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### Corporate Planning Versus Government Planning

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## **Corporate Planning Versus Government Planning**

by Murray L. Weidenbaum and Linda Rockwood

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Center for the  
Study of  
American Business  
Washington University - St. Louis

## CORPORATE PLANNING VERSUS GOVERNMENT PLANNING

This booklet is one in a series designed to enhance the understanding of the private enterprise system and the key forces affecting it. The series will provide a forum for considering vital current issues in public policy and for communicating these views to a wide audience in the business, government, and academic communities. Publications will include papers and speeches, conference proceedings, and other research results of the Center for the Study of American Business.

The widespread use of planning techniques in private business has led many observers to draw parallels to government planning. Senator Jacob K. Javits, a leading advocate of national economic planning, has stated that "if corporations are to take a look at where their companies are heading, it seems appropriate for the government to do the same." Well, yes—and then again, maybe. It all depends on what is meant by "planning," which can connote a variety of different things, depending upon the context.

Talk about "corporate planning" and "government planning" in the same breath disregards the fundamental distinction between members of a society forecasting and reacting to the future, and the government of that society trying to regulate or control it. Corporate planning is necessarily based on the corporate purpose, which is to attempt to persuade consumers to buy a firm's goods or services. Activities aimed at implementing the plan are in the main *internally directed*—for example, toward improving products, sales techniques, investment practices, or other aspects of a company's operations. In striking contrast, the government is sovereign, and its planning ultimately involves the use of its power to achieve the results it desires. Its influence is *externally oriented*, extending its sway over the entire society, including redistributing the resources of that society through taxation, regulation, subsidization, and procurement. Unlike a private organization, government may not only plan, it can also command. While a business firm can set goals only for itself, government can establish goals for society as a whole.

It may be useful to take a closer look at the options open to government to effect a particular goal. If the government decides that the American public is not buying enough cars, several courses of action are available. It can lower the price for the consumer through tax reductions on the automobile industry. Or it can reduce the individual income tax, thereby increasing the consumer's purchasing power. Or it can subsidize the private manufacture of automobiles, or even purchase outright the total output of the automobile industry. In recent years, the government

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has clearly demonstrated a willingness to involve itself in the production of motor vehicles, at least to the extent of deciding by fiat many aspects of their design and operation, through safety and environmental regulations. Senator Hubert H. Humphrey, sponsor of the major national planning bills, has made the point vividly:

What can government do about it? Government can do a lot about it. For example, the size of automobiles, and consequently energy consumption, can be influenced a great deal by taxing cubic displacement, horsepower, or weight. A tax will slow down purchases of large cars and give a premium to small car buyers and buyers of cars with high fuel efficiency. Government can also influence industry by giving an investment tax credit to companies that produce fuel-efficient automobiles. These are just two ways in which government policy can influence the private economy.

In contrast, what can Ford, General Motors, or Chrysler do if they are not selling as many automobiles as planned? They can—within their available resources—lower the price (and their profits), change the nature of their product, or alter their marketing efforts. Or as evidenced by the demise of the Edsel, the LaSalle, and the DeSoto, at times they may be forced simply to abandon the project. The consumer remains the ultimate decision-maker as to both the number and kind of automobiles produced.

Business and government planning are further distinguished by the consequences of errors in planning. If a corporate plan proves inaccurate in its assessments of the future, or inappropriate to changing circumstances, the onus falls on the officers, employees, and shareholders of that company. Government planning, by contrast, focuses on “guiding” or “influencing” the activities of the entire nation. If things go wrong in public sector planning, the taxpayer and consumer will bear the brunt of the burden of any adjustments that result.

Another basic difference between business and government planning relates to the intellectual dimensions of the effort. Corporate plans, concentrating in detail on individual sectors of the economy and on factors likely to affect their industry, are relatively succinct. Corporate executives can and do read and understand them. Government planning, on the other hand, necessarily focuses on all economic sectors and their interrelationships. In the words of Wassily Leontief, who has provided much of the intellectual leadership in the current drive for national planning, “A national plan would look like the statistical abstract of the United States.” That abstract, published annually by the United States Department of Commerce, contains in the neighborhood of 900 pages of fine print and tables. In fact, Professor Leontief is too modest. After Congress completed its deliberations on such a comprehensive plan, it would likely be two or three times as long. And how many members of Congress would then comprehend the overall intent or implications of the plan they were to approve?

