INTERNATIONAL COLLOQUIUM ON NEW DIRECTIONS FOR DEVELOPMENT PLANNING IN MARKET ECONOMIES

Santiago - Chile - August 25-27 - 1986

Distr.
GENERAL

LC/IP/G.34
July 31, 1986

ORIGINAL: ENGLISH

Nuevos Textos ILPES
Serie D-Ref.NTI/D 8

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In the paradigm of Friedrich von Hayek, plan is very much a four-letter word. He polarises the distinction between plan and market and assumes that the persuit of any form of planning in a modern capitalist economy will lead directly to the Gulag Archipelago and the suspension of democratic liberties.

This argument was rejected by several European economies, as well as Japan, for most of the period following the Second World War. It was rejected less on theoretical or ideological grounds than in term of the practical difficulties of ofsetting major disproportion between different sectors, regions and social classes within society and the need to achieve a degree of social, structural and spatial balance in the distribution of resources.

The role of the state as planner can be analysed on other terms. In contrast with the wholly imperative or would-be imperative operations of the state as planner in the command economies, planning in the Western market economy since the war has typically been indicative, combined with mechanisms exhorting private capital to fulfil its potential growth rate in order both to raise profit expectations and the actual growth of the economy.

Planners, like demand managers, were well aware of the significance for such expansion of the domestic economy on the balance of trade. However, in countries such as France, Italy and Britain they were especially concerned with problems of the structure of trade rather than simply its level in terms of demand management. They sougth to identify those sectors or areas of the economy with a high import propensity, and conversely those sectors where export potential was strong. This in turn involved them in questions of the structure of economic activity, and especially those sectors or forms which has a considerable influence on the rate of growth of the economy as a whole and the level of the trade balance.

This preoccupation with the trade structure of the economy was related to the planners' concern with the social and spatial distribution of activity.

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*/ The views expressed in this work are the sole responsibility of the author and do not necessarily coincide with those of the Organization.

In other words, national planners in countries such as France, Belgium Italy and Britain in the 1950s and 1960s were especially concerned with the generation of resources sufficient to enable an increasing expenditure in the social sectors of the economy and also either to offset increasing disparities in product,income and employment between different regions of the economy, or to undertake a convergence between those product, income and employment levels between different regional and urban areas. In the 1970s, as key urban areas have entered into economic crisis, there has been increased concern with urban and especially innercity policy in both the United States and Europe. As already indicated in earlier chapters, the relation between the social, sectoral and spatial distribution of resources depends not only on the role of the state within society but also upon the extent to which it is possible for any government to achieve a rise in the expectations and actual growth to match the potential growth of the economy as a whole.

It cannot be claimed that the role of the state as planner has been uniformly sucessful in those economies which have pursued medium-term economic plans. In part, this reflects the extent to which the assumption that the state could establish medium-term targets for the economy has been questioned not only by politicians who in many cases have been reluctant to publish standards for failure or achievement in national expansion, but also by the degree to which the mechanisms of unequal competition between meso- and microeconomic capital and national and multinational enterprise have qualified the feasibility of state planning at the level of individual nation states.

This qualification does not imply that there is no role for the state as planner at the national level. Nonetheless it became increasingly clear to the planners themselves that unless there is an international and multi-national dimension to their activities, the degree to which they will be able to offset the disproportion and imbalance analysed in chapters 23 to 25 will be limited, frustrating both for planners and their plans.

Part of the problem lay in the undermining of the Keynesian demand framework for planning policies by changes in the structure of supply. Predominantly small-scale national enterprise in the immediate postwar period had by the 1970s given way to the dominance of mesoeconomic multi-national big bussiness in production, distribution and trade. Such new big bussiness (Gk: macros = large, micros = small, mesos = intermediate) profoundly qualified the effectiveness of indirect Keynesian measures such as fiscal and monetary policy, and exchange rate changes. In practice this amounted to a divorce of the Keynesian synthesis between macro demand management and micro supply structures.

Keynes plus planning

By the early 1960s the conviction that it was necessary to supplement Keynesian demand management policies also was gaining ground in Keynes's geographical and intellectual homeland. Britain's growth record in the 1950's had been uniformly lower than that of the continental Western European countries with the exception of Belgium, with recurrent payments dificits accompanying demand-induced expansion. Without doubt both Britain and Belgium were special cases. Both had entered the postwar period with higher per capita income lelvels that the other economies concerned, which for some time could justifiable be said to have been catching-up on Britain and Belgium income levels. In addition, both countries were the pacemakers in the original indistrail revolution in Western Europe, and could be said to have suffered from over-specialisation in waht now had become traditional or declining industries.

Besides, both Britain and Belgium had traditionally encouraged capital investment in colonies at the cost of direct investment at home, while Britain in addition had accepted long-term debt obligations during the war which reduced the credibility of sterling as reserve currency, and aggravated pressure on the pound in the event of balance of payments deficits which other countries might have sustained in the short-term without pressure for domestic deflation. A further factor possible may have been a lower degree of labour supply than that available in the fast-growing continental Western European economies either from inter-regional or inter-sectoral migration.

But there were additional problems for slow-growing economies such as Belgium and Britain which had already been outlined in Harrod's pioneering application of Keynesian analysis to economic growth. The emphasis in Harrod growth models is on the rate of savings and investment and the capital-output ratio of the investment concerned. For a given capital-output ratio, more investment will mean higher growth. Through embodied technical progress the capital-output ratio also will be lowered, further increasing the rate of growth for a given savings and investment level. But both are important. In other words, while innovation will raise the growth potential of an economy, the flow of innovation itself depends upon the rate of investment. And this depends on entrepreneours' expectation of the likely rate of growth of demand for their products. In Harrod's terms the "warranted" rate of the sense that it is held by them to warrant a given rate of investment in physical plant and equipment. As Harrod pointed out in 1939, this may well be lower than growth potential of the economy as a whole - in Harrod terms the "natural" rate.

