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PLANNING IN MIXED MARKET ECONOMIES AND THE PARADIGMS OF DEVELOPMENT:

PROBLEMS AND ALTERNATIVES

René Villarreal

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OF DEVELOPMENT: PROBLEMS AND ALTERNATIVES

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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.

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PLANNING IN MIXED MARKET ECONOMIES AND THE PARADIGMS OF DEVELOPMENT: PROBLEMS AND ALTERNATIVES

The crisis undergone by Latin America in the eighties has been the most important in its process of industrial development not only because of its intensity, but also because of the difficulties involved in the design and adoption of alternatives that may pave the way to find a solution to the problems that originated it. The crisis of the thirties had an entirely different context: the Region had just begun its industrialization process and the central core of the problems could not be attributed to industrial activity. The self-contained nature of the economy insulated a large part of the population from the main negative effects of the interruption of the international trade and credit flows.

The reason for the intensity of the present crisis resides not only in financial and foreign debt problems --which are basically the result of the latter-- but in the exhaustion of the pattern of industrial growth that ensured economic dynamism in the majority of the countries of the Region for almost four decades. Three considerations permit to complete the picture of why the solution to the crisis has not emerged in a relatively easy way, as happened at times of cyclical rather than structural exhaustion of the pattern.

1. Greater integration in an unstable and uncertain world economy

The present crisis combines the coexistence of Latin American economies which are ostensibly more open than during the industrialization period with contexts of international unrest. These contexts should be understood as the economic, political and ideologic environments with a high degree of uncertainty and in which the rate of change has accelerated. The main turbulences can be identified in the spheres of industrial reconversion, joining the third technological revolution and changes in the structure of sectorial, entrepreneurial and even national hegemonies and domains. The Latin American countries not only face the turbulences in a situation which has been relatively weakened by increased linkages with the centre of the system, but also because they have exhausted or ostensibly reduced the degrees of freedom that allowed for the use of such instruments as the foreign debt or primary exports, which for a short period enjoyed a favourable evolution in terms of trade.

Therefore, the first conclusion is that the intensity of the crisis and its duration is a function of the interrupted but more widespread linkage of Latin America and the world economy, in a context of exhaustion of the reserves of resources that permitted margins of freedom.

2. Crisis of the economic paradigms

The difficulty posed by the design of policies that may put an end to the crisis has been increased by the crisis of the paradigms of economic policy and analysis.

2.1 The crisis of the Neo-Classical/Neo-Keynesian synthesis

The economic policy encouraged by the Neo-Classical/Neo-Keynesian synthesis had positive results in terms of production and employment for more than two decades in the post-war period. However, in the early seventies their propositions began to lose explicative strength in a reality that began to be characterized by the conjunction of stagnation and inflation in the industrialized countries themselves. Initially, within the framework of short-term analysis, there were attempts to rationalize the changes in economic performance in terms of displacements of the Phillips curve. However, in the course of the decade, dissenting criticism became more stringent by starting, first, the existence of a vertical Phillips curve in the long-term and, later, a similar one even in the short-term. The elimination of the possibility of reducing the unemployment rate by accepting increases in the inflation rate led to the incapacity of Neo-Classical/Neo-Keynesian analysis to deal with the problematic of short-term economic equilibrium. As for the development model of this paradigm, its limited framework and unrealistic assumptions prevented arriving at an explanation of the reasons for the interruption in productivity growth registered since the early seventies. The limitations already mentioned were combined with the fact that the Neo-Classical/Neo-Keynesian synthesis presented permanent problems which would gradually reduce its capacity to explain reality. In particular this paradigm could never fully incorporate the reality of oligopolic markets and conceive a realistic operation of its agents. These were considered as mere factors of production with no performance or will at the political level; at the same time, the State appeared as an exogenous actor that guaranteed a level of aggregate demand but did not take part in other equally relevant dimensions of economic activity.

