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For Session 2 of module
Managing and Planning for Development: International and National Dimensions **(Academic year 2011-2012)**

2 - Society, state and market. The framework for economic, social and political development. Production, distribution, exchange and consumption.

Society, state and market. The framework for economic, social and political development

The interaction between **state, civil society and markets** amounts to the interaction between the following members of society:

- Civil bureaucracy and military bureaucracy (state);
- Owners of means of production (capital), non-owners of means of production(capital), urban dwellers, rural dwellers, children, old people, employers, employees, self-employed, unemployed, et al (civil society)
- producers of goods and services, consumers of good and services, capitalists, workers, merchants, et al (markets)

The interaction among them will lead or not to economic, social, political, human and environmental development.

Share of employers, wage and salaried, own-account and contributing family workers (% of total employment).

Source: ILO, "Key Indicators of the Labour Markets 2008"

Year 2006 **Civil Society defined in accordance with economic activity of its members**	**Employers (owners of capital)**	**Wage / salaried**	**Own-account**	**Contributing family**
Industrial countries	**6.3**	84.3	7.8	1.6
Eastern Europe & Central Asia	**3.8**	76.6	16.1	3.6
Middle East	**5.2**	61.5	22.6	10.6
East Asia	**1.2**	42.6	38.2	18.0
Southeast Asia and the Pacific	**2.1**	38.8	35.2	23.9
South Asia	**1.6**	20.8	47.4	30.2
Latin America & the Caribbean	**4.7**	62.7	27.1	5.5
North Africa	**9.6**	58.3	16.2	15.9
Sub-Saharan Africa	**3.0**	22.9	48.7	25.4
World	**2.9**	46.9	33.0	17.2

Modern societies develop through a

complex articulation of markets, states, individuals and firms

To understand what planning for development, public administration and management require for being efficient, it is necessary to look at the dynamic structure of the system formed by markets-state-firms-individuals which creates synergies fostering or blocking the process of human development.

MARKETS:

1. Markets for goods and services: consumer and productive goods and services are traded here;
2. Markets for factors of production: labour, capital, technology and land are traded here;
3. Markets for money: lending from savings to individuals and firms for investments. Also lending and borrowing for speculative purposes.
4. Markets for international trade: exports and imports of goods and services are the main components here, and also export and import of national currencies with speculative purposes.

HOUSEHOLDS (individuals):

members of households (male, female, adult, child, teenager, old individuals, et al) participate in the different markets as follows:

1. buying goods and services with the income received from the firms producing those goods and services.
2. supplying labour and capital to all firms.

Income will be the share of the value added created in the process of production by the different social groups, and will take the form of

wages, salaries, and interest, depreciation, rent and profits.

FIRMS:

Each firm or group of firms will decide what to produce, how to produce and for whom to produce in accordance with the maximization of profits principle if they are in an unregulated market economy, or

They will fulfil targets if the are in a central planned economy, those targets being posed by a central bureaucracy in charge of overall planning.

In some cases private firms and state firms will occupy diverse economic sectors in the same nation state.

THE STATE (1):

The **executive**, **legislative**, **judiciary**, **military** **and** **economic sectors** of the state play diverse roles in the behaviour of firms, households, individuals, and markets. There are different shades of intervention in accordance with the **dominant ideology** in a given society.

The main two ideologies are:

A) Developmental state: the state as the main economic agent leading a process of development via regulating markets for money, labour and goods and services; and

A) Neo-liberal state: the state as a "facilitator" for the functioning of unregulated money, labour and goods and services markets.

THE STATE (2):

Rueschemeyer and Evans (1985), note that **"in advanced industrial countries and in the 'semiperiphery', growing state activities and an increasing deep penetration of economy and society by state interventions seem to have played a critical part in enabling capitalist political economies to foster economic growth and manage socio-economic conflicts"…**

"yet the <u>internal structure of the state</u> and the <u>state's relation to class structure of society</u> limit the state's capacity to intervene in civil society in pursuit of the goals of <u>economic growth and income redistribution</u>".

Rueschemeyer, D & P.B. Evans (1985), "The state and economic transformations: Toward an analysis of the conditions underlying effective intervention".

