discussion is particularly relevant in view of the fact that it is the federations, namely Germany and Italy, within the Communities that have caused the greatest difficulty. These essays are not necessarily easy reading, but they are certainly stimulating.

DENNIS THOMPSON *

MODERN CAPITALISM: THE CHANGING BALANCE OF PUBLIC AND PRIVATE POWER. By Andrew Shonfield.[1] London: Oxford University Press. 1965. Pp. xvi, 456. $10.50.

What has converted capitalism from "old-fashioned" to "modern" — or, what is the same thing to Mr. Shonfield, from "cataclysmic failure" in the thirties to an "engine of prosperity" in the postwar world (p. 3) — is the nature of the changes which have taken place in the economic management of Western societies. Shifting economic management's control centers from private hands to public hands has not only overhauled the economic engine, giving it more and steadier power and greater, more constant acceleration; it has improved driving habits, sharpened the vision of the drivers, coordinated the trip plans of travelers, eliminated the need for stop and go lights, and created substantial savings in fuel costs. But this is not all. It has done even more; it has taken travelers to "better" destinations than they could have chosen for themselves.

The changes in economic management which are chosen for special commendation have to do with direct controls — controls which override or supplant market decisions. In fact, the market is the culprit for the sins of the old capitalism. A market is either the chaos of wasteful competition or, more characteristically for Mr. Shonfield, a center of coercive private power. Public controls which are market-supporting rather than market-supplanting, controls which are exemplified by the central direction or supervision of monetary or fiscal policy, are *not* the public controls to which the author credits the postwar successes of Modern Capitalism. Success, rather, derives from a central planner's blueprint of when to make what for whom — especially through investment decisions. Principal focus is on growth, continuous, nonfluctuating, socially desirable growth in general but growth which is mainly provided through private investment which is directed and controlled by the public planners. Solving economic problems through a price system is not the essence of capitalism to Andrew Shonfield.

The method by which Shonfield attempts to establish that central planning is the engine of prosperity in the new capitalism is perhaps best described as proof by association. He discerns a positive correlation between the existence of some kind of a central planning mechanism and high and steady growth rates among Western nations in the nineteen fifties and early sixties. There is no specific identification of growth

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* Assistant Director, The British Institute of International and Comparative Law.

[1] Director of Studies, Royal Institute of International Affairs.

goals nor any analytical evaluation of possible alternatives to centrally directed resource allocation. Neither is there appraisal, theoretical or otherwise, of appropriate preconditions necessary for a principled conclusion as to whether individual or collective decision-making is called for. One is left with the distinct impression that there is little or no danger of too much central planning or planning of the wrong things. The signs are plainly marked and they point in the same direction along Shonfield's Road to Growthdom.

An "Argument in Brief" for planning is presented in a short fourth chapter. The unprecedented prosperity enjoyed by the advanced countries of the Western World during the 1950's and early 1960's is described as having three major characteristics: (1) steady growth — steadier than in previous periods, (2) rapid growth — more rapid than in previous periods (except for America which retained a "recession psychology"), and (3) diffused benefits — social benefits of prosperity distributed more widely than ever before.

The distinctive features of this new era of capitalism are described as supplementing and extending beyond the conscious pursuit of full employment according to the "Keynesian guidebook." Much more distinctive than business cycle control is what was done by detailed planning after reasonably full employment was thought no longer to be a principal cause for concern. The author lists (pp. 66–67) five outstanding features which have emerged in postwar capitalism: widely varying but vastly increased public authority; increased use of public funds for social welfare; tamed violence in private markets; public direction of research and of employee retraining; and new attitudes about cooperation with planners by business management, especially in dominant firms.

The continental nations have grown faster and more steadily than either the United States or Great Britain in recent years, allegedly because continental central planners directed growth patterns more and better with less distraction from antiplanners or special interest groups. Western nations are recognized to have large differences between key institutions and economic methods, which are often the subject of sharp ideological cleavages, but master planning by experts is seen as the common denominator of successful Modern Capitalism. West Germany, for example, represents "modern" rather than "old-fashioned" capitalism because of the central direction provided by a few large banking houses working closely with industry representatives. In Sweden Modern Capitalism is represented by nationwide worker groups negotiating with similar employer groups. In Italy joint private-public ownership of industry is stressed, with management a modern form of the older corporate state of Mussolini's time. In France, on the other hand, there is a *Commissariat du Plan* which represents a more formalized planning power.

