

NEOLIBERALISM VS. PLANNING AS A INSTITUTE OF SOCIO-ECONOMIC DEVELOPMENT

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Abstract

This paper discusses the arguments for and against planning needs as the economic institute of the state regulation. It criticizes neoliberalism and explains the new role of planning in terms of the crisis of neoliberal capitalism. It cites opinions of contemporary neoliberalism critics and highlight the negative consequences of its application. We start from hypothesis that planning is consistent and reasonable alternative to neoliberal doctrine.

Key words: Neoliberalism, Planning, Institution, Development.

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Review

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"We live in an era of neo-liberalism, monetarism, privatization and general deregulation. In an era of growing economic and political power of transnational mega-corporations ... at a time when it is very unpopular to talk about the importance of the role of the state in economic development. Yet it seems that it comes again... Due to the many negative side effects that occur as a result of these modern trends, primarily in the form of endangering of natural balance, increasing the polarization between rich and poor individuals, social classes and countries ... more and more widespread speculative behavior and business operating, the growth of ruthless utilitarianism and unlimited consumerism, the growing moral, world view and value disorientation".

(M. Mesarić 2001, s. 985)

1. Introduction

At the end of the first decade of the 21st century, it became clear that the triumph of ideology of "free market", market fundamentalism and neo-liberal capitalism is unfounded. The "failure" of planning was the result of designed and coordinated ideological, political and media campaign carried out by holders and representatives of the ruling financial and corporate oligarchy. Again, the debates about possible forms of regulation, guidance and control of social, economic and ecological processes revived. It became clear that at the beginning of 90-ies of the last century was the collapse of a failed variant of socialism and directional planning, with the premeditated action of external forces and interests, who were actively working on its compromising and collapse.

In recent decades one of the consequences of the rule of *neoliberal economic doctrine* and "market fundamentalism" was the neglect of planning at the macro and micro level. This is consistent with the proposition of L. von Mises, F. A. Hayek and M. Friedman on the harmfulness of any external interference in the spontaneous and unimpeded operation of a market mechanism, which in their opinion has the magical power of auto-regulation and the optimization of economic processes. The target of their ruthless criticism was centralized ("directive") Soviet-style planning and indicative (flexible) planning in many western countries and almost all developing countries. While rejecting of the planning it was ignored the fact that planning in the broadest sense of the word should be understood as an effort of individuals, companies or countries to affect their destiny within the framework of the "objective" facts by predicting a possible course

of future events in line with their interests. Therefore, planning in the broadest sense should be understood as a method of any rational decision-making process. Specifically, every individual and every organization before making any important decision in a rational way should first clearly define the objectives to be achieved at some future time, then consider several possible alternatives to achieve these goals, assess necessary means, methods, and implications of each alternative solution and finally, by comparing these alternatives, make a decision on the optimal variant, which, with the least investment of resources gives the highest score.

Economical, that is, development planning is nothing but the above given procedure conducted in a more systematic, formal and rigorous manner. The usefulness of microeconomic planning should not be disputed. Serious discussions about the justification of macroeconomic planning are being initiated. However, if one ignores the ideological reasons, then there are no arguments for disputing the need for planning in those areas of economic and social life, in which the market mechanism obviously cannot serve as the main or only driver and controller of actions. Actions such as in the case of transport infrastructure, energy development, water regime, preservation of natural environment, regional and urban development, not to mention the social activities such as education, public health, social services and a large part of scientific and technological development. All these activities require the determination of short, medium and long term goals, creation of desired dynamics of their development, predicting the necessary means and methods of their realization and in the end, which is often ignored and what is of crucial importance, their alignment with each other, because all these activities are in interactive relationship. The trouble is that this alignment, i.e. the interconnection of all these partial programs cannot be achieved unless there is a common, comprehensive and robust conceptual and accurate macroeconomic development framework.

There is another reason why the economic planning is necessary if we want to maintain that rational economic, that is, development policy. It is the creation of the state budget. To make the annual state budget, which in modern states makes 30 - 40% (sometimes more) of the gross domestic product, a successful instrument of the state policy and a realistic reflection of the economic and social opportunities and needs: it would have to be based on projections of key macroeconomic parameters? And since its substantial part contains public investment and other public expenditures with long-term realization and long term consequences, its development coherence and effectiveness would require it to be made on the basis of clearly defined development objectives, projections, and mutually coordinated programs for a future, at least three -year period.

