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2-1-1976

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Weidenbaum, Murray L., "The Contrast Between Government Planning and Business Planning: Market Orientation Versus Centralized Control", Working Paper 9, 1976, doi:10.7936/K77W69DR. Murray Weidenbaum Publications, https://openscholarship.wustl.edu/mlw_papers/181.

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THE CONTRAST BETWEEN GOVERNMENT PLANNING AND BUSINESS PLANNING: MARKET ORIENTATION VERSUS CENTRALIZED CONTROL

By Murray L. Weidenbaum

Working Paper Number 9 February 1976

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

Preface

This working paper was prepared for a volume of essays on the proposal for national economic planning being edited by Laurence Chickering. An earlier version was presented at the Annual Meeting of the Economics and Allied Social Science Associations in Dallas, Texas, on December 29, 1975.

THE CONTRAST BETWEEN GOVERNMENT PLANNING AND BUSINESS PLANNING: MARKET ORIENTATION VERSUS CENTRALIZED CONTROL

by Murray L. Weidenbaum, Director Center for the Study of American Business Washington University, St. Louis

The widespread use of planning techniques in private business has led many observers to draw parallels to government planning. Senator Jacob K. Javits, the co-sponsor of the proposed Balanced Growth and Economic Planning Act of 1975 (the Humphrey-Javits National Planning Bill) has stated, in support of his bill, "if corporations are to take a look at where their companies are heading, it seems appropriate for the government to do the same."¹/

In the same article, Senator Javits refers to a school of thought which finds planning "perfectly acceptable" for corporations but unacceptable for government. Those of us who actually have been involved in planning for both the public and the private sectors may also be aware of the important differences as well as the similarities between public and private planning. As a former planner in the aerospace industry, voluntarily retired, I cannot help but note that for a number of years the industry looked up to Lockheed for the most structured, sophisticated, and widely emulated long range planning in the defense industry. Is business planning more a case of the closer you get, the worse it looks?

Clearly some examination of the development and workings of the planning process in the private sector should be of some use in the current debate over the desirability of setting up a formal long-range planning mechanism for the Federal Government.

Development of Long Range Business Planning

Long range planning in American business is primarily a post-World War II 2/ phenomenon. It has undergone two distinct phases, although many corporations

<u>Note:</u> The author gratefully acknowledges the contribution of Linda Rockwood to the research for this paper. still have not made the full transition to the second phase. The first phase 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 but underlying assumption was essentially passive -- that business would primarily respond 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 which will face the corporation in the future and to indicate possible new courses of action. It is often predicated on the belief that the pace of technological and environmental change is more rapid now than it was in the past and that the new trend will continue into the foreseeable future.

With the widespread establishment of corporate planning staffs in most of the large corporations and in many medium size companies, a business planning fraternity has developed. A variety of professional associations and journals has been established. The Budget Executives Institute was renamed the Planning Executives Institute. And, inevitably, business planners frequently meet to exchange experiences, if not to provide mutual moral support.

With the rapid growth of planning staffs, planning documents, and planning personnel, what has been the impact on the companies themselves? How successful have the planning efforts turned out in practice? Frankly, there are few objective measurements of this essentially subjective activity. We do have the evaluations provided by observers of the process.

David Ewing reports in his classic study of long-range business planning, "The paradox is that the planning movement, despite such strong motives to make it succeed, has not generally been blessed with success. The triumps have been

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stunning -- but few."4/

Planning consultant Malcolm W. Pennington rates 99 percent of all corporate plans as failures because planning (a) has changed the way companies operate in only a very few cases and (b) has rarely satisfied the needs and desires of top management. "Certainly no other function has survived so much futile work, or such frequency of failure." $\frac{5}{}$

Patrick H. Irwin reports that, to his knowledge, fewer than one company in twenty has succeeded in instituting a well-developed system of long-range strategic and operational planning. $\frac{6}{}$

E. Kirby Warren, in a major study of business planning, concluded that few executives were satisfied with their company's ability to translate long-range planning into meaningful practice. It is intriguing to consider Warren's observation that each company management took solace in the fact that, while their company was not doing a very good job in this area, neither was any of its competitors. "Frankly, this was quite accurate in 1958, and, unfortunately, there are relatively few exceptions today." according to Warren. T/

In his summary of the state-of-the-art of business planning, Robert J. Mockler presents the following evaluation: "In spite of the advances made during the 1960's, relatively few companies have developed effective planning operations -- although many have tried."⁸/

These essentially negative evaluations tend to be in accord with the detailed survey a decade ago of planning in the government-oriented defense industry in which the author participated:

"...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 intuitive judgment as to the significance of current 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."