But whether they would understand it or not, they would have set in motion powerful forces. Advocates of national planning have denied that they would set specific goals for General Motors, General Electric, or General Foods. But what if the activities of these companies in the aggregate did not further the goals of the plan? Would the results be left to chance or to the market mechanism to resolve? Hardly. Proponents of national planning state that the planning office “would try to induce the relevant industries to act accordingly.” As Senator Humphrey has described the long-range economic planning section of the Humphrey-Hawkins bill:

... it provides a way for us to look at particular industries and sectors and see what kinds of objectives and policies we ought to establish in those sectors. This will enable us to understand *and manage* the supply side of the economy much better [our italics].

Even a cursory examination of the literature on American business planning shows that private planning is intended to be far more than improved information accumulation and analysis. Although definitions developed by individual scholars vary, most are variations on the theme that the planning process encompasses an evaluation of the future through the determination of desired objectives, the development of alternative courses of action, and the selection from among these options. In *Long-Range Planning for Business*, David Ewing offered perhaps the most terse assessment of the concept: “Planning is to a large extent the job of making things happen that would not otherwise occur.”

The proponents of centralized government planning do not leave the matter in doubt. They clearly state, “The heart of planning is to go from information to action.” They go on to indicate, in the words of the Initiative Committee for National Planning, that “in order to be effective and useful, an Office of National Economic Planning must be set up at the center of our most influential institutions.” General Motors is certainly such an institution.

### Planning Experience in Business

Postwar business planning has generally undergone two distinct phases, although many corporations have not yet made the transition to the second phase. The first was essentially an extension of long-range budgeting and sales forecasting. Past and present performance was simply extrapolated into the future on the basis of rather rudimentary techniques. The implicit underlying assumption was essentially passive—that business would respond primarily to current market forces rather than attempt to influence future developments.

The second phase is more activist in outlook. It seeks to identify the major issues and options facing the corporation in the future and to

indicate possible new courses of action. It is basically predicated on the belief that the pace of technological and environmental change is more rapid now than in the past, and that information about change is now more available.

With the rapid growth of planning staffs, planning documents, and planning personnel, what has been the impact on the companies themselves? In practice how significant have the planning efforts turned out to be? Frankly, there are few objective measurements of this essentially subjective activity, and the experience among companies varies widely. However, we can benefit from the comments and evaluations provided by thoughtful observers of the business planning process. Their analyses have often yielded unfavorable prognoses for corporate planning.

In his classic study of long-range business planning, David Ewing concluded, "The paradox is that the planning movement, despite such strong motives to make it succeed, has not generally been blessed with success. The triumphs have been stunning—but few." In his summary of the state-of-the-art, Robert J. Mockler concurs with this evaluation, reporting that relatively few companies have developed effective planning operations—although many have tried. These evaluations tend to be in accord with a detailed survey made a decade ago of planning in the government-oriented defense industry:

... inquiries were made into the role that formal planning plays in the corporate strategy decisions that determine the future posture of the firm. The responses suggest the limited role that planning does play in corporate decision-making. Corporate executives tend to rely more on their trends and future activities... The executives frequently stated that their decisions are not made from within a detailed planned structure. As one officer put it, they must rely on "taking advantage of opportunities rather than having a deep plot" to achieve successful results in their business.<sup>1</sup>

In specific instances, however, effective and respected planning systems have provided positive contributions to the executive decision-making process in the corporate sector. Their widespread and expanding use provides indirect testimony to the credibility of the planning process. It is difficult, however, to find an unambiguous illustration—to label any specific business planning operation as "successful" on the basis of objective criteria. For example, the establishment and extension of a sophisticated planning operation in a rapidly growing company may primarily reflect the fact that the company operates in a growth market and that its profitability enables it to finance a variety of staff services, of which a planning staff is but one among many. Also, the key product and investment decisions may have been made independently of the

<sup>1</sup> Murray L. Weidenbaum and A. Bruce Rozet, *Potential Industrial Adjustments to Shifts in Defense Spending* (Menlo Park, California, Stanford Research Institute, 1963), p. 20.

formal planning process. Thus the "success" of a specific corporate planning effort cannot be inferred from the overall performance of the organization.

