whether S1795 would provide for minimization of the inflation impact of events such as the worldwide rise in the price of oil. The language of the bill does not prescribe a model of the economy upon which national economic planning policies are to be based; therefore it is conceivable that Galbraith’s two-firm model could be used for policy-formulation. Such policies could provide for differentiated growth of the planning and market systems, thus reducing that portion of inflation and unemployment attributable to uneven
economic development. However, the political opposition to adoption of such a model is potentially great, so the chances are minimal that inflation and unemployment which are due to the planning system's faster-paced development will be significantly reduced by the enactment of S1795.

REDUCING STRUCTURAL INEQUITIES THROUGH ENACTMENT OF S1795

The second goal which some set for the economy is to effect changes to the structural inequities of the system. In addition to the Humphrey-Javits measure's statement that the objectives of the plan established by the Economic Planning Board are to be consistent with the goal of an equitable distribution of income, the bill also contains other directives concerning alteration of structural inequities. For example, the balanced economic growth plan is to make recommendations as to appropriate legislative and administrative changes in order to achieve the plan's objectives, including suggestions regarding taxes and subsidies, the federal budget, and alterations of industrial structure and regulation.

Even so, such recommendations would only be that - recommendations; for any major action to take place, the legislative and/or executive branches would have to act as well. Such a process for
change almost certainly assures that any changes in the relationships between rich and poor would occur slowly and deliberately, if at all, unless there was a vast shift in the consciousness of the general public and in their elected representatives.

Continuing the same line of argument, in Galbraith's analysis, the state needs to be freed from the influence of the planning system before any fundamental changes in the structure underlying the economy would take place. Unless the state is freed from big business' and big labor's influence, plans drafted by the Economic Planning Board would not substantially alter the underlying inequities of the economy, despite the stated goals of the bill. If the state were freed from the planning system's influence, then the bill would provide an opportunity for accomplishing some of the structural changes which Galbraith and others feel are necessary for solving the economic crisis.

It should be noted that the bill does not even consider alteration of the chief structural inequity pinpointed by O'Connor - that social costs are born by the general public, while profits made possible by such expenditures continue to be privately appropriated. S1795 does not contain a goal of equitable distribution of wealth. Moreover, the Humphrey-Javits measure does not mention the possibility of
public appropriation of profits or the possible switch of ownership from the private sector to the public. Only if The Balanced Growth and Economic Planning Act were amended to incorporate these goals would the structural inequity emphasized by O'Connor be diminished.

SLOWING RUNAWAY GOVERNMENT EXPENDITURES THROUGH S1795

The third goal which some theorists feel the economy should be accomplishing is diminishment of the tendency of the level of government expenditures to grow faster than the revenues which are taken in. The Humphrey-Javits measure provides that economic goals should take into account available economic resources; this provision would probably help control the tendency for government spending to exceed revenues, so long as the economic forecasts upon which the available resources determination was based proved to be accurate. If the information by which the goals were limited proved to be inaccurate on the high side, then goals and hence government expenditures would still be greater than revenues. Such an error could possibly be corrected in the next economic plan, thus controlling the cumulative effect of deficit spending on top of deficit spending. Even so,
there is a political aspect which could deter achievement of the goal, even with the provision for constraining goals by available resources as a part of S1795. Some critics feel that government expenditures are needed by big business to maintain stability; thus the level of government expenditures needed by the sector of the economy will be expended regardless of the constraints placed in the bill. Also, there is no direct tie between the plan and the budgeting process, although the Committee on the Budget in both Houses are to formulate budget policy recommendations for the same time period as the plan. However, the Budget Committees have no mandate to restrict the budget to the amount of resources and/or revenue which the plan projects will be available. Thus it appears unlikely that the enactment of S1795 will necessitate the limiting of government expenditures to the level of revenues, unless the planning system's influence over and/or its need for government expenditures diminishes.

HOLISTIC POLICY-MAKING UNDER S1795

A fourth goal for the economy is that it should function so as to enable the United States to live as part of an interdependent world, as Heilbroner has suggested in *An Inquiry into the Human Prospect*. In that volume he discusses how the world is interdependent economically, socially, and politically. He concludes
that all nations, and particularly the United States, must learn
to think globally, and to live in such a manner as to take into
account the well-being of all nations of the earth, if civilization
is to survive on this planet. To evaluate the proposition that
S1795 will provide a mechanism for holistic planning, it is
necessary to examine three aspects of holistic planning: whether
the global ramifications of any plan developed under the auspices
of the Humphrey-Javits bill will be considered; whether the effect
on the U.S. economy of the political/economic policies of the rest
of the world will be weighed; and whether it is possible and/or
desirable to have national economic planning without some form of
de facto or overt social planning.

