

CEPAL

Review

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Beyond indicative planning

*Stuart Holland**

The belief held by some schools of thought that planning and the preservation of democratic freedoms are antagonistic has been refuted by a number of postwar capitalist economies. Their rejection of this argument would seem to have been based less on ideological grounds than on their need to achieve a degree of social, structural and spatial balance in the distribution of resources. In contrast, meanwhile, to the imperative character of planning in the controlled economies, the State has given an indicative orientation to planning in the market economies.

For reasons which are detailed in the first part of the article, the author argues that although the State plays an important role in planning, its actions have been restricted, primarily, by the introduction of significant changes in the structure of production. First and foremost among these changes has been the shift away from the small-scale national enterprises which predominated in the 1950s and 1960s and towards the large multinational corporations which made their appearance in the 1970s.

Based on an analysis of monetary and fiscal policies' effects on some European economies, the author defines the content of the arguments for and against indicative planning. The central part of the article, however, is based on a detailed examination of planning in France. The author first seeks to clarify the content and significance of capitalist planning experiences and then goes on to propose a number of guidelines designed to ensure a continuing role for planning in societies aspiring to higher levels of democracy.

In the paradigm of Friedrich von Hayek, "plan" is very much a four-letter word. He polarizes the distinction between plan and market and assumes that the pursuit 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, during most of the period following the Second World War. It was rejected less on theoretical or ideological grounds than in terms of the practical difficulties of offsetting major disproportions among 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 in other terms. In contrast with the wholly imperative or would-be imperative operations of the State as planner in controlled 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 to raise both profit expectations and the actual growth rate of the economy.

Planners, like demand managers, were well aware of the significance of such an expansion of the domestic economy for the balance of trade. However, in countries such as France, Italy and the United Kingdom they were especially concerned with problems relating to the structure of trade rather than simply with its level in terms of demand management. They sought 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, especially in regard to those sectors or forms which had a considerable influence on the rate of growth of the economy as a whole and on 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.

In other words, national planners in countries such as France, Belgium, Italy and the United Kingdom in the 1950s and 1960s were especially concerned with the generation of sufficient resources to permit an increasing expenditure in the social sectors of the economy as well

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as either to offset the increasing disparities in product, income and employment among different regions of the economy or to bring about a convergence of these levels among different regional and urban areas. In the 1970s, as key urban areas entered into economic crisis, there was increased concern with urban and especially inner-city policy in both the United States and Europe. It is now understood that the relation among the social, sectoral and spatial distribution of resources depends not only upon 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 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 successful in those economies which have pursued medium-term economic plans. In part, this reflects the extent to which the assumption that the State can establish medium-term targets for the economy has been called into question 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 affected 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 has become increasingly clear to planners themselves that unless there is an international and multinational dimension to their activities, the degree to which they will be able to offset disproportion and imbalance will be limited, thus frustrating both planners and their plans.

Part of the problem lies in the undermining of the Keynesian demand framework for planning policies caused 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 multinational big business in production, distribution and trade (from the Greek: macros — large, micros = small, mesos = intermediate). This new type of large-scale enterprise profoundly restricted the effectiveness of indirect Keynesian measures such as fis-

cal 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 was also gaining ground in Keynes's geographical and intellectual homeland. The United Kingdom's growth record in the 1950s had been uniformly lower than that of the continental Western European countries with the exception of Belgium, with recurrent payments deficits accompanying demand-induced expansion. Without doubt both the United Kingdom and Belgium were special cases. Both had entered the postwar period with higher per capita income levels than the other economies concerned, which for some time could justifiably be said to have been catching up with the United Kingdom's and Belgium's income levels. In addition, both countries had been the pacemakers in the original industrial revolution in Western Europe and could be said to have suffered from over-specialization in what had by then become traditional or declining industries.

Besides, both the United Kingdom and Belgium had traditionally encouraged capital investment in the colonies at the cost of direct investment at home. The United Kingdom had also accepted long-term debt obligations during the war which reduced the credibility of sterling as a reserve currency, as well as aggravating pressure on the pound from balance-of-payments deficits which other countries might have sustained in the short-term without pressure for domestic deflation. A further factor may have been a smaller labour supply than that available in the fast-growing continental Western European economies as a result of either interregional or intersectoral migration.