The arguments for and against economic planning can be seen in my article with the same title published in the journal "*Montenegrin Journal of Economics*", Vol. 7, No 2, pp. 5-20.

2. New Role of Planning in Terms of Crisis of Neoliberal Capitalism

The contemporary crisis of neo-liberal model of capitalism has many forms. One of them is in irreconcilable conflict frenzy of financial and corporate oligarchy for quick and maximum profit and the rights of the majority of the employed population in economically and socially justified share in the distribution of realized income. According to Thurrow (1996), the revenue of leading managers in the U.S. during the 25-year reign of neo-liberal doctrine had been increased by five times, so that they became larger than the average salary of employees about 160 times, and salaries of employees in the same period fell by 11%. The fact that 1% of the population in the U.S. owns 40% of the total value of private property (similar to the relations in other countries in which *neo-liberal model of capitalism* rules, though perhaps not in such drastic measure) speaks more eloquently on the growing social abyss between a small number of the privileged and the vast majority of the population. Because of the globalization in neo-liberal way, the unstoppable process of social polarization occurs in even more dramatic form on a global level. This is especially obvious in sub-Saharan Africa, where the number of extremely poor people (living on less than one dollar a day) increased from 217 million in 1990. to 313 million in 2001 and is predicted to grow to 340 million in the year 2015 (Chossoudovski 2006).

NASA chief scientist J. Hansen (2006) believes that if in the next decade we do not take radical measures to reduce greenhouse gas emissions, the disastrous environmental consequences will be unavoidable. He estimates that the continuation of functioning of economy in this manner would cause by the year 2050. a raise of the average global temperature by 5%, which would mean an irreversible, definitive ecological collapse. To prevent this apocalyptic scenario, it would be necessary to reduce emissions of greenhouse gases in the U.S. by 90%, which would require a revolutionary change, not only in energy production, but also the entire structure of production and consumption. However this strategic alternative scenario would not be possible to plan or realize without long-term, comprehensive, integral development planning.

A similar view is advocated by B. Mc Kibben (1990), who is convinced that radical changes of development priorities will be necessary in order to save the Earth from destruction: instead of the current focus of development (in line with neo-liberal doctrine) to satisfying the interests of a group of highly developed countries and the insatiable appetite of minority privileged class of population with increasing profits and wealth, it will be necessary to give priority to long-term development strategy - the preservation of the biosphere as a condition of survival of the human species. A realization of this change in development strategy will not be possible without long-term, integrated planning, because spontaneous activity of trade laws leads to development in the opposite direction. These positions are joined by J. Green (2007, p 2): "*Overcoming the ecological crisis requires regulation of the 'invisible hand' of free market that does not care for long-term effects, but is focused only on the increase of short-term profit.*" New development planning in his opinion should not be limited to economic restructuring that imposes the prevention of ecological disaster, but it must also contain a social component in order to avoid social explosion that will happen if they do not reduce the gap that separates rich part of the world and wealthy classes from the marginalized and poor countries and classes.

Unlike the ecological imperative of planning, Bergstone R. (2010) sees the new role of planning in contemporary rapid and unpredictable technological and market changes, which are being emphasized by the proponents of neo-liberal doctrine as an additional reason why planning in the present conditions is not possible. However he thinks that exactly this modern, rapid and unpredictable market dynamics requires the corporations to introduce new, long-term, planned approach to the formulation of business policy, but the time horizon of the business policy of most companies in terms of neo-liberal capitalism is very short, annual operating plans are usually being made , and the number of enterprises that have strategic development plans for the multi-year period is very limited. Further he believes that all companies must have their short-term, operational plans supplemented by predictive analysis and projections, using all relevant information and forecasting methods, which would allow the anticipation of possible future scenarios and the formulation of long term alternative strategies and alternative business policies for medium and short term time frame. He suggests that in drawing up of alternative long-term strategy and medium term business policies it should be taken into account the 10-15 KPI (Key Performance Indicators). The proposed model of flexible, strategic corporate planning with alternative scenarios based on possible changes of the market, technological and institutional conditions important for the business policy of a given enterprise, would provide, in his opinion, faster and more effective adaptation to the changing business conditions.