THE STATE (3)

Ruesmayer and Evans (1985) see the solution to the problem only if two conditions are fulfilled:

1.- "the state must constitute a bureaucratic apparatus with sufficient <u>corporate coherence</u>";

2.- "a certain degree of <u>autonomy from the dominant interests</u> in a capitalist society is necessary"

In this model, the state must correct the <u>social and economic failures of the market</u>

The Washington consensus(1)

Since the 1980s, the World Bank have been promoting a “**facilitator” state** promoting the following:

A) Fiscal discipline (reduction of social expenditure and balancing budgets)

B) Tax reform (decreasing direct taxation and increasing indirect taxation)

C) Floating exchange rate (linking national currency to the US dollar, euro, and yen)

D) Trade liberalization (to allow free flow of goods and services)

E) Free foreign direct investment flows

F) Privatization (transfer the whole economy to private property)

G) Deregulation – Decentralization (both administrative and economic)

H) Secure property rights (making universal private property of capital)

The Washington consensus (2)

A question arises:

Is it possible achieving economic and social development in conditions of globalisation managed by big capitalist corporations?

D. Nayyar (2006), "**Development Through Globalisation?**", United Nations University,

(available at www.rrojasdatabank.info/dev3000.htm),

states the following:

D. Nayyar (1)

a) prospects for development exist in a <u>changed international context</u>;

b) globalisation has diminished the <u>policy space</u> so essential for countries that are latecomers to development;

Thus, it is necessary

1.- to <u>redesign strategies</u> by introducing correctives;

2.- to <u>rethink development</u> by incorporating different perspectives, if development is going to bring about an improvement in the well being of people;

D. Nayyar (2)

Redesigning strategies requires to **understand theory** and study experiences that recognize **diversity** and **complexity** in the process of development;

Rethinking development requires to recognize

the importance of **initial conditions**;

the significance of **institutions**;

the relevance of **politics in economics**;

the critical role of **international governance**.

Why?...

D. Nayyar (3)

Because the neo-liberal style of development has led to:

a) An increase in the economic distance between the industrialised world and much of the developing world;

a) An increase in the economic distance between the newly industrialised countries at the one end and the least developed countries at the other;

a) An increase in the economic disparities between regions, and between people within countries;

D. Nayyar (4)

the neo-liberal style of development has unleashed, without any control

"the **logic of the market** which give to those who have and take away from those who have not, as the process of cumulative causation leads to market-driven virtuous or vicious circles:

growing affluence for some parallel to persistent poverty for many."

D. Nayyar (5)

Finally:

"Globalisation has diminished the POLICY SPACE.

The space for, and autonomy to formulate policies in the pursuit of national development objectives is significantly reduced.

Two reasons for that reduction:

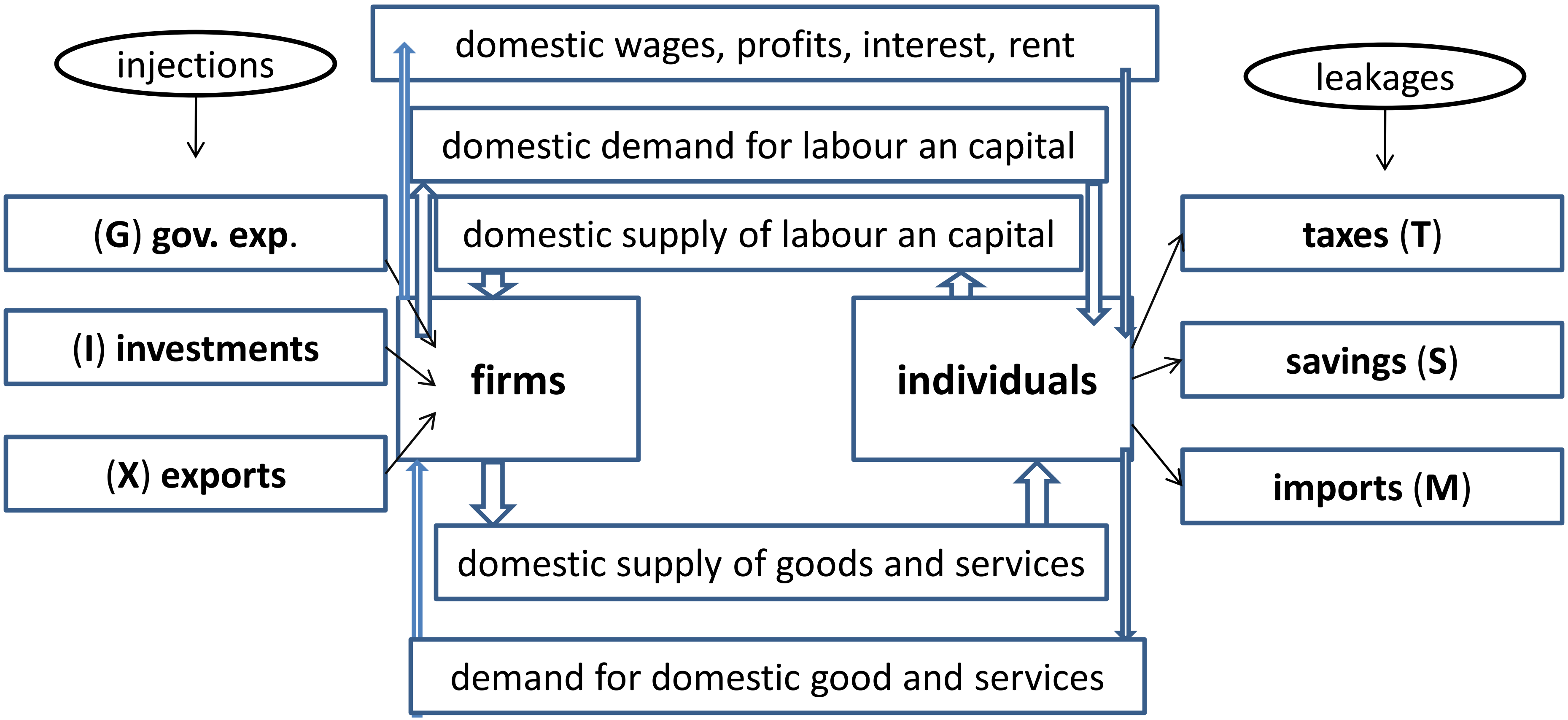
- unfair rules of the game in the world economy; and
- dynamic consequences of integration into the international financial markets