However, there were additional problems for slow-growing economies such as those of Belgium and the United Kingdom which had already been outlined in Harrod's pioneering application of Keynesian analysis to economic growth. The emphasis in Harrod's growth models is on the rate of saving and investment and the capital-output ratio of the investment con-

cerned. For a given capital-output ratio, more investment will mean more growth. Through embodied technical progress, the capital-output ratio also will be lowered, thus further increasing the rate of growth for a given savings and investment level. Both are important, however. 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 entrepreneurs' expectations as to the likely rate of growth in demand for their products: in Harrod's terms, the "warranted" rate in 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 might well be lower than the growth potential of the economy as a whole (in Harrod's terms, the "natural" rate).

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

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' expectations as regards the warranted growth rate and result in an increase in the overall rate of investment. In practice, however, fiscal and monetary policies alone are not enough.

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

further reinforces the trend towards a low level of long-term investment.

Second, long-term investment involves a considerable lag between conception and production. A venture requiring an entirely new plant and equipment will take anything from two to five years for completion. The stimulation of demand by fiscal policy measures may therefore 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 itself work as a disincentive to 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 added capacity from new investment becomes available. Monetary policy is not more likely to prove effective in stimulating an increase in the rate of investment under such conditions, inasmuch as the reduction of the total cost of a given investment project to be achieved through a lower interest rate will constitute a negligible proportion of the direct and indirect cost to the firm concerned if it is not able to utilize a large proportion of the capacity of the investment over the medium term.

The case for planning

In 1974 Harrod himself admitted these limitations of 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 that he endorsed amounted to the institution of indicative national planning already pioneered by the French, which figured 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 the plan:

"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.

Planning in France

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

First, direct government intervention in the economy had been a long-standing feature of the French State since Louis XIV and Colbert. It was largely accepted by the private sector as being 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 enterprise was particularly anxious to co-operate with a clear central initiative for co-ordinating the 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 depended not only 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 aid).

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 growth is slow inasmuch as the stated growth targets will appear more credible to private enterprises. Indeed, 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 annum, rising to over 5% per annum in the 1960s.

Cause or effect?

What, then, is the balance of judgement on the French model of indicative planning? According to Vera Lutz (Lutz, 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 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'." 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 nor sought to be wholly imperative. Andrew Shonfield described the position well when he said that part of its success lay in the extent to which it was "more than indicative - less than imperative" (Shonfield, 1975). 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.

Contrary to Rueff's claim, most of those in leading roles in politics, trade unions, business or government in France were aware that for half a century the French Economy had been gripped by a chronic Malthusianism. Output growth was low in France for several years before the First World War, but postwar recovery after 1918 was hesitant and uncertain. France did not achieve its pre-First World War output level again until 1929, after which it fell with the Depression. It only recovered its 1929 level in 1939. By contrast, the 1939 level of output —during the First French Plan— was re-achieved as early as 1948 and increased thereafter at a compound rate of growth of 4% per annum through the 1950s, rising to 5.5% per annum in the 1960s.

This was the period during which France was literally transformed from a relatively

underdeveloped pre-industrial system to a modern industrial economy. Labour markets were able to draw upon reserves from agriculture, reducing the proportion of the French working population in agriculture from a third to less than a tenth over a period of some 30 years, but such a transformation would not have been possible without the demand pull for labour from new investment 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".

The justification for planning

The importance of the planning process in raising expectations of economic growth (aligning the "warranted" rate with a higher natural or "potential" economic growth rate) should not be underestimated. The social psychology of the process is important. As the key Planning Commissioner for the 1960s, Pierre Masse, 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 on the part of the main social and economic actors in the system that buyers and suppliers, competitors and colleagues, were all assuming that an expansion was taking place. As the title of Masse's own book *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 loan policy for industry is more efficient at such times than when growth is slow, because management will be more confident of a market for its products. Moreover, it will be penalized if it does not maintain a high rate of investment since it will then risk loss of market share to other firms. Therefore, less imperative measures need to be taken to ensure that particular production or import bottlenecks are widened, and planners can concern themselves with adjusting the pattern and structure of growth rather than undertaking the more Herculean effort of promoting it in the first place. Given the constraints on the powers 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 to the Left, Right and Centre during the first four plans in France (up to 1965), why the reduced success from the mid-1960s onwards? 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. At the end of 1965 when 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 view it was inconceivable that France could achieve these social and economic aims within the Plan while also allocating resources to an independent nuclear deterrent (*l'Arme Nucleaire*), 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*), and high-prestige technology projects such as the Concorde and a civil nuclear energy programme. As the official put it, "this circle cannot be squared. I anticipate grave social tensions" (Saingeour, 1965).