Even an enthusiastic exponent of business planning such as George Steiner acknowledges the shortcomings that occur:

> "In the development of profitable and healthy organizations there is no substitute for long-range planning. For many it has afforded the margin needed to achieve outstanding growth and profitability. Too few companies, however, actually achieve effective long-range planning. "10/

Some of the reasons for the shortcomings in the practice of business planning may be limited to the private sector. Others may be more universal, and their correction in the public sector even more difficult. Mockler, for example, points out that the business planner

> "works in a vacuum, acting as a sounding board for corporate management's futuristic thinking but isolated from the operating realities of the organization."

Consider how much more serious the consequence would be of the government planner working in a vacuum isolated from reality. He nevertheless would be involved in what could be critical decisions affecting the future of individual private sector organizations and individuals.

Irwin lists as one of the four reasons for the lack of success of business planning, the failure to provide a system that integrates the goals of the company with those of individual managers. $\frac{12}{}$ The problems of integrating the goals of 200 million citizens, including tens of thousands of private sector managers and decision-makers, are surely staggering.

Despite the various shortcomings, many American business firms do continue to engage in formal long range planning efforts and 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 of the business. Others contend that planning can be used to lend authenticity and plausibility to the corporate leader. In this latter view, a chief executive officer of a corporation with a formal plan, neatly printed and indexed and properly illustrated, preferably with detailed statistical appendices, provides the image of having the management task well in hand. His counterpart who still relies on intuition and the proverbial back of the envelope may be at a psychological disadvantage.

According to David Ewing, one of the most important and recurring motives for planning has been the desire for controlling what people do. $\frac{13}{}$ In the words of the manager of planning of Stauffer Chemical, "The only time the planning department is doing a useful purpose is when it is doing something that the chief executive wants done....The planner is at his most powerful when he has the unequivocal support of a strong chief executive."

Many individual business planners and planning organizations survive and prosper because of the importance of the ancillary functions they may perform. These range from diversification studies and merger negotiations to economic forecasting and market research to providing a corporate focal point for social responsibility concerns and governmental relations. Moreover, the chief planner may essentially serve as an internal management advisor. He or she may be a useful individual to be included in corporate management groups, particularly where the other participants are committed to representing specific company divisions or large functional areas.

Business Versus Government Planning

Even if the shortcomings of the state-of-the-art of business planning are not as universal as indicated above and can be reduced or eliminated with additional time and effort, there are important differences between business

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and government planning. These differences should influence our views toward the desirability of adopting a stronger and more influential national planning system. Boiled down to fundamentals, we are dealing with the difference between forecasting and reacting to the future and trying to regulate it. Corporate planning of necessity is based on the principle of trade -- attempting to persuade the rest of society that they ought to purchase the goods and services produced by a given firm; the controls that may accompany the plan are internally oriented. In striking contrast, the government is sovereign and its planning ultimately involves coercion, the use of its sovereign powers to achieve the results that it desires. Its controls are thus externally oriented, extending their sway over the entire society.

At the outset, the proponents of a formal national economic planning system say that they would not set specific goals for General Motors, General Electric, General Foods, or any other individual firm. But what would they do if these companies would not conduct themselves in the aggregate in accordance with the national plan? Would they leave the actual results to chance or to the free market? Hardly. They state that the planning office "would try to induce the relevant industries to act accordingly." $\frac{15}{}$

And the inducements of course are not trivial. The totality of the government's powers to tax, to purchase, to subsidize, to "assist" and to regulate are awesome. The most powerful and sophisticated planning system in the private sector lacks the ability to levy taxes and to funnel the revenues from those taxes away from one potential sector of the society and to another.

