

## Chapter 9

# Planning and the Power Problem

Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends. And whoever has sole control of the means must also determine which ends are to be served, which values are to be rated higher and which lower— in short, what men should believe and strive for.

—F.A. Hayek (1944), *The Road to Serfdom*: 92.

As discussed in earlier chapters, government policymakers suffer from the problem of insufficient knowledge in their efforts to plan economic activity. Knowledge is dispersed throughout society and much of this knowledge is tacit, meaning it cannot be communicated, aggregated, or possessed by a single policymaker or group of policymakers. This knowledge problem applies both to efforts at comprehensive economic planning—that is, planning all economic activity—and to efforts at non-comprehensive planning—that is, piecemeal efforts at planning aspects of economic activity. The market process attenuates this knowledge problem as entrepreneurs, relying on market-determined prices and profit and loss as guideposts, discover the best use of scarce resources. The inability of government planners to acquire the necessary economic knowledge, combined with the fact that people adjust their behaviour to interventions, also means that efforts to plan economic activity will lead to a series of unintended consequences, as illustrated by the example of the price control of cow's milk at the beginning of chapter 7. Beyond the knowledge problem, there is another issue with the government planning of economic activity: it tends to centralize discretionary power in the hands of a small group of policymakers.

This “power problem” was highlighted by F.A. Hayek and Don Lavoie in their writings on government planning. Like the knowledge problem, the

power problem applies to both comprehensive and non-comprehensive planning. Moreover, the dual knowledge and power problems are interrelated. The power problem arises from the fact that policymakers face a knowledge problem in planning yet must develop and impose a concrete blueprint in order to achieve their goals. Let's explore this interconnection between these dual problems.

Regardless of the extent of intervention, economic planning by the government entails the replacement of the market process for deciding how to allocate scarce resources with the political process. That is, planning requires that policymakers substitute their goals and desires for those of private actors in the market. Government planning, therefore, involves developing an overarching blueprint of what the economic outcomes should look like based on the vision of policymakers. In markets, dispersed decision-makers develop their individual plans with the guidance of prices (economic calculation) and profits and loss. The pursuit of these individual plans leads to an overarching order that is spontaneous and unplanned by any single mind. In markets, there is no single hierarchy of ends that is pursued but rather a diversity of goals pursued by individual choosers. In markets, not all consumers need to buy blue, four-door sedans. Instead, markets allow for the emergence of a diversity of goods that are not predetermined by a single planning entity—vehicles of all shapes, sizes, and colors are offered in markets.

The situation is different when government intervenes in economic activity. Policymakers must identify a predefined set of ends that they believe should exist. The need to predefine ends becomes clear when one appreciates that the very purpose of government planning is to intervene in markets to replace the market process, and the spontaneous outcomes it generates, with the predetermined ends of planners. Policymakers, for example, determine that a specific product or service should, or should not exist, or that a specific price should be charged.

Once government policymakers substitute their vision for the wants and goals of private actors, the economic knowledge that emerges through the market process will be distorted or lost. Recall that economic knowledge is not predetermined and given. Instead, this knowledge emerges through interactions and experimentation in the competitive market process. Curtailing the market process, therefore, attenuates the mechanism through which economic knowledge is discovered.

Consider again the case of a simple price control that is an instance of non-comprehensive economic planning. Under this scenario, markets are

not abolished. Market prices still exist, and the market process continues to operate. This process, however, is distorted by government's artificial cap on the market price. By altering market prices from what otherwise would emerge, the intervention distorts the knowledge contained in the price signal about the relative scarcity of resources. This will adversely affect the broader pattern of resource allocation as people respond to the manipulated price signal that does not capture the genuine, underlying scarcity conditions. It is this logic that explains the series of unintended consequences that emerges from an initial intervention, as illustrated by the case of the price control on cow's milk.

In response to these unintended consequences, policymakers have two options. They can remove the initial intervention, which will free the market process to operate without distortions. Alternatively, they can introduce additional policies meant to address these undesirable outcomes. But notice that this second course of action requires expanding the discretionary power of policymakers as they extend their control over additional aspects of economic activity.

In order to design, implement, and enforce an initial intervention, government planners need some scope of discretionary power. Policymakers need to be able to impose rules on private persons engaged in voluntary exchange in order to get the desired outcome, which differs from what would have otherwise emerged. Moreover, policymakers must be able to enforce the rules imposed to ensure compliance and to punish deviations. Now, consider what happens when the initial intervention results in unintended consequences and planners choose to impose additional rules in the hopes of addressing these undesirable outcomes. Policymakers must expand the scope of their power to intervene in other areas of economic activity. As the dynamics of interventionism suggest, even what appears to be simple interventions into the market can have a chain of consequences that require subsequent interventions. When this happens the discretionary power of government policymakers expands as planners require additional control and influence to address the new, and unanticipated, consequences of prior interventions.