The grave social tensions hit the streets of Paris two and one-half years later in May 1968. Due 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 young people of the technocratic roles assigned to them in a paternalist society, but also —in part— as the result of the success rather than failure of the new planning process, which had given such a degree of coherence to the sustained economic expansion since the war. In other words, rather than Rueffs cocks crowing and bringing the dawn, the very success of planning within the system raised political expectations, especially at the level of a very powerful Presidency of the Republic (De Gaulle), that "the chicken could lay golden eggs".

Certainly it 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 wage settlements of Grenelle through which De Gaulle, in the

autumn of 1968, isolated the student revolt by coming to terms with the trade unions largely pre-empted the resources available for increased social expenditure.

Planning called into question

Thus, in the early 1960s, just when French planning was being exported abroad, it was declining 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" (Delors, 1978).

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

International pressures

As Delors stressed, in France the opening up of the economy to the exterior and its increased internationalization related both to the decision to join the Common Market of the European Economic Community and to 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 proposed planning reforms entailed changes that weakened planning itself. For one thing, indirect reliance on the market mechanism reduced the direct decision-making role of planners and restricted them to the formulation of sectoral plans. Furthermore, macroeconomic policy was increasingly being pursued outside the planning framework and the key macroeconomic variables relating to 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. A class struggle was taking place which 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 dimension within the first. This was the contradiction between the new ruling class that controlled big business and the traditional middle classes of farmers, shopkeepers 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 industrialization 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" (Delors, 1978).

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 of its consequences for economic policy. With the philosophy that "big is better" in international competition and through an awareness that government departments could only handle a small number of companies effectively through direct negotiation, planners had sought to establish what they called the 80:20 ratio, whereby 80% of given markets would be commanded by 20% of the enterprises in them. The State as planner sought to promote mergers.

However, as Delors 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, the practice of relying on purely indicative measures in the private sector was found wanting. Planning targets had to be accompanied by an array of "sweeteners" such as government contracts, fiscal concessions, subsidized 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 action. The formula of French planning as "imperative for the public sector and indicative for the private" —enshrined as late as 1976 by President Giscard D'Estaing— was in large part a fig leaf veiling massive public subsidization of the private sector. Through its apologists, such as Masse, French planning was seen as the co-ordination of private enterprise in the public interest. In practice, however, it could well be seen as the public co-ordination of private interest, using public funds to achieve what the private sector had chosen to do in the first place. There being so few firms, the State had few alternatives.

A qualification of the argument might, theoretically, be made in the case of price controls. However, general price controls may suit big business in the mesoeconomic sector in so far as it is concerned with increasing its monopolistic domination of particular national markets. When productivity deriving from gains achieved on the basis of size and larger-scale innovation is lower in big than in small business, general price controls squeeze the profits of small firms harder than those of big enterprises. Thus, State price controls used as a planning instrument, either for reasons of international competitiveness or as part of a contract between the State and organized labour, can actually operate as a powerful tool for the concentration and centralization of capital.

Once concentration and the trend towards monopoly had 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 commodity and oil price increases of the early 1970s, was strong inflationary pressure.

In short, the planners who sought to promote big business in France were fairy godmothers rather than parents to the concentration of capital: they sponsored, favoured and aided a process occurring essentially through the market mechanism. The adolescent European firms sponsored by the planners grew to a point where the dominance of the economy raised a real question as to who planned whom —whether the

planners were acting upon the companies, or the companies upon the plan.

