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Shonfield: Modern Capitalism: The Changing Balance of Public and Private Power

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REVIEWS

MODERN CAPITALISM: THE CHANGING BALANCE OF PUBLIC AND PRIVATE POWER, By *Andrew Shonfield.* Issued under the auspices of the Royal Institute of International Affairs. New York and London: Oxford University Press, 1965, Pp. xvi, 456. $10.50.

"What was it that converted capitalism from the cataclysmic failure which it appeared to be in the 1930's into the great engine of prosperity of the postwar Western world?" This, the first sentence of Shonfield's book, is indeed one of the great questions of modern history and social science. It is to the author's great credit that he musters the courage and the perspective to tackle it, undertaking an inquiry that boldly crosses national, disciplinary, and temporal boundaries. Most scholars are too timidly busy with narrow specialized investigations to attack so basic and significant a question.

If Mr. Shonfield's arguments and inferences are sometimes scientifically unconvincing, if the details of his series of national narratives come to obscure the central theme, if in the end the reader still cannot answer the original question or be altogether sure of Mr. Shonfield's answer, nevertheless the book is a substantial achievement. The author provides an informative, comparative account of the postwar economic experiences and policies of the major Western industrial countries (not, alas, of Japan). His style is lively and readable. His approach is pragmatic and undoctrinaire. Both leftists, sure of the iniquity and waste of private enterprises and capitalist societies, and conservatives, convinced of the danger and inefficiency of government planning and initiative, confront in these pages evidence shattering to their preconceptions.

It is possible that the last twenty years of extraordinary economic progress in the Western World do not signify any real break of historical pattern, any permanent improvement in the performance of these economies. Perhaps we are enjoying no more than a prolonged buoyant phase of one of the long swings in economic activity which some economic historians have detected in the nineteenth and earlier twentieth centuries. Perhaps, but to Mr. Shonfield, as to this reviewer, it seems most unlikely. The long wave hypothesis is a doubtful interpretation of history. Where Schumpeter discerned 60-year waves, Kuznets finds 20-year cycles. Either way, the swings are not numerous enough, regular enough, or clear enough to warrant the conclusion that they are an inseparable feature of Western economic development. We need not fatalistically accept the prospect that a depressed period like the 1870's, 1890's, or 1930's lies ahead of us.

One possible explanation for the recent dramatic success of Western capitalism is the general triumph of Keynesianism. Governments have learned how to manage aggregate demand by fiscal and monetary measures, and the political importance of full employment has forced them to apply the knowledge. The errors of commission and omission that magnified national recessions and minor monetary difficulties in the late 1920's into catastrophic world depression are no longer intellectually or politically possible. Success breeds success. If businessmen believe that governments can and will prevent serious lapses from full employment, their own investments help to justify their own confident expectations.

This explanation is hard to refute. A commitment to full employment and to Keynesian policy—though in various degrees and disguises —is about the only common thread running through the various national success stories Mr. Shonfield recounts. The power of the explanation has been further enhanced, since Mr. Shonfield laid down his pen, by the vigorous growth of the U.S. economy in 1965 and 1966 under the stimulus of Keynesian measures.

Mr. Shonfield does not accept the Keynesian explanation. He believes that a new and larger governmental influence in the economy is the key postwar development. He does not mean merely the more vigorous and intelligent use of general fiscal and monetary controls over aggregate demand. He has in mind more detailed and specific government interventions. He refers to the management of supply as well as the stabilization of demand, to government plans and policies that shape the composition of output and investment and the distribution of income as well as those that merely seek to maintain full employment.