Another reason for the long term, strategic corporate planning is the IT revolution and the production process based on microelectronics and on networked computers, all of which significantly changed the role of human labor, shifting the focus from his physical to mental (intellectual) resources. This means that the information era imposes the need for an educated, creative and motivated worker rather than physically fit, disciplined and obedient executors of routine work operations. In relation to this it is necessary to recall the hypothesis of M. Castells, that, when it comes to the role of human labor, a long-term trend of information revolution is transforming hired workers into co-workers i.e. partners, and this has far-reaching social consequences. In contrast, a company with a short time horizon of business policy will definitely try the fastest possible decrease of the production costs and thus increase the profit, while,

among other things, maintaining the rights of employees and their salaries at the lower level. Unlike such a shortsighted policy, extending the time horizon of business policy to 10-15 years, therefore, the introduction of long-term, strategic planning, would show that long-term prosperity, especially in the case of automated and IT-ed companies depends largely on the quality of the efficiency and motivation of the "human" capital. And this knowledge is likely to affect the change of relations between the management of companies and the employees, because their satisfaction, motivation, education and job security, as well as some forms of participation in management, are becoming important factor of long-term development. Doctrine of Q. Senge (1990) on the new corporate business philosophy, which is imposed by modern scientific and technological achievements, stressing the key role of knowledge and "human capital", also contains a systematic, holistic and dynamic approach to the formulation of business policy, i.e. multi-year planning.

Long-term and comprehensive consideration of the optimal corporate business policy would make microeconomic criteria of economic efficiency closer to social and environmental interests of the wider community. In this way, strategic, long-term corporate planning could contribute to overcoming the pathology of neo-liberal model and creating socially responsible, moral varieties of capitalism - capitalism "with a human face", as proposed by S. Young (2003), P. Aburdene (2005) and others. Addressing their activities in the broader social context and a longer time horizon would lead, presumably, individual economic actors to adjusting their individual interests and short-term interests to social-market-economic-ecological model of economic-social organization as envisioned by Swiss-German theologian and philosopher H. Kueng (1999). The perspective created on long term basis would perhaps contribute to the wider acceptance of the idea of N. Chomsky (2003) on "libertarian socialism" organized on the principle of self-organization and self-management.

But to make strategic business planning successful, a general framework for long-term economic and social development is required, which should contain a clearly defined development objectives and the expected (and desired) dynamics and structure of future development. In this context it is not disputable that in the conditions of modern highly accelerated, complex and unpredictable economic dynamics the main allocation and regulatory role should be left to market mechanisms, but it is also undisputed that this mechanism when exclusively left to the spontaneous activity causes undesirable and harmful economic, social and environmental consequences and it is therefore necessary to socially regulate and direct its operation in order to ensure economic stability and balance, social justice and cohesion and the preservation of nature. However, in order to make a successful intervention of the social community i.e. the state, directed towards the realization of key social interests which cannot be left to the spontaneous activity of the market, it cannot be restricted to single, partial, short-term, ad hoc measures. The intervention of the state through economic policy measures, laws, regulations and other methods can achieve the desired goals only if it is part of a comprehensive, coherent and long-term development strategy, i.e. if it is based on the medium and long term development planning.

An important reason that justifies the development planning, both at the micro and the macro level is the importance of the length of time horizon while selecting optimal decision. As demonstrated by the above mentioned rabbi in its "time inconsistent theory", an individual, enterprise and government, value more satisfying some needs today more than tomorrow (i.e. in the future). And the natural tendency for the prompt satisfaction of personal, business or social interests, i.e., short-term optics in decision-making often leads to adverse consequences in the long run. Therefore it is necessary for rational decision-making to see the consequences in the long term perspective, which in the case of enterprises and the state means the medium and long term development planning.

Due to many bad experiences in development planning, whether in economic, social or political sense, it is important to determine which attributes the planning must have in a democratic society with a social-market economic model. Development planning in such conditions should be based on these principles:

- Planning must be holistic, i.e. complete, meaning that it includes not only economic activities but also social, institutional, demographic, environmental and other forms;
- When it comes to autonomous economic entities it must also be indicative, providing only a framework and guidance for independent action (while for the organs of state planning goals and parameters are normative);
- Planning of the future development is probabilistic, i.e., it must be based on several possible scenarios for future development, anticipating changes in the relevant external circumstances;
- Development plans must be flexible, that is subject to periodic review (usually annual) in line with actual developments;
- Plans must be designed and prepared in a democratic and participatory manner, which means that their goals reflect the needs and interests of most citizens and that the representatives of all stakeholders participate in their preparation in an appropriate manner;
- Development of plans must be based on systematic, expert, professional, analytical and forecasting methods on which there is an extensive literature and rich experience.