The crisis of the paradigm of the Neo-Classical/Neo-Keynesian synthesis is mainly due to the limitations of Keynesian macroeconomics and its policy for the management of demand to explain the problem of stagflation and the irrelevance of Neo-Classical theory of growth or long-term macroeconomics to explain the tendency to low productivity and economic stagnation in the economic system after 1970.

2.2 The crisis of ECLAC structuralism

The industrialization of Latin America received during three decades the support of an economic theory closely based on the reality of the Region. However, this theory became exhausted through the

impossibility of meeting the challenges of more advanced industrialization and modernization that the very same theory had contributed to generate. When the model of imports substitutions was exhausted, ECLAC structuralism could not develop a scheme for the integration of the countries of the Region and the world economy that was efficient and effective enough to guarantee a stable growth. The contributions of the seventies were centred on the description of processes of productive, commercial and financial dependence, leading theory into a cul-de-sac.

When the problems of short-term disequilibrium became more acute, the structuralist paradigm showed another of its weak points: the incapacity to relate the policies of adjustment and development. This incapacity was partly due to not paying sufficient attention to the problems of effective demand, structure of relative prices and monetary policy. Paradoxically enough, the paradigm ended up by having to face a similar reality to the one denounced by its detractors: the non-utilization of a monetary policy because of the lack, in this case, of theoretical developments with an operative content.

Although ECLAC structuralism was capable of analysing concrete problems which were of a crucial importance for the development of the countries of the Region, the "rebellion" that is implied was interrupted because of not being able to develop a new model of growth susceptible of being integrated to a corpus of short-term policies.

The crisis of the paradigms has led to two negative situations: on the one hand, resorting to theories that had been discarded at the beginning of the thirties; on the other, the proliferation of short-lived economic "fashions" (supply-side approaches, rational expectations, etc.) which tended to be dogmatic in their disqualification of such guiding principles of industrial development as did not promptly adapt to the novelty.

Although the re-emergence of monetarism in the seventies responded to the paradigm crisis, it was an anachronism whose main raison d'être was the overdimensioning of the importance of inflation as an economic problem and the diagnosis that economic interventionism on the part of the State (excess spending, regulation, red-tape, etc.) is the cause of all evils. Its proposals for relying exclusively on the free operation of the markets and fully integrating the national economies of the Region to the world market and the disappearance of the State as an economic agent are paradoxical, particularly, if we bear in mind the characteristics that the international situation presented: instability, extreme variability of key prices and interest rates, prospects of crisis in the financial system as a result of deficit and absorption of world savings by the United States, neo-protectionism, loss of capacity of international economic institutions such as GATT, etc.

Even in such a period of steady growth of the world economy, as was the case of the sixties, it is open to question whether a proposal for mechanical and indiscriminating integration would have been successful. In the seventies and eighties, the results were only to be expected.

The dynamics of economic fashions was not eliminated by the failure of monetarism, despite the high cost that its application involved in terms of employment and destruction of productive plants in several countries of the area. However, some misconceptions prevailed. Not the least serious of them is to assume that accounting entities can demand the simultaneous correction of internal and external disequilibrium. Latin America has repeatedly seen that its development process has been arrested by its external relationships. The structural deficit of the trade and current account deficit has been and continues to be the main obstacle to development. Domestic disequilibrium, which at the level of accounting entity accompanies the former, does not have the same importance and its solution necessarily requires to sort out the external structural disequilibrium.

3. Limitations and potentialities of the present planning scheme in Latin America

Planning was, since the early sixties, the tool to be relied on to ensure the continuity and a certain degree of equilibrium of the process of industrial development. Its results were positive for a long period, yet, it is undeniable that in the last decade it did not live up to the expectations that it had raised. Technical, political and ideological problems prevented the planning philosophy and praxis from being updated in keeping with the reality of the late seventies and early eighties. One of the fashions was to assume that lack of adaptation was due to the obsolescence of the instrument. A different reality may have to be accepted: strategic planning is still the main instrument which the governments of the Region may resort to overcome the shortcomings affecting the countries. However, this kind of planning has to take into account the changes produced in the economic, political and ideological sub-systems of the larger and more complex Latin American societies.