First, will S1795-type planning take place in a global context?
The Economic Planning Board established under the bill would have
to establish plan objectives, which take into account the options
available for securing adequate raw materials and energy supplies.
Since the United States is not self-sufficient in either raw
materials or energy, such objectives would have to consider the
relationship of other countries' economic policies upon the
United States. The plan is to pay particular attention to the

Heilbroner, pp. 21-48.
attainment of the goal of stable international relations, among other things. The plan is also supposed to make suggestions regarding international trade. In addition, the Secretary of State is included as a member of the Council on Economic Planning, thus assuring that the international implications of the plan would be scrutinized by the Department responsible for international relations.

All the above-mentioned provisions of the bill would help the planning take place in a global context, particularly in the sense of considering the effect of the economic policies of other nations on the United States. The bill is less specific with respect to mandating that the global ramifications of U.S. economic policies be considered in national economic planning. The charge to have as a goal stable international relations should not necessarily be construed as a new mandate for global concern in the sense which Heilbroner feels is necessary; it could be interpreted rather as a logical extension of that which O'Connor terms the inherent contradiction of capitalism. From his perspective, stability in the international realm is a goal to be sought by the state in order to prevent overthrow of the system.

Another aspect of a holistic approach is that since the world is interdependent socially, economically, and politically, the
question can be raised as to whether it is possible or advisable to have national economic planning without some sort of national social planning as well? There is no overt recognition within the bill that social planning would either be a necessary concomitant to national economic planning, or that de facto social planning would occur as economic planning takes place.

It is interesting to note that the Council on Economic Planning is to include the Administrator of the Federal Energy Administration but not the Administrator of the Environmental Protection Agency. Yet according to Sommers, one of the chief causes of the current economic crisis has been the rise in social demands, one of which is the pressure for environmental protection. It seems that failure to include the EPA Administrator as part of the Council on Economic Planning could increase the tension between economic planning and social demands, whereas EPA representation on the Council could provide an opportunity for early balancing and incorporation of social demands into the economic plan.

One could speculate as to what could happen to a "balanced" economic growth plan which were conceived without sufficient consideration of social pressures by considering what happened to an environmental bill which was developed with a heavier social than economic emphasis. The latest attempt to amend the
Clean Air Act of 1970 is indicative of the national climate regarding "balanced" growth versus environmental protection. When the authors of the 1976 amendments to the Clean Air Act presented arguments that their bill would provide for balanced growth by preventing significant deterioration of air quality, a myriad of voices vehemently avowed that such was not the case - that the no significant deterioration provisions of the bill would in effect legislate a national no growth policy. The lack of any clear consensus as to what "balanced" growth actually means can be discerned from the way the bill died at the end of the 94th Congress - by a filibuster spearheaded by two Utah senators (Moss and Garn) who are generally not considered as being anti-environmental. Should a "balanced" economic growth plan be conceived without due regard to social considerations such as environmental protection, it is quite likely that the same kind of opposition and stalemate could develop. Thus it does not seem advisable for S1795 to neglect the social side-effects of national economic planning.

It should be noted that other social pressures, such as the need for adequate housing, would probably be considered in the formulation of the economic growth plan, since the Secretaries of Housing and Urban Development and Health, Education, and Welfare are included in the Council on Economic Planning.
plan is also to pay particular attention to meeting essential
needs in housing, education, and public services, among other
things. Nonetheless, since the plan is to be a balanced economic
growth plan, rather than a balanced economic and social growth
plan, it seems quite possible that the tendency of the planners
would be to emphasize the economic aspects and let the social
consequences fall as they may. If O'Connor is accurate in his
assessment of the necessity of the state to legitimatize as well as
to provide conditions under which accumulation of wealth can take
place, then the tension of emphasizing the economic and neglecting
the social should surface in renewed protest against the system.

EFFECTIVE PLAN IMPLEMENTATION UNDER S1795

Finally, in evaluating S1795, it is necessary to consider
whether national economic planning would be implemented effective-
ly through the mechanism specified in the Humphrey-Javits measure.
The bill does not specify penalties for non-implementation of the
balanced economic growth plan, nor does it make provision for
specific incentives to encourage compliance with the plan. One
could hope that if a national economic plan were truly a product of
public participation, the public might indeed be convinced that it
would be in their own best interest to adhere to the provisions of
the plan. However, such hope would seem to be naive, both from the history of failure of voluntary policy implementation in the past, as well as from the perspective of John Kenneth Galbraith. He feels that discipline is necessary to prevent the planning system from continuing to dominate the market system and the state; such reasoning implies that penalties or incentives would be necessary to prevent the planning system from acting in ways which would serve its own, rather than the public purpose.