George Steiner has identified four factors that he considers especially significant in the evaluation of the effectiveness of a corporate planning system:

1. The system has improved the quality of management.
2. The company has acquired a larger share of the market in which it does business, and this can be traced to the long-range planning system.
3. The company has had high and rising sales and profits over a period of time that can be attributed to long-range planning.
4. Sales growth, profit margins, return on investment, and per-share earnings are higher than average in the industry, resulting partly from the long-range planning process.

Our review of the literature on business planning has not revealed any systematic attempt to apply these or similar criteria to specific efforts. For example, the planning program of General Electric (GE) is often cited as a model to be followed. The company's Strategic Business Unit produces long-range plans that look 10 to 15 years ahead, with comprehensive predictions of economic, social, and political trends, and evaluations of their implications for the company. Central to the methodology is the concept of "alternative futures." Planning is based on the most probable scenario, but the impact on the plan if one of the "alternatives" occurs is also analyzed.

If accuracy of predictions is a measure of success, then GE has evidence of some accomplishments in specialized areas, such as social trends and developments. For example, early studies allowed the company to get a head start in the areas of minority and women's rights. (GE's guidelines for affirmative action were published a year before the federal government's.) But it is also possible that GE's planning model does not deserve the credit. GE's "success" could simply result from employing shrewd and perceptive individuals in its executive staffs.

### Corporate Constraints

It may be useful at this point to take a look at factors that have limited the success of business planning. Some of these may be limited to the private sector. Others may be more universal, and overcoming them in the public sector may be even more difficult.

The first set of problems encountered in business planning relates to the process itself. The business planner has often been viewed as working in a vacuum, acting more as a sounding board for management than as a participant in the decision-making of the organization. Consider how much more serious the consequence would be if the government planner worked in a vacuum isolated from political reality. However, if the planner became excessively concerned with political realities, then we

would cease to have "planning," but rather the political management of the economy.

A second area of difficulty involves integrating the concerns and priorities of the senior executives of the corporation with the planning system itself. Without this integration, the plan will neither be accepted nor utilized by other members of the corporation. Consider then the problems of the government planner, who must try to integrate the goals of 200 million citizens, including tens of thousands of private-sector managers and decision-makers! One finds it hard even to imagine what such "integration" might involve.

The planning effort is also frustrated by the predispositions of many corporate decision-makers. Planning is by definition oriented to the future. But as Dale H. Marco, of Peat, Marwick, Mitchell, and Company states, many companies "really don't pay much attention to the future . . . They react to history—history that is anywhere from one day to a few centuries old." Will politicians react any differently?

Advocates of national economic planning who base their case on an extension of business planning activities overestimate the general state-of-the-art in the private sector. A study of 13 large, technically oriented manufacturing companies found that most of the output of long-range planning groups was more in the nature of scheduling programs with long lead times, rather than the development of long-range business plans. The study concluded that typical long-range plans contained excessive amounts of trivia, such as monthly delivery schedules, the recruiting budget, square footage of storage space by type, and so on.<sup>2</sup> In part, this may help to explain why business plans often have a limited input into the decision-making process.

Despite these shortcomings, many American business firms continue to engage in formal long-range planning efforts, and they apparently believe that the benefits exceed the costs. A variety of reasons is given, not all of which may be applicable to or desirable in the public sector. Many company managements state that planning is a powerful instrument for tightening organizational discipline and control. Others contend that planning can be used to lend authority and plausibility to the corporate leader—a chief executive officer with a formal plan projects the image of having the enterprise well in hand. His counterpart who still relies on intuition and the proverbial "back of the envelope" may be at a psychological disadvantage.

The corporate planning operation also produces information useful to management, but this involves an important "opportunity cost." The manpower and other resources devoted to the planning effort are unavailable for other purposes. Thus because of the high cost of a planning

department and because the output often has not met the expectations of management, many companies have scaled back their planning efforts. To some degree this may have been the natural pattern of reaction and accommodation to the overselling of a new management activity (although certainly one with more durability than a short-term fad). Yet, at least one major corporation no longer uses the word "planning" in any corporate title, or to describe any corporate activity.