Yet under low actual growth conditions, it is not in private companies' interest to increase their rate of investments over and above what he anticipates as the warranted growth rate, since will leave them with surplus capacity, lowered profits and a reduced market quotation, endangering long-term survival. In other words, low growth tends to be self-reinforcing in the sense that when actual growth is low, private interest will act in such a way as to keep it low.

Monetary and fiscal policy

In principle this situation could be remedied by appropriate monetary and fiscal policies. Cheaper money and reduced taxation on intermediate and final products should raise entrepreneurs' expectation of the warranted growth rate and result in an increase in the overall rate of investment. But in practice, fiscal and monetary policies alone will not prove enough.

First, they serve more than one purpose. While their potential might be maximised if they were directed solely towards the mobilisations of investment in given sectors, with differentiated interest rate concessions and tax rebates, they also have to serve their traditional Keynesian end of management of the macroeconomic demand level, where short-term balance of payments difficulties reflecting a low rate of growth of long-term investment may necessitate deflationary monetary and fiscal policy which further reinforces the long-term low investment trend.

Second, long-term investment takes considerable time from conception to production. A venture involving entirely now plant and equipment will take anything from two to five years for completion. The stimulation of demand by fiscal policy measures therefore may result in demand-pull inflationary pressure before long-term investment has resulted in production to satisfy the expanded demand.

Third, a succession of stop-go cycles will have its own disincentive effect on demand induced long-term investment, since management will become aware that an expansionary phase may be followed by deflationary policies by the time that the new capacity from new investment is available. Monetary policy is not more likely to prove effective in stimulating an increase in the rate of investment under such conditions, granted that the reduction of the total cost of a given investment project through a reduced interest rate would constitute a negligible proportion of the direct and indirect cost to the firm concerned in the event of its not being able to utilise a high proportion of the capacity of the investment over the medium-term.

The case for planning

In 1974 Harrod himself admitted such limitations for monetary and fiscal policy and allowed that "free enterprise economies need some further weapon than monetary and fiscal policies if they are to function efficiently". The instrument which he endorsed amounted to the institution of indicative national planning already pioneered by the French, and attempted as a major policy measure in the British National Plan of the following year. As Harrod argued with reference to his own conceptual framework, such a plan should make a specific estimate of the "natural" growth potential of the economy and should spell out its implications sector by sector to the industries concerned through their respective economic development committees. Harrod admitted that it:

> "should consist of more than the mere presentation of growth rates to industries. The industries should be requested to comment and, if some of the parts of the plan assigned to them are not feasible, the planning body should do a new input-output analysis in the light of the new information and put forward a new plan well based in all its parts".

In other words, according to Harrod, a sectorally disaggregated national plan should attempt to inform and be informed by companies in such a way that the warranted growth rate rises to meet the natural growth potential of the economy.

French planning

France for years was held as the paradigm for indicative planning in a market economy. Yet planning in postwar France started with special advantages.

First, direct government intervention in the economy has been a long-standing feature of the French state since Louis XIV and Colbert. It was largely accepted by the private sectors as in its own as well as the national interest.

Second, planning was introduced by a thoroughly exceptional individual - Jean Monnet - and in the exceptional circumstances of postwar reconstruction when private enterprises was particularly anxious to co-operate with a clear central initiative on co-ordinating recovery from the war.

Third, it was accompanied by a major reform of the administrative civil service, and the establishment of a new training school for top recruits to that service - the Ecole Nationale d'Administration - which from the beginning taught and largely gained acceptance for the new planning process.

Fourth, French planning was not merely indicative. Its success achieved depended not simply on the statement of sectoral targets in the manner recommended by Harrod, but also on direct leverage on mesoeconomic companies, combining 'sticks' (especially price controls) with 'carrots' (concessionary grants and aids).

Fifth, the "feedback" effects of planning itself were considerable. In simple terms, when actual growth is high indicative planning is likely to prove more effective than when it is low inasmuch as the stated growth targets will appear more credible to private enterprises.

But after the war - and in contrast with the anti planning claims of Hayek and Friedman and others the French economy rapidly achieved a GNP growth rate of over 4 per cent per annum, rising to over 5 per cent per annum in the 1960s.

Cause or effect ?

So what is the balance of judgement on the French model of indicative planning? According to Vera Lutz, (Central Planning for the Market Economy: An analysis of French theory and experience, Longmans, London 1969): "French planning never had worked in France - nor could have worked there or anywhere else - as a largely 'non-interventionist' form of integral central planning. It had always worked only as a partial and interventionist planning. As such it had been not dissimilar, if we disregard a special attachment to price controls and certainly specially French techniques of intervention, from that engaged in by other 'Western Countries'". (Lutz, ibid, p. 184).

More brutally, Jacques Rueff compared the French planners with "the cocks who crowed and thought they brought on the dawn".

However, in contrast with Lutz's claim, French planning neither was not sought to be wholly imperative. Andrew Shonfield has put the position well in claiming that part of its success lay in the extent to which it was "more than indicative - less than imperative". (Andrew Shonfield, Modern Capitalism: the changing balance of public and private power. Oxford University Press, London, New york, Toronto, 1975, Part 2, Chapter 5: The Etatist Tradition: France). For many of the French - as in postwar Italy - planning was seen as a social and political process by which both present and future problems - unresolved by the market mechanism - could be identified and at least offset, if not remedied.