Crisis and decline

The Sixth Plan (1970-1975) no more foresaw the oil price increases which began in 1973 than had leading economic authorities in other countries. The degree of relative certainty about the overall direction of the economy, which had been both apparent and well-founded between the late 1940s and May 1968, was fundamentally weakened. The relative sophistication of the Monnet-Masse planning process, with its sectoral modernization committees, its increasingly sophisticated econometric models and its more detailed forecasts, lost credibility among both civil servants and businessmen because of the increasingly uncertain world environment. The oil price increases of 1973 hit France especially hard since it depended on imported energy for 85% of its domestic economy's needs.

As Estrin and Holmes aptly observed, the Seventh Plan (1975-1980) came increasingly to be seen as a government public relations exercise. By 1975, as other leading world economies put on the brakes rather than adjusting their course following the OPEC increases, high unemployment hit France for the first time since the war. A return to full employment was one of the major objectives of the Seventh Plan. In contrast with earlier postwar plans, however, it failed to spell out how this could be achieved, while the government actually tried to obscure the calculations of planners who realized that this objective could not be met with the relatively deflationary policies which the government itself was pursuing. It was at this time that the Keynesian paradigm which had prevailed in relation to macroeconomic policy in France throughout the postwar period was increasingly being challenged by monetarists and by those who wished to "roll back the frontiers of the State" and give priority to market forces.

In 1980, with the publication of the Eighth National Plan, it became clear that the pre-socialist French government was having 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 ser-

vice sector headed by Simon Nora (the Nora Report). The Nora and Mine report anticipated grave social tensions not only due to the decline in industrial employment brought on by modernization, but also because of the introduction of word and data processors in the service sector of the economy, which it estimated could result in the unemployment of 90% of the existing labour force within 20 or 30 years. Although the French economy had been able to sustain the process of industrialization during the third of a century which had passed since the Second World War by attracting the offspring of peasants and farmers into industry and services, the warning registered by Nora did not pass without notice either in France or abroad.

The international context

It is arguable that the lack of economic sovereignty seen in the case of the United Kingdom stemmed, fundamentally, from the limited power of indicative planning and incentives to harness the multinational companies which by then dominated half of its trade output. Italy and France, being less multinational, either did not face the same problem or did not suffer it in the same scale. Jean Benard and Bela Balassa have claimed that EEC membership undermined the basis of some of the key planning levels of the period of the Fourth Republic in France—in particular the threat that tariffs would be reduced if a leading firm would not comply with the planners' interpretation of the public interest. However, it is not clear that the planners were exerting so powerful a leverage by this means as to justify the conclusion that EEC entry had 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 liberalization of trade and payments in the Western world economy as a whole from the late 1950s onwards was an important factor in eroding the bargaining power of the State in relation to mesoeconomic 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% average. EEC internal tariff abolition only just preceded the United States achievement of a virtually total liberalization of trade. The rise of the Eurodollar market preceded the EEC monetary union with the establishment of an effective Euromoney to which most big businesses 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 the Federal Republic of Germany as lenders to big business appears to have partially accompanied this trend.

Fiscal crisis

The real change in favour of capital and against public finance in the 1960s took the form of increased concern by planners and public authorities to ensure international competitiveness through export promotion under the new liberalization conditions.

In the United Kingdom, the normal rates of corporation tax had been offset almost entirely by an increased scale and range of government rebates, allowances and investment grants to industry by the end of the 1960s. Since the export trade sector represented the manufacturing industries which transformed basic materials and energy inputs into goods for service distribution, in practice they marked 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 is thus less liable to precise evaluation; but in any case, taxation in France had tended to be more regressive and less weighted towards the corporate sector than in the United Kingdom. In Italy, there has always been more truth in the otherwise entertaining judgement that big business paid little or 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 businesses 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 minimize 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 associated with the multinational trend for those mesoeconomic companies which would have been liable to pay the most tax to pay the least or none at all.

Inflation and planning

In view of the fact that big business in the mesoeconomic sector had come to represent one-third of economic activity in the main economies of Western Europe by the late 1960s (e.g., in the EEC in 1981 one-third of the GDP was represented by only 140 companies), this decline in effective taxation posed a fiscal crisis for States which had come to assume that they 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 of the productive sectors of the economy. The borrowing costs were increasingly met by regressive taxation on wage earners, who responded to the threat to their real incomes by increased demands for higher nominal income.