It is also important to recognize the numerous feedbacks to private planning that increasingly result from changes in public policy. Some analysts expect that a major trend in corporate planning will involve the increased role of social values and goals in the private decision-making process. George Steiner, for example, foresees the convergence of government and corporate planning in specific areas such as pollution control. One company cannot undertake massive expenditures to avoid pollution if its competitors do not do likewise. As a consequence, business executives who never anticipated cooperating with the government are now requesting that uniform standards be established for an industry so that all companies are required to act. If this level of cooperation between business and government indeed becomes more widespread, it may substantially reduce the pressures for central planning. That will especially be the case if this cooperation coincides with an increased responsiveness of business to consumer and societal concerns.

#### Planning Experience in Government

Government experience with formal long-range planning systems appears to be more negative than the experience of the private sector. The most pertinent evidence available on the effectiveness of planning at the federal level is the experience with the process instituted by President Lyndon B. Johnson. In August 1965, he announced with great fanfare the introduction of "a very new and very revolutionary system of planning and programming and budgeting throughout the vast federal government, so that through the tools of modern management the full promise of a finer life can be brought to every American at the lowest possible cost."

The Planning-Programming-Budgeting System (PPBS) was initially greeted with great enthusiasm. For a while it created a land-office business for the services of economists, statisticians, and program analysts. Some enthusiasts at the time described PPBS as the most significant management improvement in the history of our government. The August 1965 announcement did have a substantial history behind it. Since January 1961, Secretary of Defense Robert S. McNamara and Assistant Secretary Charles J. Hitch had been attempting to apply the principles of program budgeting to the Pentagon, notably the five-year projections of force structures and budgets, as well as the review of budget submissions along program lines, rather than merely organizational lines.

<sup>2</sup>Murray L. Weidenbaum, "Shortcomings of Business Planning," in Subhash Jain and Surendra Singhvi, editors, *Essentials of Corporate Planning* (Planning Executives Institute), 1973, p. 31.

Some of the enthusiastic overreactions to the implementation of PPBS were perhaps inevitable, and not fundamentally different from private sector experiences. It takes many years, not the mere months of President Johnson's timetable, to establish an effective planning system, public or private. The intent of PPBS was to provide better information for the development of both budgets and legislation, but that was not the initial result. The government was already turning out thousands of analyses, evaluations, and studies every year. It became instead a different, somewhat competitive channel for decision-making; its influence on policy was often negligible. The PPBS apparatus has now been largely dismantled in the federal government. What remains is performed in a more modest manner, as part of the annual budget preparation.

In retrospect, it is quite clear that PPBS—at either the Pentagon or White House level—did not help the federal government avoid either fundamental overcommitments, at home or abroad, or an unusual array of "crises." Those who blithely assume that the occasional "success" of business planning can be readily replicated at the national level should consider the failure of the Edsel in the private sector, and the major federal decisions made at the peak of the PPBS enthusiasm—deeper American involvement in the Vietnam War and the over-promotion of the "Great Society" domestic programs. The point is not that the attempts to introduce organized planning led to these failures, but rather that they clearly did not prevent them. David Ewing offers a stronger conclusion: "For sheer magnitude of fiasco, however, business cannot compete with planners in the military and government."

In view of the impact of more formidable planning systems, such as the one utilized in Great Britain, perhaps we should be pleased that the results of PPBS were mainly paper shuffling and wheel spinning. Many analysts of Britain's experiences with centralized planning have painted a rather dismal picture, characterizing its economic woes as largely the result of giving the State responsibility for so many crucial economic decisions.

Government planning in France also extends beyond forecasts of the economy, at first by indicating directions, following with persuasion, and then resorting to direct action. In his analysis of the French planning experience, John Sheahan cites a different type of problem—the possibility of large private corporations coming to dominate the government planning process. This would be an extension of the widely held "capture" theory, whereby regulated industries increasingly influence the decisions of the government agencies set up to oversee them. Planning by consultation and negotiation in France may be tending to drive the government planners into such a close alliance with business interests that the planning board becomes a champion of the firms which it finds it easiest to deal with. Since these are usually the largest businesses, government planning thus weakens competition and may result in the neglect of social concerns.