Against Rueff's claim, most of those in leading roles in politics, trades unions, bussiness or government in France were aware that through the half-century the French economy had been gripped in a chronic Malthusianism. Output growth was low in France for several years before the first world war. But postwar recovery from 1918 was hesitant and uncertain. France only achieved its pre WW1 output level in 1929, after which it fell with the slump. It only recovered its 1929 level by 1939. By contrast, the 1939 level of output - during the First French Plan - was re-achieved as early as 1948 and increased dawn after dawn thereafter at a compound GDP rate of growth of four per cent per annum through the fifties, rising to 5.5 per cent per annum through the 1960s.

This was a period which literally transformed France from a relatively underdeveloped pre-industrial system to a modern industrial economy. While labour markets were able to draw upon reserves from agriculture with a reduction of French working population in agriculture from a third to less than a tenth over a period of some thirty years, such a transformation could not have been possible without the demand pull from new investment for labour as well as the migration push of those whose rising social expectations made them less willing than their forebears to take up jobs "on the farm".

Warrant for planning

Also the importance of the planning process in raising expectations of economic growth (aligning the "warranted" onto a higher natural or "potential" for the economy) should not be underestimated. The social psychology of the process is important. As the key Planning Commissioner for the 1960s, Pierre Masse, has put it, indicative plans tended to be self-implementing inasmuch as they revealed a consistent pattern of future demands and supplies to market participants. The fact that targets as published by the planners were either over or under-achieved in particular sectors was less important than the awareness of the main social and economic actors in the system that buyers and suppliers, competitors and colleagues all were assuming expansion itself. As the title of Masse's book itself The Plan or Anti-Hazard (Pierre Masse, Le Plan ou L'Anti-Hazard) makes plain, risks were reduced by the collective social process of planning.

A state loans policy to industry is more efficient than when growth is low, because management will be more confident of a market for its products.

Moreover, it will be penalised by not maintaining a high rate of investment since it otherwise would risk loss of market share to other firms. Therefore, less imperative measures need be undertaken to ensure that particular production or import bottlenecks are widened, and planners can concern themselves with triming the pattern and structure of growth rather than more herculean effort of promoting it in the first place. Granted the constrains on the power of co-ordination and initiative of given planning staff, the less there is to do the more effective it can be.

If such success was seen on Left, Right and Centre for the first four plans in France - up to 1965 - why the reduced success from the mid-1960s? One reason was precisely the difficulty in gaining a social consensus with respect to employment, inflation and public spending targets. Another was the beginning of a conflict between prestige, high technology and military spending and the social objectives of the Plan itself. When at the end of 1965 the fifth French Plan (for 1966-1970) was being discussed in parliament a leading official of the Plan advised that one should not be too impressed by its objectives for housing, health, social expenditure, employment and income. In his words, it was inconceivable that France could undertake these social and economic aims within the Plan while also allocating resources to an independent nuclear deterrent (L'Arme Nucleare) a supersonic aircraft and rocket delivery system (Force de Frappe and the Diamant programme) a related major computer system at a time when the United States would not allow France the use of major IBM systems (Plan Calcul) as well as high-prestige technology projects such as Concorde and a civil nuclear energy programme. As the official put it "this circle cannot be squared. I anticipate grave social tensions" */

The grave social tensions hit the streets of Paris two-and-a-half years later in May 1968. Relating in large part to a failure to resolve raised expectations within French society, the "events of May" can be seen not only as a rejection by a new breed of technocrats of the technocratic roles assigned for them in a paternalist society, but also -in part- as the result of the success rather than failure of the new plannning process which had given such a degree of coherence to sustained economic expansion since the war. In other words, rather than Rueff's cocks crowing and causing the dawn, the very success of planning within the system raised political expectations especially at the level of the presidency of a very powerful President of a Republic -De Gaulle- that "the chicken could lay golden eggs".

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*/ Jean Saingeour, interview with the author, December 1965.

It certainly is clear that social tensions and the need to meet frustrated expectations in terms of housing, health and education systems became a priority for the Plan from the late 1960s onwards. However, the wages settlements of Grenelle by which De Gaulle in the Autumn of 1968 isolated the students revolt by settling with the trades unions, largely pre-empted the resources available for increased social expenditure.

Planning in question

Thus in early 1960s, just when it was exported abroad, French planning declined in effectiveness in France. In the words of Jacques Delors, this was "because the French were thinking of other things, because they were seized by the throat by inflation and were in major balance of payments deficit. At that stage, the Plan was not even debated by parliament. For planners, it was the crossing of a desert. During this period they turned their attentions to improving their techniques while waiting for better days". (Jacques Delors, 'The Decline of French Planning' in Stuart Holland (ed.) Beyond Capitalist Planning, Basil Blackwell, Oxford 1978).

In these respects, the failure to involve the trades unions in a planning process which went beyond the traditional wage bargain, and the challenge by social and class forces to the resources claimed by the Plan, threw planning into question.

International pressures

As Delors stresses, in France the opening abroad and the increased internationalisation of the French economy related both to the decision to join the Common Market of the European Economic Community, and the greater emphasis given to market forces in general rather than to planning. Both factors were accompanied by "reforms". But these involved a paradox. The reforms proposed for planning entailed changes that weakened planning itself. For one thing, the indirect reliance on the market mechanism reduced the direct decision-making of the planners, and restricted them increasingly pursued outside the planning framework. The key macroeonomic variables on the budget, prices and credit no longer were integrated into the planning process.