Although much of the rhetoric favoring a national economic planning system is in terms of merely developing and providing better information, improved fact gathering appears to be a means to another end. Daniel Patrick Moynihan referred, in a somewhat different connection, to that increment to central control that seems to accompany enlarged information gathering. $\frac{16}{}$

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Even a cursory examination of the literature on American business planning demonstrates that planning is intended to be far more than improved information accumulation and analysis. Malcolm Sherwood offers one of the more comprehensive statements in this regard, based on work of the American Management Association:

> "Planning is an analytical process which encompasses an assessment of the future, the determination of desired objectives in the context of that future, the development of alternative courses of action to achieve such objectives, and the selection of a course or courses of action from among these alternatives."17/

Robert G. Murdick offers a variation on that theme, "A plan is a predetermined course of action over a specified period of time which represents a projected response to an anticipated environment in order to accomplish a specific set of adaptive objectives." $\frac{18}{18}$ Ewing offers what is perhaps the most terse rendition, "Planning is to a large extent the job of making things happen that would not otherwise occur." $\frac{19}{18}$

The proponents of centralized government planning do not leave the matter in any doubt. They clearly state, "The heart of planning is to go from information to action." $\frac{20}{}$ They go on to point out, "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... The Director of the Office of National Economic Planning should be designated as the chief adviser to the President for economic affairs." $\frac{21}{}$

The essence of the difference between public and private planning is the locus of decision-making. If Ford or General Motors or Chrysler are not selling as many automobiles as they had planned, there are a limited number of things they can do about the matter. They can -- within their available resources -lower the price or change the nature of the product. But -- as evidenced by the

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demise of the Edsel, the LaSalle, and the DeSoto -- they may at times simply be forced to abandon the project. The consumer remains the ultimate decisionmaker.

The situation is quite different in the public sector. Compared to the largest private corporation, there are more options available to the government. If the government does not think that the American public is buying enough cars it can lower the price to the consumer as much as it likes via tax reductions, down to zero if it so determines. Alternatively, the government can subsidize the private manufacture of automobiles or it may purchase outright the output of the automobile industry or simply take over the ownership and control of the industry. The government certainly has demonstrated the willingness to involve itself in the production of motor vehicles to the extent of deciding by fiat many aspects of their design and operation, under its safety and environmental powers.

Senator Hubert Humphrey has made the same point much more 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 purchasers 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."

The Senator also reminds us that the government is a large purchaser of goods and services:

"Everybody else fades into insignificance in comparison. From the viewpoint of purchasing power, General Motors is a peanut stand compared to the United States Government."22/

Mr. T. A. Murphy, Chairman of the Board of General Motors, has provided a clear distinction between business and national planning:

> "If all we were talking about were government plans that are comparable to business plans, there would indeed be nothing

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to debate. Government units, of course, should try to anticipate future demands on their resources and plan to meet them, just like any private business. We wish them well at it and would like to see them do an even better job. But that isn't the issue.

"Unlike a business, a government may not only plan -- it may also command. A business can set goals only for itself: a government body can set goals for other people as well."23/

The point being made here is not that private planning does not involve control, but that those subject to its control powers are quite different. Once a private corporation adopts its long-range plan, it may push hard on the various units of the corporation to meet their goals and objectives. But the controls are essentially internal -- incentives and sanctions focusing exclusively on the officers and employees of the corporation; if things go wrong, the onus falls on the officers, employees, and shareholders. Government planning, in contrast, focuses on "guiding" or "influencing" -- and thus ultimately controlling -- the activities of the entire nation. If things go wrong in public sector planning, it will be the taxpayer and consumer who bear the main burden. Note the close connection between selecting planning objectives and the programs to carry them out in the statement of the proponents of centralized planning: "It goes without saying that the final choice among all feasible alternative planning objectives and programs belongs to Congress.....ⁿ²⁴.