Higher wage costs, in turn, provided private capital with the grounds to claim that it could not afford to support State policies for restraint of prices. Commodity price inflation (in many cases representing transfer pricing by vertically-integrated multinationals) underlay the oil price inflation from 1973 onwards, which only turned and re-turned the screw of an already major inflationary spiral.

Inflation of the kind experienced before the 1973 oil price rises could have been tolerated for some time, not only because it still was generally within single digits but also because it was accompanied by sustained growth of income at relatively full employment in most of the advanced capitalist countries in Europe. The post-1973 combination of inflation and recession, however, exposed the Keynesian planners to the crisis in capital accumulation, 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 trade union bargaining power. This Paish-Phillips argument was burst asunder in the mid-1960s in the United Kingdom. In Italy, the combination —after two decades of separate action— of the three main industrial unions showed that this thesis relied too heavily on a retrospective reading of the tranquility of labour during the long postwar boom, as was seen when the hot autumn of 1968 reversed profit-wage imbalance and threatened 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 towards 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 rightly expected 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 by lowering prices faster than the fall in activity.

Capitalist planning

The previous argument suggests that:

- Modern capitalist planning was only in part responsible for the bask accumulation of capital which occurred in Western Europe after the war;
- 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 being its cause;
- Indicative planning established its postwar reputation during the period in which it in fact was mainly affecting public-sector spending and enterprise;
- The liberalization of trade compounded rather than caused the increasing imbalance between the economic power of mesoeconomic big business and government planners;
- The leading planners increasingly sought to go beyond macro or sectoral planning in relation to industrial mesoeconomic com-

panies through voluntary or indicative agreements;

- 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, an equitable distribution of income and extensive social services, it must gain a strategic control over the allocation of resources. It also must ensure that planning provides both new ends or objectives and new institutional means for their achievement. This involves a new conceptual framework for the role of the economy in society, rather than simply an attempt—in vain—make the prevailing system work at higher levels of output and employment. Further, it means planning needs to be seen as a process of social negotiation towards new ends—to serve economic needs and development—as a means of ensuring a 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. This should involve an extension of parliamentary debate, based on democratic principles, beyond the mere scrutiny of five-year plans elaborated by technical experts and civil servants. If democratic negotiation and debate in society are to prove effective, they will require a new mix in what are at present unequally mixed economies and an extension of new forms of public and co-operative enterprises through which the public can directly undertake what private enterprise either cannot or will not fulfil. If this is not to result in an excessive centralization of State power, the role of government should be limited to strategic intervention, rather than covering each and every process of resource allocation.

Until now, when governments have been faced with a crisis, they have reacted defensively, adopting a range of tactics assumed to cover their position until such time as the market mechanism ensures a recovery of the system. This reaction, whether based on 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 only 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". However, the plans in question have been secondary rather than primary, passive rather than active, and on paper rather than in the field of real politics. The State was called upon to set targets which it could not fulfil because it lacked control over strategic sectors and groups within the economy. It was called upon to salvage failing entrepreneurial groups, and to offset unemployment, inflation and the rising public deficit without either a strategy for the future or the means for its realization.

In one sense, lacking a framework for planning as a process of social negotiation for changing 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 macroeconomic policies, leaving it to a framework of incentives to induce the mesoeconomic and microeconomic sectors to pursue the targets of the plan.

Structural relationships within the system, especially within a system undergoing sweeping changes, were sometimes identified as problems, but they remained unresolved. The question of societal distribution, and especially the issue of transfers of productivity between those who are employed and those who are 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 Friedman. Planning, on the other hand, must make its hand visible and must do so throughout the range of complex mechanisms by which power can be decentralized through the

market and associated sectors. Further, the visible hand of the State must be controlled by society through new forms of representative mechanisms if it is to be democratic and socialist rather than bureaucratic or State-capitalist.

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

Systematic planning seeks to include within 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 lies in its ability to give coherence to individual aspirations which otherwise, through the workings of the market, would either be incoherent or would remain unachieved. The planning process must also provide a means by which sectoral, social and 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 itself involve a trade-off between different social groups and classes.