The bill also does not specify the scope or level of economic planning which is to be undertaken by the Economic Planning Board, although it does require that economic forecasting of resources necessary to the achievement of the plan’s stated objectives be done by major industrial, agricultural, governmental, and other sectors. However, it is not clear whether the plan is to specify objectives on an industry - by - industry basis, a region - by - region basis, a state - by - state basis, or solely on a national aggregate level. The lack of specificity of the bill on this point could lead to serious implementation problems. Canadian Senator Maurice LaMontagne has identified the failure of Canadian planning to present targets for industrial components of the economy as one of the key reasons for failure of the Canadians to
develop a successful economic plan for that country. Thus it appears that even if the Humphrey-Javits bill's heavy reliance on voluntary compliance were replaced by a series of incentives and penalties, the plan would not necessarily be implemented effectively, since the plan is not required to specify who should be doing what to achieve the targets set forth in the plan.

The Humphrey-Javits Balanced Growth and Economic Planning Bill does seem to offer some potential for mitigating the current economic crisis on a short-term basis; however, the bill does not really address itself in any meaningful way to altering the structural inequities which exist. Neither does it provide any strict control in order to prevent the tendency of government expenditures to outrun revenues. S1795 has potential for being a holistic planning mechanism; yet it does not define how balanced growth should be determined, and whether the U.S. is to balance the growth of its economy against the growth of other nations, particularly those classified as the developing nations. By neglecting some social side-effects of economic planning, such as environmental ones, the Humphrey-Javits bill seems to open the national economic plans established under its mechanism to

increased social pressure and opposition. Whether a total national economic plan would ever be implemented (if such a plan ever managed to emerge as a coherent whole at the other end of the complicated hearing and approval process) is quite doubtful, since S1795 lacks specific incentives for compliance and penalties for non-compliance. The measure is also not specific enough with regard to the components of the economy which the plan should specify in order to assure that the objectives set by the plan would be achieved.
CHAPTER 4: CONCLUSION

This paper began by noting that the decade from 1965 to 1975 is generally considered as a period of ill health for the U.S. economy. Economic crisis was defined as a time when there exists a combination of severe (greater than 5%) inflation and unemployment; thirty percent of the last decade would be classified as a crisis period under this definition.

It also discussed goals other than reduction of simultaneous severe inflation and unemployment which some theorists believe should be accomplished by the economy, and which also should be included as part of the economic crisis. These were goals such as reduction of structural inequities, measured by indicators such as the ratio of wealthy to poor people, and the wide disparity in levels of income, particularly the large percentage of people receiving low levels of income and the small percentage of people receiving high levels of income. Another goal which was discussed is that of reducing the government's tendency to outspend its level of revenues. A fourth goal considered important by some is that of having a holistic approach to national policy-making, that is, consideration of the global ramifications of policies and the implications of global interdependence, as well as the importance of
viewing economic policies from the standpoint of political and social considerations as well.

Three different perspectives on the economic crisis were examined: a business perspective articulated by Albert T. Sommers, Chief Economist of the Conference Board; a reformist viewpoint voiced by John Kenneth Galbraith; and a radical critique by neo-Marxist James O'Connor. The three economists diagnose the economic crisis as stemming from a variety of causes: rising demands for distributive and social justice; uneven development of two segments of the economy - the planning system and the market system; and the fundamental contradiction of the capitalistic system. In keeping with their divergent diagnoses, the political economists proposed a variety of contradictory solutions to help solve the U.S. economic crisis, including: establishment of some type of wage and price controls for all labor and industry, or wage and price controls for the planning system only; vigorous enforcement of antitrust laws, or exemption from antitrust laws for all small businesses; discarding the minimum wage or advocating large increases in the minimum wage; limiting government expenditures to those which further the public purpose, or to those which foster
the growth of the social-industrial complex. Interestingly, despite their diverse outlooks and proposed solutions, all seem to feel that national economic planning merits further investigation as a possible solution to the economic crisis the U.S. is experiencing.

Sommers postulates that national economic planning could help constrain the rising social demands by limiting them to the level of the economy's ability to accommodate such demands; he also believes that investigation of such a complex system as the U.S. economy would surely prove to be a valuable educational exercise, although he cautions that the gains to be gotten from national economic planning are both over and understated.