To the extent that planning is considered to be a valid instrument, it is indispensable to diagnose its faults and suggest alternatives to increase its efficiency.

3.1 Technical problems

- Lack of an approach including the three levels of planning

The planning experiences as well as the training efforts in this connection have tended not to consider the existence of three levels of planning that should necessarily have been present: macro-economic, macrosectorial and branch --or strategic projects-- planning. The absence of such an integral perspective led to the generation of specialists and institutions that, at the most, considered two of these three levels. This was another manifestation of the old conflict between the macro and micro levels in economic theory. The result was a reality in which strategic investment projects responded more to the funding conditions prevailing in the sphere of development credit institutions than to industrialization strategies. The lack of integral vision also prevented the materialization of policies advocating the integration of productive chains. It appears to be more and more necessary to form planners with a broad outlook who, without prejudice to specialization, can work at all three levels.

- Lack of development of new policy instruments and of instrumentation capabilities

Planning methodology tended to develop the use of a series of policy instruments considered as given. No stress was laid on the capability to generate new instruments to permit to meet in an independent way the additional targets that the economic policy had posed. We must bear in mind that Tinbergen demonstrated that, given a multiple-target function an independent instrument is required to meet each one of them. In the developing countries, economic policy must meet more targets and yet there are fewer instruments than in the industrialized countries.

The social problematic requires economic policy to aim at reducing inflation, reducing external disequilibrium, generating productive jobs, increasing the supply of basic-needs satisfactors, increasing real wage, achieving a greater regional equilibrium, etc. In the face of so many challenges, the policy instruments may have negative indirect effects on some of them. Thus, an increase in the internal interest rate to avoid capital flight processes necessarily reduces productive investment; a devaluation in the rate of exchange aiming at increasing exports must necessarily result in stronger inflationary pressures. The need to generate new independent instruments is urgent and recent experience in several countries of the Region shows the creativity potential available in this field.

Training in planning tended to stress preparation in the area of design, follow-up and evaluation. Instrumentation and operation were considered to be data and no techniques were developed in depth to ensure their effective materialization. The planning reality in the

Region shows the relative simplicity of designing programmes of a good technical level which, nevertheless, find themselves confronting insurmountable obstacles at the moment of their application. The relationship between planning and operative sectors in the government has by no means reached a level of effective coordination. This type of efforts will, no doubt, be among the ones that will yield the most positive results.

- Lack of selectivity in the range of planning

The State cannot and should not forecast and plan the whole of the economic reality. In the mixed market economies of Latin America, the integral nature of planning should be accompanied by strict selectivity. There are activities in which the allocation of resources performed by the market is relatively efficient and there is no reason why the State should make them the object of planning. There are others in which indirect intervention via support and incentives to private initiative or the indirect regulation of markets are sufficient, whereas there are always cases in which the call for direct intervention may be unavoidable, at least, at the inception stage of investments and enterprises.

It will be necessary, therefore, to combine selectivity in planning with clear views on the fact that this should only be compulsory for the public sector itself and the entities that conform it, whereas with the remaining sectors the relationship should be that of induction and consensus. This approach has been fully adopted by the National System of Democratic Planning of Mexico and is compatible with the existence of mixed market economies, open societies and democratic and multi-party political systems.

- Rigidity and inflexibility of plans and programmes

The planning philosophy developed in the Region was conceived in periods of growth and relative stability. This led to aim at the coherence and solidity of plans and programmes, rather than at their flexibility. The turbulence of present-day contexts and the uncertainty that this implies makes it compulsory to pay more attention to methodologies tending to materialize flexible and short-term plans. External vulnerability is present in all the countries of the Region and it is easy to imagine scenarios in which the relative situation of many Latin American countries, would be radically transformed if only two variables were to change, namely, the price of oil and the international interest rate. Flexibility in planning must be increased with semi-automatic assessment and follow-up mechanisms that may provide prompt feedback for the decision-taking framework.