The result in France, Delors argued, was a period of exacerbated social tension. After a period of relative calm , the explosion of May 1968 revealed the contradiction between a private liberal mode of development and the increasing social needs of the system. There was a class struggle.

But it had three main dimensions - the struggle for the redistribution of income, for better conditions of work and for the exercise of economic power. If there had been this alone, the government might have coped. However, in Delors words: "there was another dimensions within the first. This was the contradiction between the new ruling class that controlled big business and the traditional middle classes of farmers, shop keepers and small firms. The government and conservative power had need of the first to assure both their policies and their economic prosperity. But they had an absolute need of the latter in order simply to stay in power via the vote... This was their cruel dilemma,trying to reconcile the traditional middle class with the view of industrialisation as perceived by the technostructure and the new ruling class. The Plan was not a good means for them to do this since it meant transparency and coherence in objectives. But the dilemma could not be solved either through clandestine incoherence. The failure to resolve it resulted in aggravated inflation." (Jacques Delors, ibid, pp. 22-23).

The mesoeconomic sector

In France the mesoeconomic sector had consciously been sought by policy makers in successive plans, however unconscious they may have been either of the concept itself, or its consequences for economic policy. Under the philosophy of big is better in international competition, and through awareness that government departments can only handle a small number of companies effectively through direct negotiation, the planners had sought to establish what they called the 80:20 ratio, whereby 80 per cent of given markets would be commanded by 2- per cent of enterprise in them. The state as planner sought to promote margers.

However,as Delors has indicated, they found themselves faced with the question of who controls real resource allocation and who gains from planning. As French planning moved beyond the recovery phase, reliance on purely indicative measures in the private sector was found wanting. Planning targets had to be accompanied by a range of "sweeteners" such as government contracts, fiscal concessions, subsidised interest rates and outright grants as incentives to persuade leading firms to undertake what the public sector could be obliged to do through more imperative power. The formula of French planning as "imperative for the public sector and indicative for the private" - enshined as late as 1976 by President Giscard D'Estaing as in large part a fig veiling massive public subsidy of the private sector. Through its apologist such as Masse, French planning was seen as coordinations of private enteprise in the public interest. But in practice it could well be seen as public coordination of the private interest, on public funds, for what the private sector largely chose to do in the first place. With so few firms the state had few alternatives.

A qualification of the argument could be made in principle in the case of price controls. But general price controls can suit big business in the mesoeconomic sector to the extent that it is concerned to increase its monopolistic domination of particular national markets. When productivity through gains from size and larger scale innovation is lower in big than small business, general price controls squeeze the profits of small firms harder than big ones. Thus state price controls used as a planning instrument, either for reasons of international competitiveness or also as part of a contract between the state and organized labour can actually operate as a powerful instrument for the concentration and centralisation of capital.

Once concentration and the monopoly trend has proceeded apace, as was the case in France by the mid 1960s, capital in the mesoeconomic sector pressured for less price control, and greater market freedom. It gained this - safe from public view - in the committee rooms of the Finance and Trade Directorate of the Ministry of Finance. One result, even before the commodoty and oil price increases of the early seventies, was major inflationary pressures

In short, the planners who sought to promote a big business in France were fairly godmothers rather than parents to the concentration of capital: they sponsored, favoured and aided a process occuring essentially through the market mechanism. The adolescent European firms sponsored by the planners grew to a dominance in the economy which raised a real question on who planned whom - the planners the companies, or the companies the plan.

Crisis and decline

If the sixth Plan (1970-75) no more foresaw the oil price increases from 1973 than had leading economic authorities in other countries. The degree of relative certainty about the broad direction of the economy which had been apparent and successful between the late 1940s and May 1968 now was thrown into fundamental question. The relative sophistication of the Monnet-Masse planning process, with its modernisation sectoral committees, its increasingly sophisticated econometric models and its more detailed future forecast lost credibility among both civil servants and businessmen because of the increasingly uncertain world environment. The oil price increases from 1973 hit France especially hard as a nation 85 per cent dependent on imported energy for its domestic economy.

As well put by Saul Estrin and Peter Holmes (French Planning in Theory and Practice, George Allen and Urwin, London 1983), the seventh Plan (1975-80) came increasingly to be seen as a government public relations exercise. By 1975, as other leading world economies put on the brakes rather than

adjusted the steering following the OPEC increases, high unemployment hit France for the first time since the war. The seventh Plan stated that a return to full employment was major objective of the Plan. In contrast with the earlier postwar plans, however, it failed to spell out how this could be achieved, while the government actually tried to obscure calculations by the planners who realised that this objective could not be met on the relatively deflationary policies being pursued by the government itself. It was at this time that the Keynesian paradigm which had prevalied in relation to macroeconomic policy in France throughout the postwar period was increasingly being challended by monetarists and those who both wished to "roll back the frontiers of the state" and give priority to market forces.

In 1980, with the publication of the Eighth and subsequent national plans, it was clear that the pre-socialist French government found itself in considerable difficulties in ensuring either the basic generation of resources at the macroeconomic level, or a sufficient scale of sectoral and social redistribution to offset the tensions created by unemployment in traditional industries such as word processing and data processing in the service sector headed by Simon Nora (The Nora Report). The Nora and Minc report anticipated not only grave social tensions from the rundown in industrial employment through modernisation, but also from the introduction of word data processors in the service sector of the economy, which it anticipated could result in the unemployment of nine out of ten of the existing labour force within twenty or thirty years. While the French economy had been able to sustain the process of industrialisation in the third century following the Second World War by attracting the offspring of peasants and farmers into industry and service, the warning registered by Nora did not pass without notice either in France or broad.