The overall economic performance does not appear to have improved under any of these alternative schemes of national economic planning adopted by the primarily market-oriented, non-Communist nations. These planning systems have tended to shift the focus of private enterprise even further away from dealing with market forces and consumer demands, toward reaching an accommodation with an ever more powerful governmental bureaucracy.

Under an American version of centralized economic planning, a company might find it desirable to shift resources from conventional marketing activities to convincing the government to adopt more generous production targets for its industry. Thus there might be less payoff from traditional consumer market research than from new efforts to persuade the government to treat the industry more favorably. In this regard, we could conjure up visions of civilian companies following some of the practices of that branch of American industry, defense production, which is now most closely tied to governmental decision-making. Business-financed hunting lodges and fishing trips for civilian government planners might seem merely to follow an older defense industry tradition, but such public sector "marketing" activities would be a low priority use of business resources. Yet, given the incentive of any organization to grow and prosper in the environment it faces, this result would not be surprising under a system of strong national economic planning and centralized decision-making.

### Managing the Government

In a sense, there are two types of government planning that need to be distinguished. The external, national planning discussed above involves numerous extensions of government powers over the private sectors of the economy. A second type of government planning is more internally oriented, and may be more comparable to private sector planning: the management of government's own activities. The advocates of national planning tend to merge the two, using shortcomings in government's management of its affairs as a rationale for extending government power and influence over consumers and business.

In his far-ranging statement advocating national economic planning, Senator Humphrey deals in passing with this second type of government planning: "We don't have any economic impact statement for government decisions. The government goes around willy-nilly making decisions of consequence . . . the manner in which we are presently utilizing government resources and government agencies is a haphazard, helter-skelter enterprise." It would appear, however, that a government conducted on such a haphazard, helter-skelter basis should be reluctant to undertake the extremely ambitious task of managing the entire economy prior to setting its own house in order. This is perhaps an appropriate point to turn to that task.

The federal government presently has an instrument for establishing its priorities and allocating its resources, though it is neither new nor the object of widespread public attention—the budgetary process. To be sure, there are serious limitations to the way it currently works. Despite important reforms, government budgeting rarely addresses itself to the fundamental question of selecting overall priorities. Instead, the major attention of decision-makers focuses on the amount of funds to be allocated to a specific agency, or to an individual project within an agency. Little if any consideration is given to alternative ways of achieving such overall objectives as reducing inflation, increasing employment, and improving living standards.

In striking contrast, the adoption of a government-wide program planning budget would be a useful tool for improving decision-making. Expenditure categories would cut across agencies and would relate to the various programs and activities that serve a given purpose. For example, program budgeting would necessitate making deliberate choices among alternatives: The job training programs of the Labor Department, the tax incentives to employers administered by the Treasury Department, and the economic development subsidies paid out by the Commerce Department would all be viewed as alternative ways of achieving a higher level of employment. In a very real sense, a measure of competition would be introduced into the process of allocating governmental resources.

The underlying rationale for this suggestion for program budgeting is evident in the activities of a well managed company. Such a company would not impulsively decide to devote an increase in earnings to raising the dividend rate. Rather, it would carefully consider the alternative uses of the funds—embarking on a new research program, rebuilding an obsolescent manufacturing plant, or developing a new overseas operation. The basic requirement is the ability to array the pertinent alternatives, each seemingly attractive in its own right, and to choose carefully and intelligently among them.

Although proposals for a national economic planning system may be designed by economists and other technical specialists, it will be politicians and representatives of powerful interest groups who will translate any proposal into reality. They will oversee and perhaps guide the activities of the planning body and subsequently use its output. But as has too often been the case in the past, the results of such an undertaking may not conform to the initial expectations of its proponents.

Most of the public discussion of national planning focuses on the potential contributions to the solution of such macroeconomic problems as inflation and unemployment. However, a centralized planning apparatus could be redirected toward effecting basic changes in, for example, the distribution of income among the various groups of the society. As interest groups recognize a new mechanism for introducing change on a

national scale, attempts to make such shifts in economic power would not be unlikely. This may occur even though it was neither a desired nor an expected result of the planning system.