3.2 Political problems

- The limited approach to the role of economic agents

The emphasis on the development of planning techniques was correct. Nevertheless, the absence of a political perspective led to ignore the role that social agents play in industrializations. In some cases, the structure of the agents was taken as read, without going into whether it was adequate or efficient; in other cases, it was thought that mere growth would solve the conflicts and inconsistencies of the said structure. At present, reflecting on the participation of the agents and even on the relationship of the State with every single one of them, public entrepreneurs included, is unavoidable. The Mexican experience permits to state the need for a clear scheme for participation and consensus at all the stages of planning: design, adoption and evaluation and follow-up. An effective programme must necessarily be the programme of the agents, rather than a programme for them.

The National Programme for Industrial Development and Foreign Trade 1984-1988 was the result of over 120 consultation meetings with entrepreneurs, labour movements, congressmen and intellectuals concerned with the problematic of industrialization. The design stage of the Mexican programme did not put an end to consultation: the same decree through which the programme became effective created the Consultive Commission of Industrial Planning, which has the function of accompanying and taking an active part in the design of programmes at the level of branch, evaluate policies and provide feedback for their necessary updating. This commission is formed not only by the ministries directly linked to industrial development but also the main commerce and industry chambers, and the trades union Congress, which is the leading institution of the organized labour movement in the country.

- A mistaken perception of the State-agents relationship

The ideological myth that the form of property (be it public or private) is the main determinant of how markets operate has impeded consensus among agents and has posed problems for the efficient conduction of the State. In fact, size, technology, product difference and access barriers, i.e., problems of industrial reconversion have a much stronger impact on the efficiency and competitiveness of productive activities. The rationalization of the participation of the State in the economy has been a necessary instrument to overcome the false public property --private property dilemma. Mexico has developed in the last four years a thorough restructuring process of its para-state sector, which has consolidated its mixed market economy system and has concentrated public efforts on strategic and priority areas of development, giving the market and the private and social agents the responsibility for the management of the largest part of the national

economy. The conduction of the State has been strengthened by shedding areas that could efficiently been seen to by other sectors. The National System of Democratic Planning has incorporated a policy of guidelines for the participation of agents at the level of industrial branch, which has been the basic direction for the rationalization undertaken. This policy has few precedents in the planning efforts of the Region and has been the object of attention in the analyses on this issue.

3.3 Ideological shortcomings

- The lack of explicit consideration to the need for a national project

The factors linked to the ideological structure have always been considered external to planning. At present, however, the first step in a plan expected to steer governmental action throughout several administrations calls for basic accord at the ideological level: a national project. The lack of continuity in policies was many times attributed to the government turnover typical of democratic regimes. Authoritarian philosophies, which prevailed in many countries in the past decade showed that the real reason for the instability of policies was to be found in the lack of a long-term national consensus. This was also caused by not paying attention to the problematic of the relationships between productive agents.

Planning in Mexico starts just by describing the national project originating in the 1910 revolution and materializing in an open society with a democratic political system and a mixed market economy. The relationship between economic agents, which impulses accord and participation is a relationship in which cooperation replaces animosity. In revalry and struggle --which may be healthy in the case of enterprises-- there is no chance of developing an effective planning.

In short, to promote and support industrial development by reducing uncertainty and correcting the shortcomings of the market, our proposal to make progress in the direction of a new approach to planning can be summed up as follows:

a) Integral nature at three levels: macroeconomic, macro-sectorial and branch or project.

b) Selectivity of strategic or priority areas, leaving other sectors in charge of the remaining activities, within a framework of permanent and intensive support to productive investment.

c) Consultation with, and participation of, the agents involved in the design, adoption and follow-up and evaluation.

- d) Induction and consensus in execution.
- e) Rationalization of State participation.
- f) Insertion in a consensual national project that incorporates demands for democracy, multi-party participation and mixed economy.