The international context

It is arguable that the lack of economic sovereignty shown in the British case lay fundamentallly in the limited power of indicative planning and incentives to harness the multinational companies which by then dominated half of Britain trade output. Italy and France, being less multinational did not face the same problem, or suffer it in the same scale. Jean Benard and Bela Balassa have claimed that EEC membership undermined the basis of the key planning levels of the Fourth Republic period in France - in particular the threat that tariffs would be reduced if leading a firm would not comply with the planners' interpretation of the public interest. But it is not clear that the planners were exerting a leverage so powerful by this means as to justify the conclusion that EEC entry gelded the planners' powers. The increased bargaining power of the few firms which by the 1960s had come to

dominate particular sectors of the economy probably also was important. By then, reconstructed big business in France had come to challenge the State's mediation between the public and private interest.

A key argument is that the increasing liberalisation of trade and payments in the Western world economy as a whole from the late 1950s was important in eroding the bargaining power of the State in relation to meso-economic capital. On the tariff side, the Kennedy Round was to reduce the common external tariff of the EEC on industrial products to a negligible 6 per cent average. EEC internal tariff abolition only just preceded the US achievement of virtual entire liberalisation of trade. The rise of the Eurodollar market preceded EEC monetary union with the establishment of an effective Euromoney to which most big business in most countries had free and easy access. The decline of the role of the FDES (Fund of Economic and Social Development) in France and the KFW (Reconstruction Loans Corporation) in Germany as lenders to big business appear partly to have accompanied this trend.

Fiscal crisis

The real change in favour of capital and against governments in the sixties took the form of increased concern by planners and public authorities to ensure international competitiveness through export promotion under the new liberalisation conditions. In Britain the normal rates of corporation tax by the end of 1960s had virtually been offset entirely by an increased scale and range of government rebates, allowances and investment grants to industry. Since the export trade sector represented the manufacturing industries which transformed basic materials and power inputs into foods for service distribution, the represented in practice a failure to tax the productive sector of the economy effectively. Again, in France, much of the public hand-back to the private sector appears to have occurred in the silence of the corridors of the Ministry of Finance, and to be less liable to precise evaluation. But in any case, taxation in France had tended to be more regressive and less weighted on the corporate sector than in Britain. In Italy, there has always been some truth in the otherwise entertaining judgement than big business paid little to no tax anyway, keeping one set of books for the government and another for itself.

To the extent that multinational capital was exerting an increasing influence in Western Europe, the technique of transfer pricing put big business operating in more than one country in a position to increase the nominal cost of imports from subsidiaries abroad in such a way as to minimise profits in any one country or group of countries where nominal taxation was high, with the funds concerned frequently being "laundered" through tax havens. As a result, there was an increasing tendency with the multinational trend for those mesoeconomic companies which could afford most tax to pay the least or none at all.

Inflation and planning

Granted that big business in the mesoeconomic sector by the late 1960s had come to represent some third of economic activity in the main economies of Western Europe (e.g. in EEC in 1981 one third GDP was represented by only 140 compannies), this decline in effective taxation poed a fiscal crisis for states which had more to assume that thay could finance continually rising public expenditure without difficulty. In other words, the fiscal basis of the "Keynesian State" was substantially undermined.

Increasingly, public expenditure was financed by borrowing rather than taxation from the productive sectors of the economy. The borrowing costs were increasingly met by regressive taxation on wage and salary earners, who responded to the threat to their rising real incomes by increased demands for higher nominal income. Higher wage costs in turn provided private capital with the case to claim that it could afford to support State policies for restraint of prices. Commodity price inflation (in many cases representing the transfer pricing by vertically integrated multinationals) underlay the oil price inflation from 1973 which only turned and re-turned the screw of an already major inflationary spiral.

Inflation of the kind experienced before the post 1973 oil price rises could have been tolerated for some time, not only because it still was generally within single figures, and because it was accompanied by sustained growth of income at relatively full employment in most of the advanced capitalist countries in Europe. But the combination of inflation and recession from 1973 onwards exposed the Keynesian planners to the crisis in accumulation of capital and real income and profit growth.

According to the orthodoxies which gained acceptance in the 1960s, relatively high levels of unemployment would ensure that wage demands were restrained, basically through reducing trades union bargaining power. This Paish-Phillips argument was burst asunder from the mid 1960s in Britain. In Italy, the combination after two decades of separate action of the three main engineering unions showed that the thesis relied too much on a retrospective reading of the tranquillity of labour during the long postwar boom, with the hot Autumn of 1968 reversing profit-wage imbalance and threatening further capital accumulation on a major scale under private control.

However, one factor in the combination of inflation and recession in the early and mid 1970s in Western Europe appears to have lain in the hitherto unfelt consequences of the trend to monopoly and mesoeconomic power in the heartland of the system. Basically, in the earlier and more competitive period of capitalism, prices tended to lead output and employment in the upturn and

downturn of the trade cycle. In the upturn, capitalists expected rightly that they could command higher prices during a period of rising relative scarcity of inputs and final goods (when receipts and incomes were high). In the downturn, inversely, they sought to gain a larger share of declining markets through lowering prices faster than the fall in activity.

Capitalist planning

The previous argument suggests that:

1) modern capitalist planning was only in part responsible for the basic accumulation of capital which occurred in Western Europe after the war;

2) Keynesian demand management provided a rationale for the process of combined public expenditures and private capital accumulation which occurred in the Western European economies, rather than its cause;

3) indicative planning established its postwar reputation during the period of which it in fact was mainly affecting the publics sector spending and enterprise;

4) the liberalisation of trade compounded rather than caused the increasing imbalance between the economic power of mesoeconomic big business and government planners;

5) the leading planners increasingly sought to go beyond macro or sectoral planning to industrial mesoeconomic companies, through voluntary or indicative agreements;

6) such agreements lacked sufficient 'pull' on mesoeconomic companies to match the 'push' from public spending and public enterprise planning.