Certainly Mr. Shonfield recounts a number of interesting experiments in public economic policy, many of which involve the blending of public and private interests, plans, and decisions. These include: the French Plan and its recent British adaptation; Swedish manpower planning and policy; Swedish and Dutch wage-setting procedures; social services in Germany, Britain, and elsewhere; the promotion, especially in Germany, of favored lines of investment by subsidies, tax concessions, and public credit; the state and mixed-state-and-private enterprises of Italy. If the catalog does nothing else, it shows that economies can prosper and grow with widely differing degrees and kinds of public intervention. This very fact sheds doubt on Mr. Shonfield's proposition, or rather intimation, that long-range plans for the growth and composition of productive capacity, designed and executed jointly by governmental authorities and private economic interests, are the secret of capitalism's latter-day success.

France and Britain are the chief exhibits offered to prove the case. Obviously the author feels most at home in discussing these two contrasting cases, and they receive much more attention than other countries. He shows how the long tradition of centralization, Etatism, and elite bureaucracy in France paved the way for the recent successes of French planning. Certainly the French experience shows how plans developed in give-and-take between bureaucrats and businessmen can provide coherent guides to the policies of both, while leaving considerable freedom for individual initiative and decision. The annoying historical question remains: Why did the Napoleonic state apparatus that has achieved such miraculous economic results since the Second World War produce so dismal an economic record before?

Britain is the case *par excellence* where the management of demand to maintain full employment has not been enough—some would say it has been too much. The growth of productivity has been disappointingly slow. Why? One culprit is "stop-go" policy. In each recurring sterling crisis the British authorities have shortsightedly taken measures to curtail investment, rather than consumption. But it also appears that investment has yielded less pay-off in improved productivity in Britain than elsewhere, notably France. One reason may be lack of intelligent planning, particularly by the nationalized industries. But another may be the vested interests in inefficient and obsolete methods built up by and for security-minded unions and managements. Perhaps exposure to competition rather than corporatist planning is the indicated therapy.

Before concluding that France shows the success of planning and Britain the failure of Keynesianism without planning, a reader of Mr. Shonfield's book should remember another crucial contrast between the two countries in the last decade. For most of this period, France has had an under-valued and Britain an over-valued currency. Having devalued the franc in 1958, France has since then enjoyed the stimulus of booming exports and the freedom to manage its economy without worrying about the foreign exchanges, not to mention the reformed sinner's pleasure in preaching financial rectitude to the rest of the world from the safety of a mountain of gold. Britain, in contrast, has been stubbornly clinging to an exchange parity that dooms the country to chronic payments deficits and repeated crises of confidence.

Mr. Shonfield emphasizes the liberalization and expansion of international trade as a factor favorable to postwar Western prosperity, and he rightly points to the international monetary system as a potential Achilles' heel. He does not, however, sufficiently consider how the structure of exchange rates caused liberalization of trade and other international transactions to have quite a different impact on the various countries he studied.

Mr. Shonfield, to his credit, devotes the concluding chapter of his book to a thoughtful essay on the problem of assuring democratic control of the economic planning he admires. This is more than the usual problem of controlling a bureaucracy to which power of decision on important complex matters has been delegated. How can elected officials control intimate collaboration between bureaucratic experts and organized private interests? How do spokesmen and negotiators for functional groups—Labor or Business or Chemical Industry or Agriculture—acquire legitimacy? The corporate state is not an appetizing prospect. Fortunately a democratic government can probably plan and guide the growth of a mixed economy without enlarging its powers or sharing them with private groups.

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JUDICIAL CONTROL OF ADMINISTRATIVE ACTION. By *Louis L. Jaffe.** Boston: Little, Brown & Co., 1965. Pp. xvi, 792.

After many years of judicial review of government agencies, the law on this subject is still obscure and uncertain. Professor Louis L. Jaffe's important new treatise, *Judicial Control of Administrative Action,* describes the judicially developed techniques to control or, perhaps more accurately, to influence administrative action. He discusses such basic matters as standing, sovereign immunity, exhaustion of administrative remedies, and the scope and manner of judicial enforcement of agency orders. But beyond the usual topics, Professor Jaffe also deals with less frequently considered problems, such as the judicial power to

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