4. Towards a new economic paradigm

The ideological level is also present in the economy. The construction of a new paradigm is part of the effort of organization at the concrete level of national projects. Such a paradigm should be constructed on the basis of the development of three foundation stones originating in the Latin American structuralist philosophy, in the Keynesian thought that contributed with the macroeconomics of disequilibrium and in the political economy analyses of the State and participation of the agents in economic activity.

In other words, we must aim at a synthesis of neo-structuralism, post-Keynesianism and political economy approaches. The updating of these perspectives should be the product not of economic fashions but of the experience, mistakes and successes of the economists and governments of the Region.

From neo-structuralism we must select its emphasis on the factors that determine productive supply, but opening it up to incorporate the short-term problematic linked to the structure of relative prices, level of aggregate demand and potentialities of a "non-monetaristic" monetary policy. Post-Keynesian analyses will permit to make progress in the understanding of macroeconomic disequilibriums and should be complemented in such adequate aspects as not adequately developed by Keynes: income distribution and "socialization" of investments, understood as a perfected mixed market economy. Finally, the political economy approaches will contribute with the consideration of the active political role of economic agents, combined with an endogenous stance vis-a-vis the role of the State. The latter should necessarily be considered in its dimensions as promoter of private investment, entrepreneur, investor, planner and regulator and negotiator of direct foreign investment.

The complexity of the task is evident. However, the need for a theoretical framework capable of steering economic policy in periods such as this calls for the concentration of efforts on it.

The multi-disciplinary approach is a must in the constitution of the new paradigm. It is no longer possible to develop economic models in which the social, cultural and ideological factors are considered as exogenous data. The development of the analysis of the economic sub-system should form part of the development of the other sub-systems

of the social complex. The work of the economist will necessarily tend to broaden its scope, to coordinate with the work of other specialists and to reach its peak in social planning with characteristics of high selectivity and integral scope in the strategic areas which are the object of policy decisions.

PROBLEMS AND ALTERNATIVES OF PLANNING IN LATIN AMERICA

Problems

Planning alternatives

1. TECHNICAL

- | | |
|---|---|
| <ul style="list-style-type: none"> - Fragmented perspective | <ul style="list-style-type: none"> - Planning at three levels: macro-economic, macrosectorial and strategic branch or project. |
| <ul style="list-style-type: none"> - Given and limited set of instruments | <ul style="list-style-type: none"> - Development of new independent instruments |
| <ul style="list-style-type: none"> - Reduced instrumentation capability | <ul style="list-style-type: none"> - Emphasis of planner-training on instrumentation and operation of plans and programmes |
| <ul style="list-style-type: none"> - Attempting to embrace the whole reality | <ul style="list-style-type: none"> - Selectivity: Differentiating between areas of free market, indirect intervention (development), direct intervention (the State as an investor and entrepreneur) |
| <ul style="list-style-type: none"> - Rigidity and inflexibility of plans | <ul style="list-style-type: none"> - Timely short-term and feedback programmes |

2. POLITICAL

- | | |
|--|---|
| <ul style="list-style-type: none"> - Superficial consideration of the agents | <ul style="list-style-type: none"> - Participation in the design, negotiation and induction of the operation |
| <ul style="list-style-type: none"> - Faulty perception of the State Agents relationship | <ul style="list-style-type: none"> - Guiding policy of participation at the level of branch |
| | <ul style="list-style-type: none"> - Rationalization of State presence in the economic activity |

3. IDEOLOGICAL

- Exogenous consideration of the ideological framework
- Planning based on a national project with consensus, democracy, multi-party system and mixed market economy under the direction of the State
- Crisis of the neo-Classical, neo-Keynesian and ECLAC structuralist paradigms and re-emergence of neo-liberal monetarism which is, by definition, anti-planning by the State.
- Development of a new paradigm on the basis of the contributions of neostructuralism post-Keynesianism and political economy approaches.