New ends and means

If a democratic society is to ensure the classic welfare ends of full employment, equitable distribution of income, and extensive social services, it must achieve a strategic control over the allocation of resources. It also must ensure that planning means both new ends or objectives, and new institutional means for their achievement. This involves a new framework for reasoning about the role of the economy in society, rather than simply trying - vainly - to make the prevailing system work at higher levels of output and employment. Further it means planning as a process of social negotiation for new ends -for economic needs and development - as the means to democratic allocation of resources in the public interest.

New ends and means for planning - as a process of negotiation and debate- means extending the democratic process into the centre of planning itself. It should mean an extension of parliamentary debate, on democratic principles, beyond the mere scrutiny of five year plans elaborated by technical experts and civil servants. If the means of democratic negotiation and debate through society are to prove effective they will require a new mix in the at present unequally mixed economies, and an extension of new forms of public and cooperative enterprices through which the public can directly undertake what private enterprise either cannot ot will not fulfil. If this is not to result in excessive centralisation of State power, the role of government should be limited to strategic intervention, rather than covering every process of resource allocation.

Hitherto, faced with crisis , governments have reacted defensively, adopting a range of tactics assumed to cover its position until the market mechanism ensures a recovery of the system. This reaction, whether by cautious Keynesianism or manic monetarism offers no solution to the crisis. The State itself must become a protagonist of the new model of development, concerning itself more with the means and ends of a new social and economic order and less with means alone designed to defend or restore the already outdated system of the past.

Beyond indicative planning

Much of the State intervention of the past has been called planning. But the plans concerned have been secondary rather than primary; passive rather than active, and on paper rather than in the field of real politics. The State was invoked to set targets which it could not fulfil, since it lacked command over strategic sectors and groups within the economy. It was called on to salvage groups failing enterprise, to offset unemployment, inflation and the rising public deficit without either a strategy for the future or means for its realisation.

In one sense, lacking a framework for planning as a process of social negotiation for changed options in the system, the State could not even simulate a working model of the future. It also lacked the social relations of consent - necessary to achieve such a scenario of the future. Presuming too much knowledge within the system, it relied on changing the shape of the economy mainly through aggregate macreconomic policies, leaving a framework of incentives to induce the mesoeconomic and microeconomic sectors to follow the targets of the plan.

Structural relationships within the system, and especially the issue of transfers of productivity between those in work and those unemployed or in retirement, were largely ignored or postponed.

Visible versus invisible hands

One of the most apparent features of the current crisis is the failure of the invisible hand of the market lauded by its main apologists including Freidman. But planning, on the other hand, must both make visible its hand and do so throughout the range of complex mechanism by which power can be decentralised through the market and associate sectors. Not least, the visible hand of the State must be controlled by society through new forms of representative mechanisms of it is to be democratic and socialist rather than bureaucratic or state capitalist.

If the new model of development is to be planned, it implies overall systematic planning and also planning within a new system of social negotiation for change. Such planning also must move beyond the traditional formulations of indicative versus imperative.

Systematic planning seeks to include its framework of analysis and evaluation all those variables considered to be relevant to the planning process and articulates individual plans and aspirations within an overall consistent framework. For the instruments of democratic planning are plans - in the plural while the validity of planning is to give coherence to individual aspirations which otherwise, through the working of the market, are either incoherent or unachieved. The planning process also must provide a means by which sectoral, social ans spatial (regional-urban) plans can be reconciled within a given national framework.

Planning and bargaining

To be effective, plans must be implemented. On the other hand, it is clear that there will be conflicting interests in the planning process. To achieve coherence of the kind which cannot now be achieved by the market, the process of planning must in itself involve a trade-off between different social groups and classes.

In fact, such a process of trade-off and bargaining would amount in a real sense to a re-introduction of the process of pluralism to the modern economy. For in reality, we no longer live today in a market system. The contemporary capitalist economy is dominated by a few, powerful interest groups, concentrated in the priviliged relationship between big business and the State. This 'administered' market was recognised in previous form by Galbraith under the title of 'the planning system'. But in reality the big business component in this system cannot plan, both because of the crisis of accumulation and sales, and precisely because both government and unions have been 'bargain' but without a strategic planning framework.

Planning and the unions

It also is clear that the new dimension to planning made possible in a new model of development implies major change for trades unions. If trades unions choose to stay mainly within the framework of traditional collective bargaining on wages and working conditions, they either will not be willing or not able to take part in the new planning process and the overall allocation of resources in society. Clearly this implies a new challenge and new responsibility for unions. Many unions fear incorporation into the system by taking part in such new planning procedures. But, on the other hand, unions cannot avoid crisis and its consequences by standing outside the new bargaining process. By so doing they will be observers and victims rather than actors and gainers. Without them the new planning would not be democratic nor would it be likely to shift resources in favour of working people.

Planning and consumers

A new planning system needs not only bargaining by producers but also by consumers. To date, the mass production and consumption system has relegated the consumer movement and its pressure groups to the role of protest about the quality of products, rather than their price, the market which they serve or their role in the allocation of resources. In this sense the consumer is the victim rather than victor of the present system. The contrast is not only between consumer and producer sovereignty, but also between the myth of the market and the inability of the consumer to control the goods and services which the market allegedly serves.