Consider carefully the comment of Senator Hubert Humphrey, the co-sponsor of the Balanced Growth and Economic Planning Act of 1975, "I don't think we ought to compel, but we surely can influence." $\frac{25}{}$ As Hebert Stein has noted, if the government can make a private citizen an offer he cannot refuse, it can exercise coercion. $\frac{26}{}$

In a sense, there may be two types of government planning that need to be distinguished. The external planning -- which has been discussed here -- involves all sorts of 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. This second type of planning really relates to the management of government's own activities. The advocates of more powerful government planning tend to merge the two, using shortcomings in government's management of its affairs as a reason 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 aspect of government planning:

> "...we don't have any economic impact statement for governmental decisions. The government goes around willy-nilly making decisions of consequence. There was no estimate of the economic impact of the Occupational Safety Act, for example. I happen to be for the occupational safety program, but what were its economic implications? Did anyone think that through? No.

> "...the manner in which we are presently utilizing government resources and government agencies is a haphazard, helter-skelter enterprise...we can show that with some planning in our government, just a modest amount, a little more than we're doing, we can reduce governmental costs and get better governmental services."27/

It would appear, however, that a government which is being conducted on such a haphazard, helter-skelter basis would be reluctant to take on the extremely ambitious task of managing the entire economy prior to getting its own house in order. Moreover, attempts in the recent past to apply business planning techniques to the management of the government's own affairs do not inspire confidence. Certainly, they do not form a satisfactory basis for an expansion of government planning efforts along the lines of the Humphrey-Javits bill.

The Planning-Programming-Budgeting System and Other Planning Experiments

There is little need to guess at the impact of a government-wide planning system at the Federal level. We need only examine the planning system that was instituted by President Lyndon B. Johnson. On August 25, 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."^{28/} President Johnson went on to describe his view of what was given the acronym PPBS in some detail:

> "Under this new system each Cabinet and agency head will set up a very special staff of experts who, using the most modern methods of program analysis, will define the goals of their department for the coming year. And once these goals are established this system will permit us to find the most effective and the least costly alternative to achieving American goals.... So this new system will identify our national goals with precision....."29/

PPBS initially was greeted with great enthusiasm. For a while it created a land-office business for the services of economists, statisticians, and program analysts. Professors Bertram Gross and Michael Spring enthusiastically described PPBS as "potentially the most significant management improvement in the history of American government..."<u>30</u>/ 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 Pentagon decision-making. And a substantial portion of the McNamara-Hitch reforms have endured in the Pentagon, notably the 5-year projections of force structures and budgets, as well as the review of budget submissions along program rather than merely service lines.

Some of the enthusiastic overreactions in the implementation of PPBS perhaps were inevitable and not fundamentally different from private sector experiences. When one divisional manager of a large electronics company was asked to state his division's basic goals as an input to the corporate planning process, he listed

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400 different "basic goals." Another division manager's plan consisted entirely of 100 pages of statistics, with not a single word except for column headings. Also, it takes many years, not the mere months in President Johnson's timetable, to establish a planning system. As pointed out by Harold Henry, formal planning systems do not materialize in "a period of a few weeks." Such a system is developed gradually over "a period years." $\frac{31}{}$ R. Hal Mason estimated a 60-108 month time sequence for the establishment of a full-fledged planning organization. $\frac{32}{}$

In retrospect, it is quite clear that PPBS -- at either the Pentagon or White House levels -- did not help the Federal Government avoid fundamental overcommitments either at home or abroad or to avoid an unusual array of "crises." Those who blithely assume that the "successes" of business planning can readily be replicated at the national level may well ponder over both the failure of the Edsel in the private sector and the nature of the major federal decisions which were made at the peak of the PPES enthusiasm -- a deeper American involvement in the Vietnam War and the overpromising of the Great Society domestic programs.

The point being made here is not that the attempt to introduce organized planning led to these failures but rather that it 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." $\frac{33}{2}$

Since 1969, the PBBS apparatus has largely been dismantled in the Federal Government. What remains is performed in a more modest manner and as part of the annual budget preparation. One of the more sympathetic but balanced appraisals of the PPBS effort was prepared by Jack W. Carlson, a professional economist who was involved in the program in a major way at the Office of Management and Budget:

"The U. S, experience was clearly short of the ideal.

