

[23 Things We're Telling You About Capitalism XIX](#) [1]

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Our nineteenth thing is that of course planning's lovely: so much so that the collapse of communism isn't to be taken all that seriously. Yes, OK, so the central planning of the entire economy isn't all that good an idea (although Chang, almost ludicrously, believes that it did work in the early days. Someone should point out to him that the 5 year plans *reduced* economic growth from the NEP days: to say nothing about losing 8 million Ukrainian peasants by happenstance along the way.) but still there's a place for the very clever people in government to direct what everyone else thinks about making, buying and selling.

And even if that isn't true firms plan their activities, we've got lots of firms, so we must have lots of planning: and indeed we do have lots of planning.

The problem with this is that he's mixing and matching in a way that isn't really viable. Firms do indeed plan: but their plans are then subject to examination through competition with the plans of all the other firms. You know, that marketplace thing. Planning is thus preparatory to the test of whether the planning has worked. With government planning we don't then get that test: for governments don't then subject, or at least limit as much as they can, the exposure of their plans to said market. You can see this quite clearly in the current arguments about renewables and fracking for shale gas. The DECC has its plan, we'll all shiver in the gloom of solar powered (in England!) lights so therefore no one must be allowed to drill for shale which would upset that plan. Yes, I know they've said that it will be allowed to go ahead: but have you looked at the limits they've put on earthquakes? 0.5 on the Richter Scale was the last I saw: that's about the shock of the cat jumping off the bookcase next door*. A deliberate attempt to stifle an innovation that would ruin the government's plans. This is something that private sector companies don't get to do: which is why the results from private sector planning work out so much better. Someone else can indeed derail them, to the consumers' benefit, by having a different and better plan.

If you like, the market is where plans compete to see which is the best one. Government planning doesn't enter that competition so we never do find out quite how bad those government plans are. We just end up not quite as rich as we thought we were going to be or should be.

Chang also talks about how governments plan a lot of the R&D these days: or at least pay for it and thus presumably have some sort of plan about what they're going to spend it on. He also notes that the Soviets were pretty good at invention of spiffy things but this didn't seem to feed though into making said consumers any better off. He should read his William Baumol to see the connection between these points.

Baumol defines invention as the, well, invention of new and spiffy things. He makes the point that the Soviets did do satellites first. Indeed, either sort of system, planned or market, seems to be about the same at invention as the other. However, innovation is the getting of interesting things stemming from those inventions into the hands of consumers in a shape and form they desire. Either to do things with or to develop further to do other things with. And there the planned system is appalling and only market economies have ever really proven to be any good at all at it. The Soviets could make tanks alright but hot water tanks were beyond them (quite literally, the Soviet housing system didn't have them).

Which is really very much the same point as the one above. Markets provide the test to see what an invention might be used for, who is going to innovate with it. Further, given that we're talking also about capitalism here, that part of the system provides the incentive to risk the money to find out about one or other innovation. Which is why innovation is indeed driven forward on capitalist and market based societies and not in planned ones. OK, so governments pay for a lot of the R&D. So what? That's not the important part of the system: innovation is, not invention.

Which brings me back to hot water tanks. The Soviet system operated on district hot water heating plants. Hot water piped into the radiators and bathrooms of the whole urban area. From a planning point of view is looked quite efficient: but as it turned out it's not what the consumer actually wanted. As soon as the old system fell one of the most popular additions to a Russian apartment was an individual hot water system: the type of tank that the Soviets, the planners, didn't even know was wanted rather than the ones they knew how to build but which the market sniffed out almost immediately it was allowed to.

And that, in the end, is why planning is inferior to markets. Because planning will provide what the planners think the people want, or should want, or even what the planners think they should have. Markets allow the consumer to do the demanding of what they do want.

**Hyperbole alert. Update: I have now been told that it's actually 3,000 cats jumping off a 2 metre bookcase. No, really, it is, assuming perfectly inelastic cats. And it's also happening half a mile away.....*

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