In fact, such a process of trade-offs and bargaining would amount in a very real sense to a re-introduction of the process of pluralism into the modern economy; for, in reality, we no longer live in a market system. Contemporary capitalist economy is dominated by a few, powerful interest groups, concentrated in the privileged relationship between big business and the State. This "administered" market was recognized in a prior form by Galbraith under the title of "the planning system". In reality, however, the big business component in this system cannot plan, because of the crisis of accumulation and sales and because both government and the unions have been pushed to the sidelines of the decision-making process. Hence, big business,

the unions and government "bargain", but they do so without a strategic planning framework.

Planning and the unions

It also is clear that the new dimension of planning made possible by a new model of development implies major change for trade unions. If trade unions choose to stay mainly within the framework of traditional collective bargaining on wages and working conditions, they either will not be willing or will be unable 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 if they take part in such new planning procedures. On the other hand, unions cannot avoid the crisis and its consequences by standing outside the new bargaining process. By so doing, they would 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 would require bargaining not only by producers but also by consumers. So far, the mass production and consumption system has relegated the consumer movement and its pressure groups to the role of protesting about the quality of products, rather than about 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 the sovereignty of the consumer and producer, but also between the myth of the market and the inability of the consumer to control the goods and services which the market allegedly supplies.

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 as it relates to the use of resources in society, i.e., within the democratic planning process.

Planning-by-agreement

New dimensions have been added to the possibility of effective planning in the sector of big business by the emergence of parallel or convergent policies in some of the key parties of the Left in Europe and in trade 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 as "the main plank" of its industrial policy, and in June 1982 the French government introduced its *Contrats de Plan*, covering both the public sector and private enterprises receiving significant State aid. The Flemish Socialist Party in Belgium has been given serious consideration to the adoption of *Accords de Planification*. The Australian trade unions, in association with the labour administrations of state governments, has been pursuing the same policy. In Greece, PASOK has joined this trend with a policy of the same name, which was announced by the Prime Minister in September 1982.

In Italy, a policy similar to that of planning agreements was pursued under the Centre Left government beginning in 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 a programme contract (*Contrat de Programme*) was introduced in 1971 as a result of pressure brought by the Socialists, who were in the government at that time. In Portugal, too, legislation was introduced by the Socialist government for a programme contract policy.

Internationally, some leading trade unions, such as the International Metalworkers Federation, have recently recommended the introduction of planning agreement negotiations (International Metalworkers Federation, 1982).

It has to be stressed that previous policies of bilateral contractual planning between government and business have not been uniformly successful. In some cases they have been clearly unsuccessful and have failed to achieve any major change in the balance of public and private power. However, a key element in such policies has been the voluntary nature of the agreements. Belgian planners in the early 1970s were well

aware that the agreements which they negotiated with companies such as Siemens and Philips ran the risk of being no more than public relations exercises with the companies concerned, which could appear to be co-operating with the public interest while in fact being only minimally influenced by the agreements in question.

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

Planning potential

If a planning agreement approach is to realize its potential, it must consciously aim to relate macroeconomic targets and policies with changes in the behaviour of mesoeconomic big business. The error of conventional macroeconomic policy has not been in its aim of changing aggregate performance, but in the means which it has adopted to accomplish it. The lengthened planning cycle of big business associated with larger-scale and technically more advanced projects is now as long or longer than the term of 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 transnational 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 is now divorced from both the Keynesian and monetarist macro-micro synthesis.

Therefore, planning-by-agreement at the level of big business must relate to the following key macroeconomic variables:

- Prices, productivity and profits (rate of return)
- Output

Employment
 Trade (including trade with subsidiaries)
 Investment
 Consumption

Such a policy within a planning agreement framework should also be able to take account of three main aspects of distribution which have been examined earlier in this article:

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

Accounting and accountability

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

Technically, there are major gains to be made by introducing a mesoeconomic dimension to both national and international accounting. Because leading enterprises are now so multinational, national figures concerning concentration are closely related to international concentration (e.g., the 140 companies now accounting for one-third of the EEC gross domestic product). Requiring leading firms to report on both their actual activity and their intended policy in terms of standard accounting categories could provide a new transparency to the present opaque future. Thus information on the intended activity of a few dozen firms could give a government the basis for transforming macroeconomic performance through the mesoeconomic sector.