Stressing planned growth through directed investment, Mr. Shonfield is distrustful both of consumer choices and of producer selfishness. Producers are viewed as the source of private power which the public planners need to balance. Seeing monopoly power almost everywhere,

HeinOnline -- 80 Harv. L. Rev. 1376 1966-1967

at least where production is most efficient, and despairing of the effectiveness of market competition, the alternatives of government ownership or government control loom before him as the principal alternatives for the achievement of prosperity. Shonfield, as has been indicated, focuses on the latter because he sees advantage from private enterprise when adequately controlled and directed. Large business enterprises are useful sources of productive efficiency.

Modern Capitalism succeeds where old-fashioned capitalism fails, according to the author, because without central planning efficient coordination of complementary activities cannot be achieved. He says, for example (pp. 225–26), that:

> [I]f responsible people were not prepared to predict future needs some years ahead, certain kinds of investment would always be late — with the result that the rate of growth of the economy *as a whole* would be significantly slowed down. The port capacity needed to take extra exports and imports in a period of rapid economic growth would never be ready on time; the road connecting with the port would always be congested; factory order books would be over-full and deliveries would be delayed. In the end it would be the customer who would find himself compelled to plan ahead, anticipating his own needs in order to get them met on time.

Ports and roads, it must be emphasized, are not for Mr. Shonfield special cases calling for planning because they have *unique* characteristics making them unsuitable candidates for the competitive process. His central thesis, evidenced here by reference to factory orders being misallocated because of congested roads and crowded ports, is that a competitive system *generally* is incapable of responding as appropriately to joint demand for complements as is a system which is coordinated by a government authority. Thus coordination between two complementary competitive segments (such as a bacon industry and a separate egg industry) is as good an example of the problem Shonfield sees as is coordination between public ore docks and the production of ore. "*As a whole*" it is the *competitive* process which is the inefficient laggard in Shonfield's view. If this is so, some counter-examples from American experience need explaining. Can it be that automobile sales in America are comparatively retarded because automobile production is not centrally coordinated with road building, tire making, gasoline output, and the distribution of road maps? And can it be contended with other than mock seriousness that the competitive production of America's electrical appliances, as compared to production of these products in Europe, is to be explained by the presence here of government directives apportioning appliance production to the output of electric power? If Mr. Shonfield wants a good example of *lack* of coordination between productive capacity and output, I suggest he will search far before he finds a better one than that provided by the central planning (proration) of America's crude oil resources.

Mr. Shonfield has great admiration for the French model of central planning. He emphasizes the special usefulness of central control of in-

HeinOnline -- 80 Harv. L. Rev. 1377 1966-1967

vestment of the kind exercised by the *Commissariat du Plan.* Intervention in crucial points in the capital market is urged so as to fashion the pattern and the pace of investment. Treasury approval before industrial bonds may be issued, *Commissariat* approval before substantial bank credits can be rediscounted by the central bank, and *Commissariat* approval of long term bank loans are all cited (pp. 166–71), without qualification, as means of making France richer at a faster and more even pace.

Critics of central planning get short shrift. Shonfield says (p. 226) of planning in general:

> All that has to be shown in order to justify the effort of central planning is that it makes it more probable than it would be under a pure market system that complementary investments involving a long lead time will be carried out when they are required. There are more and more such investments in our rich and crowded societies. If foresight has any value at all, a planned system will tend to work with a lower margin of underemployed capacity in any given productive center. That is another way of saying that it will suffer from fewer bottlenecks. And it also implies that the capital-output ratio will be more favourable. This last is certainly one of the outstanding features of postwar France; and the French planners have, plausibly enough, claimed some of the credit for it.

And, in this reviewer's view at least, with little risk of blame for possible mistakes! Commissariats are by their very nature insulated from the kind of comparisons of alternatives which markets foster. If, for example, an Edsel gets "planned," the advantage to the planner of being in the government over being in the Ford Motor Company should be apparent. On the other hand, as far as the consumer is concerned, having bad planning undone is hardly the kind of advantage ascribable to state planning.