It would not be unusual for economic analysis to be applied to justify politically desirable programs—examples include many Corps of Engineers, Bureau of Reclamation, and other “pork barrel” projects. In each case, detailed economic calculations are made in order to comply with the statutory requirement that measured benefits exceed measured costs. Yet, in practice, many of these projects represent an uneconomical use of national resources, resulting mainly in national subsidies to specific regions.

In a different regard, the issue of an unfair distribution of governmental resources is already a major source of debate. There is a growing concern in the Northeastern “frost belt” over the large shares of federal money going to the Southwestern “sun belt.” Could a national planning mechanism become an arena for either resolving or intensifying this regional conflict? The latter would be the case if the emphasis in allocating resources shifted from establishing program priorities to altering the regional distribution of those resources.

#### **Possibilities for Planning**

Both advocates and opponents of expanding government’s role in planning can agree that any effort to deal with the future has built-in limitations. For example, no amount of formalized planning has eliminated any company’s uncertainty concerning future technological change, the vagaries of the weather, discoveries of energy or other natural resources, outbreaks of war, assassinations of national leaders, or even shifts in the desires of the fickle consumer. And there seems to be no basis for assuming that government planning efforts would be more accurate or effective than those of business. If anything, national planning introduces a new range of problems. It is certainly conceivable that the bureaucratic process inevitably involved would tend to dilute or possibly redirect the original objectives. Carl Madden has offered cogent words of caution concerning planning efforts: “. . . just as the process of planning stimulates acts of envisioning new possibilities, so the existence and promulgation of a plan constrains such acts. A plan is a device that inhibits further imagining.”

The possibilities of using business planning experiences to mold a national planning system are not encouraging. Even disregarding the shortcomings of many business plans and planning techniques, the differences between business and government decision-making are fundamental. Business planning is based on the traditionally implicit—and increasingly explicit—assumption that the ultimate decisions on the allocation of society’s resources are to be made by individual consumers. The important corollary of this is that if a company’s projections are wrong, it will

suffer the consequences. National planning by government, implicitly or explicitly, is based on a fundamentally different set of assumptions. Government officials, both appointed and elected, will determine what they consider to be in the overall interest of society. If the public does not respond accordingly, it is not the planners who are considered to be at fault. Rather, new and more effective devices will be employed to induce the public to accommodate the planners' conception of the good (or great) society.

Boiled down to its essence, business planning is part of a decentralized decision-making process in which individual consumers make the ultimate choices. National planning is a centralized process in which the key economic decisions are made in the form of governmental edicts. The greatest danger of adopting a form of centralized economic planning is that it will—perhaps unintentionally at first, but inevitably as its initial results prove disappointing—propel the society away from market freedoms and toward greater governmental controls over individual behavior.

But despite the polarized nature of much of the public debate, the controversy over national planning really does not involve choosing between “master” planning and no planning at all. It is apparent that a great deal of planning goes on in the United States, in both the public and private sectors. The crux of the current debate involves deciding who should plan for whom. There is no question about the authority and desirability of General Motors planning its own activities. Likewise, upon reflection, it may be equally desirable for the Department of Transportation to plan its own activities. The point at issue is whether the Transportation Department, or any other federal agency, should plan the activities of General Motors—or its suppliers, employees, and customers.

There may be some high ground—although not necessarily a middle ground—to which the antagonists in the debate can both move, at least for a while: a position related to the need for improving the ability of both government and business to plan—and manage—their own affairs. In the *Road to Serfdom*, Friedrich von Hayek develops this point:

The dispute between the modern planners and their opponents is . . . not a dispute on whether we ought to employ foresight and systematic thinking in planning our common affairs. It is a dispute about what is the best way of so doing. The question is whether for this purpose it is better that the holder of coercive power should confine himself in general to creating conditions under which the knowledge and initiative of individuals are given the best scope so that *they* can plan most successfully; or whether a rational utilization of our resources requires *central* direction and organization of all our activities according to some consciously constructed “blueprint.”

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This article draws upon material in *The Politics of Planning*, Institute for Contemporary Studies, 1976.