In a process of systematic and democratic planning, the State no longer should pretend to represent the consumer. To countervail the present forces, a transformation of the role of the consumer is imperative. In effect this means a new and enlarged role for the consumer in the bargaining process on the use of resources in society:i.e. within the process of democratic planning.

Planning-by-agreement

New dimensions have been added to the possibility of effective planning in the big business sector by the emergence of parallel or convergent policies in some of the key parties of the European Left, and trades unions in Australia and the United States.

Planning agreements have been official Labour Party policy since 1973. A similar policy was stated in the Projet Socialiste of the French Socialist Party to be 'the main plank' of its industrial policy, and in June 1982 the French government introduced Contrats de Plan, covering both the public sector and private forms receiving significant state aid. The Flemish Socialist Party in Belgium has been giving serious consideration to the adoption of Accords de Planification. The Australian trades unions, in association with Labour administrations in State government, has been pursuing the same policy. PASOK in Greece is joining this trend with a policy of the same name, as declared by the Prime Minister in September 1982.

In Italy, a policy similar to that of planning agreements was pursued under the Centre Left government from the late 1960s under the name of Programme Contracts (Contrattazione Programmata). Planning agreements also have recently been re-introduced for major investment projects in the South. In Belgium legislation for such Programme contract (Contrat de Programme) was introduced in legislation in 1971 when the Socialists participated in government and under their pressure. In Portugal legislation was introduced by the Socialist government for a Programme Contract type policy.

Internationally, some leading trades unions, such as the International Metalworkers Federation, have recently recommended the introduction of Planning Agreement negotiations (The Global Programme for Jobs, International Metalworkers Federation, Rome 10-11 June 1982).

It has to be stressed that previous policies of bi-lateral contractual planning between government and business alone have not been uniformly successful. In some cases they have been clearly unsuccessful, and have not succeeded in a major change in the balance of public and private power, However, a key element in those policies has been voluntary nature of the agreements. Belgian planners in the early 1970s were well aware that agreements which they negotiated with companies such as Siemens and Phillips ran the risk of proving public relations exercises with the companies concerned which could appear to be cooperating with the public interest while in fact being minimally influenced by their activity.

It also is arguable, however, that the bi-lateral planning approach so far has been limited not only because it was open to involvement by trades unions but also because it was not given a central role in the planning process. By and large it was undertaken still within a sectoral or micreconomic framework. It thus tended to respond to problems at the level of individual firms and industries.

Planning potential

If a Planning Agreement approach is to realise its potential it must conciously aim to relate macroeconomic targets and policies with change in the behaviour of mesoeconomic big business. Conventional macroeconomic policy has not been misplaced in its aim of changing aggregate performance, but in the means which it has adopted. The lenghthened planning cycle of big business with larger scale and technically more advanced projects now spans as long or longer than most governments, and certainly longer than individual budgets. Similarly, national policies for the macroeconomy are profoundly influenced both by the international environment and the global range of multinational companies.

In this sense no policy of planning for change can be effective without a reflationary macroeconomic policy. Planning Agreements at the level of individual firms can complement but not substitute for macroeconomic policy.

It also has been stressed that the rise of multinational big business now has divorced both the Keynesian and monetarist macro-micro synthesis.

Therefore planning-by-agreement at the big business level must relate to the macroeconomic variables including:

Prices, productivity and profits (rate of return)
Output
Employment
Trade (including trade tax subsidiaries)
Investment
Consumption

Such policy within a Planning Agreement framework also should be able to take account of three main aspects of distribution which have been elaborated in Part 2:

* Structural (between sectors and firms)
* Social (between economic groups and social classes)
* Spatial (between regions ans urban areas)

Accounting and accountability

If this appears ambitious, account should be taken of the small number of firms which now donimate the macroeconomy in any European country. Only 140 companies already command one-third of the GDP of the European Community. In practice between 100 and 150 companies in a typical European economy tend to represent half or more of the main sectors of activity. What they do at the structural level dominates not only macroeconomic aggregates but also dominates the social and spatial distribution of activity. In turn, as recognised for decades through standar oligopoly theory, leading firms in the system dominate the microeconomic sector fo smaller national, regional and local firms.

Technically, there are major gains from introducing a mesoeconomic dimension to both national and international accounting. It is because leading enterprise now is so multinational that national figures for concentration are so related to international concentration (e.g. the 140 companies now accounting for a third of EEC gross domestic product), introducing an obligation on leading firms to submit both actual activity and intended policy in terms of standard accounting categories could transform the present opaque future through a new transparency. Thus information on the intended activity of a few dozen firms could give a government the basis for transforming macro performance through the mesoeconomic sector.

Such a data base from very few firms could easily be related to input-output techniques. Data could be collated on the basis of one or a combination of three main criteria: i) four firms concentration ratios; ii) those firms representing the upper half of the sector or, iii) firms with more than a given turnover per annum. Firms also could be required to submit further information within the context of a specific Planning Agreement. This is no more than the range of data required in Belgium under the Programme Contracts procedure, but more systematic and more related to both macro and microeconomic structures.

The links between the mesoeconomic and microeconomic sectors could be traced through the information gained from leading firms in the Planning Agreement sector. This is the significance of the information on 'buyers and suppliers' which should be required from leading firms. Information on social distribution (by wage, skill, sex) is in principle not difficult to achieve. Spatial distribution of the investment and employment of subsidiaries and plant of mesoeconomic enterprise can contribute to establishing a socio-spatial 'map' of the dominant enterprises in the system.