Such a data base from a 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) firm concentration ratios; ii) those firms representing the upper half of the sector; and 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 it should be more systematic and more closely related to both macro and microeconomic structures.

The links between the mesoeconomic and microeconomic sectors could be traced through the information supplied by 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 obtain. Spatial distribution of the investment and employment of the subsidiaries and plants of mesoeconomic enterprise could contribute to the formulation of 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 when a model of private capitalist growth is projected into the future. Moreover, such growth will be 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, a major shift will have to take place from private to social consumption. The productivity of new technologies will need to be redistributed in the three main senses already described, i.e.: 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 and continuing role to play in this process. The main beneficiaries of the new technologies, however, 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 in order to avoid the under-reporting of profits through transfer pricing. This kind of tax liability can only be effective if it is negotiated directly with the individual companies through a planning agreement procedure. Such a policy would result in constraints on big business and would involve government sanctions for non-co-operation or blatant disregard of the public interest.

If by these means the State were to advance beyond indicative planning, it should reserve the right to block any mesoeconomic enterprise from receiving: i) public contracts; ii) public aid; or iii) exemptions from 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 private sector.

The counterpart to the above constraints is planning through the extension of the public sector. Clearly in the European Left this ranges from the major commitments to extension made by the socialist Party in France to the commitment to democratize the existing public sector made by the Communist Party in Italy. Broadly, the extension of the public enterprise sector can be seen as a direct measure "pushing" investment, employment, emplacement, etc, against the indirect "pull" of planning agreement policies relating to the private sector of big business.

The recent experience under the Socialist government in France of placing leading firms under State ownership 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 modernization programmes, and more than half of this increase in investment 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 highly evolved tactical decision-making in enterprise. This process should involve joint negotiation, through planning agreements, among representatives of government, the unions and management (whether that management

remains conventional or is worker-elected). Such a tripartite formula makes feasible a reconciliation of the public interest of society as a whole with the economic interest of viable enterprises in the sector.

Joint negotiation

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

i) A fundamental change in the balance of power in big business, shifting it away from capital and 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 would avoid both the over-centralized planning of the controlled economies and ineffective indicative planning models.

In addition, it would make possible a higher degree of worker self-management and control in the vast majority of small and medium sized enterprises in the system. In Yugoslavia, decentralization and workers' control have basically resulted in a trend towards insufficient strategic national planning, with a persistent regional imbalance, price inflation and balance-of-payments problems. However, joint negotiation of planning ends and means in the sector of big business, through democratic institutions, could leave some 99% of the enterprises 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 mobilizing economic resources in the public interest, 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 has predominated in both Eastern and Western Europe. On the one hand, this framework is too long to permit effective change in planning ends and means. Parliaments thus have a chance only twice in a decade to comment 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 have a sufficiently long-time horizon to

project changes in the overall structure of the economy and society. As a result, their framework tends to reinforce pseudo-planning which amounts to an exhortation to make the prevailing system work at higher levels of output.

Alternative plans

Recognition of the new dominance of big business in the contemporary economy provides the basis for a democratic planning framework. Such large-scale enterprises, with few exceptions, employ an internal five-year planning horizon. These 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, based on private criteria, amounts to a rolling, ongoing five-year plan which is adapted annually, with a longer forecasting and technology perspective.

Facilities and funds should increasingly be made available to trade unions to allow them 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 the Lucas

Aerospace Combine Committee's proposals for a range of products in the "life industry" of health, safety and transport, as against the "death industry" of defence.

Private corporate planning in big business should be transformed under such a process of democratic planning. Big business normally undertakes a review of the previous year's results in the spring of the following year and on annual preview (frequently in the autumn) of the coming year's prospects. This biannual adaptability could be socialized on the basis of the tripartite principle of involving both the public authorities and the unions in the negotiation of changes in corporate planning in the mesoeconomic sector on a similar time schedule. This is perfectly feasible in a situation where only a few dozen enterprises in the main Western European economies account for around one-half of national investment, output and trade.

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

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