Galbraith concurs with Sommers in his belief of the need for national coordination. He does not believe that national economic planning would automatically serve the public purpose; in fact, unless the state were liberated from the influence of the planning system, Galbraith would feel that national economic planning would tend to serve the planning system, rather than the public purpose.

O'Connor believes the development of the social-industrial complex will require some type of planning in the economic and
social spheres to encourage development of housing, transportation, education, and other social services.

In considering whether national economic planning would help solve the U.S. economic crisis, the answer seems to be tied closely to those goals which are felt to be appropriate for the economy, as well as to that which is identified as being the root cause of the problem, and to the type of national economic planning which would be offered as a solution. Sommers' analysis would require national economic planning which constrains rising social demands to a level which could be accommodated by the economy. Galbraith's diagnosis would see national economic planning as a solution if the policies which were formulated were based on his "two-firm" model of the economy, and if they symbiotic relationship between the state and the planning system were broken so that the national economic plan were indeed free to serve the public purpose. O'Connor believes that unless national economic planning proceeds from a socialist perspective, the results will provide at best a temporary solution to the U.S. economic crisis - a bandaid where surgery is needed.

National economic planning could help achieve the goal of reduced inflation and unemployment; however, some of the factors
which have contributed to the decade's high unemployment and inflation are political rather than purely economic factors. The ability of national economic planning to alter the political decisions and actions which have contributed to the economic crisis is highly questionable.

The Humphrey-Javits Balanced Growth and Economic Planning Act would provide a mechanism which could serve to implement policies advocated by either Sommers or Galbraith, or those policies suggested by O'Connor as ones which would stimulate the growth of the social-industrial complex in the absence of a complete socialist perspective. All three economists agree that S1795 contains a potential for helping to solve or relieve simultaneous inflation and unemployment greater than 5%. Since the legislative measure stipulates that in the establishing of the plan's objectives, available economic resources should be taken into account, Sommers would see potential there for curbing rising social demands to reasonable and manageable levels. Since no particular mode of the economy is specifically named in the Humphrey-Javits bill, Galbraith would envision the possibility that his "two-firm" model could gain acceptance and be utilized as a basis for policy formulation under the act. O'Connor would view the potential of the
bill only in terms of the short-run possibility of development of a
social-industrial complex to help reduce simultaneous inflation
and unemployment by making each dollar spent by the government
more efficient in terms of the resulting productivity.

The Balanced Growth and Economic Planning Act would not
induce rapid changes in the structure underlying the economy
unless there were a sudden change in public belief regarding the
need for such changes.

The bill does not appear to offer much potential for restraining
the tendency for government spending to exceed revenues.
Although the legislation provides that the national economic plan
should constrain goals by the economic resources available, the
political influence on government of large corporations which are
heavily dependent on government expenditures seems to be such
that unless that symbiotic relationship is broken, government
expenditures will continue to be made in response to political
rather than economic considerations.

Although the Humphrey-Javits bill is ostensibly a balanced
growth and economic planning act, the emphasis seems to be
much more on the economic planning than on balanced growth, a
term which is not even defined in the bill. While the measure
would provide for consideration of the impact of other countries' economic policies on the U.S. economy, there does not seem to be a corresponding emphasis on considering the global ramifications of U.S. economic policies on the rest of the world, particularly as to how U.S. development affects the growth of the developing nations. Neither is there any focus on what the term "balanced growth" means domestically, that is, whether there is to be differentiated growth of various sectors of the economy, etc.

In addition, failure to incorporate social planning into the economic plan or to recognize the social side-effects of economic planning could create instability and increased social tension in the country. One example of such failure is the fact that the bill ignores environmental goals and concerns in stating those national goals which the plan is to pay particular attention to in setting objectives.

Also, the bill does not seem to provide satisfactory assurance that the balanced economic growth plan would be effectively implemented. Heavy reliance on voluntary compliance and weak directives as to the shape of the final plan (e.g., who should try to accomplish what) seem to be two of the bill's major weaknesses.

Thus while the concept of national economic planning seems to offer some possibility for helping to solve the U.S. economic crisis,
particularly for helping to reduce inflation and unemployment, the Humphrey-Javits Balanced Growth and Economic Planning Bill is not a measure which would effectively provide for implementation of an economic plan formulated under its auspices. It does not guarantee that government spending would be slowed to the level of revenues. It does not mandate a complete holistic approach, although the possibilities for coordination under the bill do provide a basis for the beginning of holistic planning. Moreover, S1795 would not even attempt to achieve goals which some feel are key indicators of true economic health -- that is, goals such as reducing structural inequities of the economy.
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