Public and private power

Technical progress and new technologies such as word and data processors and robotics imply considerable net unemployment of a private model of capitalist growth is projected into the future. Moreover, such growth will be only partial and unequal in its distribution; it will benefit only certain social groups and classes, and limited regions and areas.

As already stressed, if a New Model of Development is to displace monetarism on the European agenda, it imply a major shift from private to social consumption. The productivity from new technologies will need to be re-distributed in the three main senses already described, i.g. i) structurally -between firms and sectors-; ii) socially -between different groups and classes, and iii) spatially -between different areas and regions.

Macroeconomic fiscal policy clearly will have a key continuing role to play in this process. But the main beneficiaries from the new technologies will be the leading firms in the mesoeconomic sector (either directly since their scale alone can justify the investment expenditures involved, or indirectly through gains from raised productivity in supplying firms). New forms of taxation will need to be considered in relation to big business to avoid under-statement of profits through transfer pricing. Such tax liability can only be effective if negotiated directly with the individual companies through a Planning Agreement type of procedure. Such a policy implies constraints on the big business sector and sanctions employed by governments for non-cooperation or blatant disregard for the public interest.

If by these means the State were to advance beyond indicative planning, it should reserve the right that no mescconomic enterprise should receive either i) public contracts; ii) public aid, or iii) qualification of general price controls unless it negotiated a Planning Agreement. Clearly these three factors of public spending, public subsidy and price controls are potentially powerful combinations of incentives and constraints on the big league private sector.

A counterpart part ot the above constraints is the planning through and extension of the public sector. Clearly this varies on the European Left between major commitments to extension from the Socialist Party in France to commitment to democratise the public sector already there (in the case of PCI in Italy). Broadly, extension of the public enterprise sector can be seen as a direct measure 'pushing' investment, employment, location, etc. against the indirect 'pull' effect of Planning Agreement policies on the private big business sector.

The recent French experience of bringing leading firms into public ownership under the socialist government should not be seen as a refutation of this potential. Deflationary measures introduced by the government in response to international speculative pressure against the franc nonetheless exempted key investment modernisation programmes and more than half of this investment increase was undertaken by existing and new public enterprise groups over a period of five years.

Thus, in the heartland of the Western European economies there are new dimensions for reconciling effective strategic planning with a high degree of evolution of tactical decision making in enterprise. This process should involve joint negotiation, through Planning Agreements between representatives of governemnt, unions and managements (whether that management remains conventional or is worker-elected). Such a tri-partite formula makes feasible a reconciliation of the public interest of society as a whole with the economic interest of viable enterprise in the sector.

Joint negotiation

Joint negotiation offers the potential for three major dimensions for democratic planning:

i) a fundamental change in the balance of power in big business from capital towards labour and government;

ii) a framework for the reconciliation of the otherwise potentially conflicting interests of producers in big business versus producers and consumers in general; and

iii) a framework in which such strategic negotiation avoids both over-centralised planning of the command economies and ineffective merely indicative planning models.

In addition, it makes possible a higher degree of worker self-management and control in the vast majority of small and medium enterprises in the system. Basically, Yugoslav decentralisation and workers' control has resulted in a trend to insufficent strategic national planning, with persistent regional imbalance price inflation and balance of payments problems. But joint negotiation of planning ends and meanss in the big business sector and through democratic institutions could leave some 99 per cent of enterprise free within general guidelines to undertake their own allocation of resources without direct central intervention in specific cases.

If such democratic planning is to prove effective in mobilising economic resources in the public interst it will need a framework for the process of planning as social negotiation. If we are to avoid authoritarian or technocratic planning imposed from above, it also must transform the previous rigid five year planning framework which had predominated in both East and West Europe. On the one hand, such a framework is too long to permit effective change in planning ends and means. Parliaments thus only have a chance twice a decade to comments on plans after they have already been formulated in detail in the seclusion of finance, industry and planning departments. Yet such five year plans do not take a long enough time horizon to prospect changes in the overall structure of the economy and society. As a result, their frameworks tends to reinforce pseudo-planning as an exhortation to make the prevailing system work at higher levels of output.

Alternative plans

Recognition of the new dominance of big business power in the contemporary economy provides the basis for a democratic planning framework. Such big league enterprises, with few exceptions, employ an internal five year planning horizon. Such firms tend to employ technology and innovation perspectives of up to ten years or more, while they actually adapt their investment plans on an annual or less than annual basis. In this way their corporate planning, on

private criteria, amounts to a rolling, on-going five year plan which is annually adaptable, with a longer forecasting and technology perspectives.

Facilities and funds should increasingly be made available to trades unios to propose and develop alternative corporate plans with different options and criteria from those of the private sector. The feasibility of such alternative plans has been demonstrated in several companies, including most notably in Lucas Aerospace Combine Committee's proposals for a range of products in the 'life industry' of health, safety and transport, as against the 'deaht industry' of defense.

Private corporate planning in the big league should be transformed under such a process of democratic planning. Big business normally takes a review of the previous years' results in the spring of any year, and a preview each year (frequently in the autumn) of the coming year's prospects. Such bi-annual adaptability could be socialised through the tripartite principle of involving both the public authorities and the unions in negotiation of change in corporate planning in the mesoeconomic sector on a similar time schedule -spring and autumn each year. This is perfectly feasible in a situation where only a few dozen enterprises in the main Western European economies account for some half of national investment, output and trade.

Similarly, there is no reason why parliaments should not be involved in national debate twice a year on the results of a tripartite negotiations in the mesoeconomic public and private sectors. Such a on-going process of negotiated planning would place parliamentarians in an informed position from which to pressure for further change on the aims and methods of planning itself.