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Initially, PPBS became a different, somewhat competitive channel for decision-making...the intent was to provide more useful information for the development both of budgets and legislation, but that was not the initial result. ...The government, not to mention the private sector, already turns out thousands of analyses, evaluations, and studies every year. Their influence on policy is usually negligible."34/

In view of the impact of a more formidable planning system, such as that utilized in Great Britain, perhaps we should be pleased that the results of PPBS were mainly paper shuffling, wheel-spinning exercises. In his analysis of Britain's experiences with centralized planning, John Jewkes painted a rather dismal picture:

> "I believe that the recent melancholy decline of Great Britain is largely of our own making...At the root of our troubles lies the fallacy that the best way of ordering economic affairs is to place the responsibility for all crucial decisions in the hands of the State."35

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 of federal regulatory agencies, whereby the industries being regulated may come to dominate the decisions of the government agencies set up to regulate them. Sheahan contends that planning by consultation and negotiation in France tends to drive the government planners into such 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 has weakened competition and may have resulted in neglecting social concerns.36/

Under none of these alternatives does a comprehensive scheme of national economic planning appear to improve the overall performance of the national economy. If anything, it would tend to shift even further the focus of private enterprise away from dealing with market forces and meeting consumer demands and toward reaching an accomodation with an ever more powerful governmental bureaucracy. A company might find it desirable to shift resources from conventional marketing activities toward convincing the government to adopt more generous production targets for its industry. Thus, the payoff from traditional consumer market research might be less than from new efforts to persuade the government to treat the industry more generously.

We could readily conjur 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. Businessfinanced hunting lodges and fishing trips for civilian government planners might seem to merely follow an older defense industry tradition. But, legal or not, such public sector "marketing" activities would seem to be a low priority usage 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 decision-making.

Conclusion

The advocates of national economic planning who base their case on an extension of business planning activities overestimate the state-of-the-art in the private sector. In a study of thirteen large, technically oriented manufacturing companies, the author and his colleagues reported that most of the output of long range planning groups was found to be more in the nature of scheduling current programs with long leadtimes, rather than in the development of the long-range business plans. $\frac{37}{}$

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 forth. "This may - in a small

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way - help to explain why business plans are so infrequently used as real decision-making tools. " $\underline{38}/$

The rapid turnover of planning staffs and business planners is striking testimony to the basic dissatisfaction with the results. On the basis of many years of attending meetings with business planners, the author developed the following rule of thumb: anytime you hear a business planner explain how planning is done in his or her company, remember that the odds are better than one out of two that in two years that planning staff will no longer exist, that person will no longer head the planning operation, or both.

It is apparent that no amount of formalized planning has eliminated any company's uncertainty concerning future technological change, the vagaries of 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. As Gerald Sirkin has stated, "Planners have no crystal ball" or as James Matheson, Director of the Decision Analysis Group of the Stanford Research Institute put the matter, "In this age you can't plan on your plans."^{39/}

Yet, of course, business planning continues, and for a variety of reasons, including the sheer momentum of past activity as well as the useful by-products of the information provided to the management. There is an important "opportunity cost" involved that should be recognized. The manpower and other resources that are devoted to the planning effort are unavailable for other purposes.

Both the high cost and the often modest results have led many companies to scale back the originally overly ambitious planning efforts on which they had embarked. In good measure this may have been the natural pattern of reaction and accomodation to the overselling of a new management activity, but one avowedly with more durability than the short-term fad. Yet, at least in the

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case of one major corporation (General Motors), apparently the word planning no longer is used in any corporate title or to describe any corporate activity.

As pointed out earlier, the possibilities for building on business planning experiences to mold a national planning system are not attractive. Even discounting the very serious shortcomings of existing business planning techniques, the differences between business and government decision-making are fundamental.

Despite all of the sophisticated apparatus, business planning is based on the traditionally implicit -- and increasingly explicit -- assumption that the ultimate decisions on the allocation of resources in the society are to be made by individual consumers. An important corollary of that is if a company guesses wrong on what consumers buy it will suffer the consequences.

Government planning, implicitly or explicitly, is based on a fundamentally different set of assumptions. Government determines what it considers to be in the society's overall interests. 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 must be developed to get the public to accomodate to the planners' view of the good (or great) society.

Boiled down to its essence, business planning is part of a decentralized decision-making process where the individual consumer makes 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.

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