In this reviewer's opinion Shonfield's case for central planning is singularly unconvincing. The book is much more useful for its description than for its analysis. Since World War II there have been very substantial increases in the output of goods and services produced under widely differing degrees and kinds of centralized direction and supervision. Any country, Western or non-Western, developed or underdeveloped, except those at the margin of bare subsistence, can, if it chooses, cut back current consumption to buy or build the tools to get more for tomorrow. Some governments, without apparent disadvantage, leave this kind of choice to individual income receivers just as some governments allow more freedom for individuals to choose what goods they will consume — again without noticeable harm to prosperity.

The wide diffusion of prosperity, listed as one of the three major characteristics of Modern Capitalism, bears no necessary causal connection to central planning of the market-supplanting type. Any system of income equalization must of course be concerned with preserving the productive sources of the prosperity which is being reapportioned, but income or wealth can be more efficiently redistributed by tax measures than by arbitrary output rationing. Indeed, a system of

HeinOnline -- 80 Harv. L. Rev. 1378 1966-1967

diffusing prosperity by attempting "fairly" to ration each of the myriad goods of an economy should surely qualify as highest in cost and lowest in efficiency.

The two major characteristics of Modern Capitalism other than diffusion of benefits, rate of growth and steadiness of growth, are, at least on the surface, more plausibly related to central planning. But assessing growth without stating what should be and what is growing (and Shonfield provides neither priorities nor specifics) is, of course, impossible. How can one be sure that the experts are not planning the equivalent of a two ton bumblebee? Moreover, any intervention by central authorities to boost demand for future "essentials" necessarily involves the cost of avoiding the current consumption of things which people would otherwise prefer to have. And even if consumers prefer more goods in the future to more now, a central question remains — can the benefits of publicly controlled investment be evaluated without exposing and evaluating the alternative investments which are foreclosed from the "planees"?

If Modern Capitalism is to deserve a welcome in countries which are concerned with individual welfare, it should be required to meet more than some unspecified "growth" test. In modern society technological advance has created innumerable things which can be produced in proportions varying almost beyond comprehension. No planning board could conceivably arrange the priorities among these output combinations even with the most miraculous of electronic aids. Mere contemptuousness for competitive market forces as means of determining appropriate output composition and resource allocation is scarcely a substitute for careful analysis of the "growth" tasks or the even more important "nongrowth" tasks of an economic system.

Where unacceptable private power is a concomitant of efficiency, or where market transactions spill substantial adverse or beneficial effects on nonparticipants, a "changing balance of public and private power" is rather generally conceded to be appropriate. These particular problems of economy of scale and social cost are not, however, exceptional problems which Shonfield would solve by central direction of investment spending. For Shonfield private competition is an inefficient resource bungler worse than private monopoly. Consequently, he considers power dispersion no substitute for countervailing power or central control. It therefore follows for him that diluting private power by providing competitive rules or by expanding common market areas or increasing international trade is not an effective substitute for economic rationing by experts. The dispersion of private power makes planning incomparably more difficult; it is a planning inhibitor. Shonfield stresses the advantages of international trade and also the advantages of central planning by national units. He should face up to the dilemma presented by their incompatibility.

It is submitted that true prosperity is to be measured in terms of the kinds of things people choose voluntarily. (And the realm of choice includes choice between goods or services and leisure, and between goods or services now and goods or services later.) Scarce economic re-

HeinOnline -- 80 Harv. L. Rev. 1379 1966-1967

sources are not necessarily better allocated by deciding arbitrarily that tomorrow is more important than today. Neither is there unqualified merit in full employment if people are to be employed in hanging up each others' coats. Nor is there any obvious superiority in getting something more steadily if it means getting not quite what is wanted. But more than economics is at stake. As Shonfield recognizes in a final chapter, there are serious political implications to active government. He suggests that a possible solution is confronting administrative experts with countervailing legislative experts representing special interest groups. The problem needs probing much more deeply. Those who take problems of civil and political liberties seriously are not likely to find this final chapter a source of reassurance. Especially is this so if *Modern Capitalism* occasions the rereading of Friedrich Hayek's *The Road to Serfdom* or John Jewkes's *Ordeal by Planning.*

WARD S. BOWMAN, JR.*

* Professor of Law and Economics, Yale Law School.

HeinOnline -- 80 Harv. L. Rev. 1380 1966-1967