For a systematic and professional performing of a complex and important job such as a land development plan a special institution specializing in macroeconomic analysis and projections is required, preparing the methodology and all professional analytical and forecasting activities associated with the development plan. In addition, it is necessary to have a permanent political, governmental body that will monitor the development plan and its execution and make key decisions and recommendations. Attempts of preparation of development plans in a short time, without proper organization and methodology, without expert analysis, studies, projections and programs, without consultation and participation of all relevant technical, social, business and political bodies can hardly be more than useless and unsuccessful improvisations.

Although the market mechanism is irreplaceable in its function of auto-regulation of economic processes and in motivation of economic operators for rational business operating, its limitations and side effects require, according to Thurrow, a corrective role of the state. One of the main weaknesses of the market mechanism is that it reduces the time horizon within which economic decisions are made. Another weakness of the laissez-faire model is the unstable economic equilibrium and the inevitability of cyclical recessions. Finally, the tendency of the market mechanism is to create disparity in income distribution. Thurrow's conclusion is that this is the reason why the government intervention is absolutely necessary in order to counteract these defects of the free market. Thurrow emphasizes that the human community in the long run can be successful only if there is a balance between individual and collective needs, and to achieve such a balance it is necessary to acquire an active role of the state and other representatives of public interest.

Nobel laureate J. Stiglitz (2002) subj relentlessly criticizes market fundamentalism and neoliberal globalization. He believes that the market mechanism, acting for it itself, cannot provide a balanced, optimal and socially acceptable course of economic processes. Market laws when left to the free, spontaneous activity create, according to this thesis, among other deficiencies, socially intolerable disparities in income distribution, while in the long term they lead to irrational allocation of resources causing a dangerous and irreversible environmental devastation. He points out that today: both the empirical experience and economic theory have convincingly proved the unsustainability of market fundamentalism. As the main reason that prevents optimal and sustainable socio-economic development he emphasizes the short time horizon on which business decisions are based, and the imperative of short-term maximizing of profits and the stock prices that are absolutized by neoliberal economic doctrine (Mesaric 2007, p. 348).

Stiglitz is convinced that optimal and sustainable socio-economic development cannot be achieved without proper guidance and regulation of economic processes, particularly from the standpoint of social justice and environmental balance. According to Stiglitz, the solution should

be sought in the optimal combination of market activity and government intervention, which will be different at different stages of development and under different circumstances (Ibid, p 349).

3. Conclusion

Despite the U.S., and soon afterwards, the global financial and economic crisis caused by speculative business operating of the owners of financial capital, the greatest global ideological and practical impact is still in the hands of Chicago school of economics, which advocates market fundamentalism, i.e. the free activity of the market mechanism without significant influence of the government on the direction and character of economic and social development and, of course, without macroeconomic, development planning.

The need for economic planning does not depend on institutional and structural differences of a given society (the nature, scope and methods of its preparation and implementation will depend on that), but its application is significantly affected by the ruling ideological, doctrinal views and partial interests. The consequences of the predominance of short, egoistic impulses, promoted by neo-liberal doctrine, over the long term and general interests are very dangerous. The institute of State regulation can achieve the desired goals only if part of a comprehensive, coherent and long-term development strategy, i.e. if it is based on development planning.

Neoliberal capitalism marked by "market fundamentalism" and the abolishment of positive regulation of the state necessary to ensure economic balance and social justice that was introduced three to four decades ago, marked the beginning of the structural and apparently terminal crisis of the capitalist model. The crisis became acute and apparent in 2008 and affected all aspects of social reproduction: economy, politics, the distribution of gross domestic product, international relations, ecology. It's probably the most calamitous consequence is the collapse of positive civilization system of values by subordination of human, social and ethical criteria to the main obsession of neoliberal capitalism: the indiscriminate and unlimited accumulation and concentration of capital and profit. Therefore, the time has come for intense intellectual and political activism of as many people with the aim of designing and realizing of new, civilization ally higher, more functional, humane and just social model.

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