We "globalise" in a world of unequal partners: the strong have the power to make rules and the authority to implement the rules. In contrast, the weak can neither set nor invoke the rules."

Groups	Population % of total	GNI - % of total	GNI/ capita HI = 100
East Asia and the Pacific	29.0	7.9	0.27 - **5.8**
Europe and Central Asia	6.7	5.1	0.76 - **16.1**
Latin America and the Caribbean	8.5	5.9	0.69 - **14.7**
Middle East and North Africa	4.7	1.7	0.36 - **7.6**
South Asia	23.0	2.5	0.11 - **2.3**
Sub Saharan Africa	12.1	1.4	0.12 - **2.5**
High income (include ind. cts.)	16.0	75.4	4.71- **100.0**
Total in %	100.0	100.0	
Total pop. millions and US$ mill.	**6,611**	**52,643,100**	

Data for 2007. **World Development Report 2009**, World Bank

Model for the circular flow of aggregate income in an open economy linking labour, goods and services, and money markets (standard Keynesian model)



From our model:

GROSS DOMESTIC PRODUCT:

Consumption	[**C**]
Investment	[**I**]
Government expenditure	[**G**]
Exports	[**X**]
minus	
Imports	[**M**]

Aggregate demand for domestic production by nationals and foreign countries will be:

AD = C + I + G + (X-M)

Therefore, this model is the conceptual environment for ECONOMIC PLANNING implementing economic policies (for example, to increase GDP in order to increase employment, etc.).

Two tools for the above: 1) fiscal policies; 2) monetary policies

FISCAL POLICIES:

•Taxation policies to encourage or discourage investments by nationals and/or foreigners, redistribution of incomes, etc.;

•Subsidies to encourage or discourage rural and domestic production for national consumption and/or exports;

•Expenditure on goods and services such as schools, hospitals, low price houses, roads, railways, port facilities, to increase employment, etc.

MONETARY POLICIES:

•Change levels of interest rates to encourage or discourage savings and encourage or discourage consumption;

•Adopt fixed or floating exchange rates to encourage or discourage imports and exports.

Finally, fiscal and monetary policies will have effects on levels of prices (inflation or deflation).

The main tool to correct the above are

A.- Expansionary fiscal policies (increasing demand and rate of growth of output – mainly by increasing spending and lowering taxation)

and

B.- Contractionary fiscal policies (decreasing demand and rate of growth of output – mainly by decreasing spending and increasing taxation)

NOTE: under A, <u>output and employment</u> may benefit but at the expense of <u>inflation</u> and <u>trade deficit</u>.
Under B, <u>stable prices and trade surplus</u> can be achieved but at the expense of levels of <u>output</u> and <u>employment</u>.