Appreciating the connection between interventionism and political power has implications for the rule of law as a means of preventing abuses of government power. The rule of law is a legal concept that requires predetermined and binding rules on government actors in order to limit the abuse of arbitrary power. As Hayek pointed out in his 1944 book, *The Road to Serfdom*, economic planning by government policymakers necessarily violates the rule of

law because planners must have discretion to address unforeseeable situations that cannot be anticipated *ex ante*. That is, planning requires that some slack must be left in constraints on policymakers so that they can act to address these unforeseen circumstances as they emerge. This discretion is at odds with the known, predictable, and stable rules required for the rule of law. This slack in the constraints, which will tend to expand as the need to intervene increases, leaves space for abuses of power by those in government.

The power problem will not be an issue if the political process selects only benevolent people to implement and design policies (although even the most benevolent policymakers would still suffer from the knowledge problem). However, there is reason to believe that the nature of planning, combined with the nature of politics, may not result in this first-best outcome. Given what planning entails, successful seekers of government office will be those who are comfortable designing plans based on their preferences and imposing their vision on others who would have pursued different activities if left to their own, voluntary choices. Hayek argued that the very desire of planners to organize life according to a single, overarching plan emerges from the desire for power to control and shape the world according to the planner's vision.

The crucial issue is that interventionism requires that policymakers not just feel comfortable imposing their vision on others, but that they must also be willing to use the threat of force, or force itself, to punish deviations from their plans. This comfort and willingness to resort to force, combined with the slack in constraints on government required for planning in an open-ended and changing economy, threatens the freedoms of private persons. As planning becomes more extensive—as in the case of nationwide planning—there would be a strong tendency, Hayek argued, for the worst members of society to rise to positions of power. His prediction was based on the greater benefits of power associated with controlling a more extensive planning apparatus, as well as the type of personal character that would be required of planners whose success required imposing and enforcing national-level plans on an entire populace. Although Hayek believed this risk was greatest under complete economic planning, it is important to appreciate this concern when considering all forms of intervention. Given what successful planning entails, differences in comprehensive and non-comprehensive planning are matters of degree and not of kind. Therefore, the potential for abuse of coercive power is something that must at least be considered, irrespective of the type of intervention.

When combined, the knowledge and power problems highlight the potential for significant distortions of economic, social, and political institutions. An appreciation of these dual problems is part of the reason that Austrian economists tend to be supportive of the market process and of clear limitations on the ability of government policymakers to intervene into the market. Markets are highly effective in empowering people to resolve the knowledge problem. At the same time, the market process serves as an important constraint on both political and private power over the lives of private persons. Political power is limited because reliance on the market to allocate scarce resources limits the number of economic decisions that policymakers need to make. Private economic power is limited because competitive markets are contestable. This means that, in the absence of government-imposed barriers to competition, even the most well-established and wealthy businesses are subject to constant competitive pressures by entrepreneurs seeking to earn profits. These competitive pressures can come in the form of new entrants into an existing line of business who hope to gain a share of the market, or in the form of innovation that introduces an entirely new good or service.

The potential threat from abuses of power associated with planning is why F.A. Hayek spent a portion of his career exploring various rules to constrain government. He proposed a generality norm, which approximated the rule of law by embodying the principles of equality before the law and impartiality, designed to limit the ability of policymakers to engage in economic planning. In doing so, the norm would also limit potential abuses of power by constraining discretion and preventing policymakers from playing favourites or imposing significant costs on members of minority groups. At the same time, a generality norm would limit private economic power by preventing businesses from currying political favour in order to insulate themselves from competition, which undermines the market process.

When considering different political institutions and policies, appreciating the knowledge and power problems is important for thinking through a range of relevant issues. Rather than assuming that policymakers possess the necessary knowledge to achieve their desired ends, we need to think about the knowledge that is required for success, and whether policymakers have access to that knowledge. An appreciation of economic calculation sharpens our understanding of the unique knowledge that emerges through the market process and the knowledge problem facing policymakers who attempt to plan for superior outcomes.

Moreover, instead of assuming that policymakers are benevolent—both those in power in the present and those who will come to power in the future—we need to study the incentives they face in the design, implementation, and enforcement of policies to ensure there is an alignment between private and public interests. This approach by no means offers answers to all of the questions associated with political institutions and policies, but it does shed light on some of the key issues associated with establishing institutions and policies that improve the well-being of the people who must live under them.