

Dr.Sachidanand sinha

Class-BA Part-III

## Socialist Planning

The general idea underlying socialist planning is that the market economy is a good system for ensuring micro-economic rationality (e.g. the efficient organisation of production within individual factories) but that it fails to ensure macro-economic and macro-social rationality (e.g. unemployment, poverty, inequality, pollution, wars).

Hence to ensure national economic rationality requires using the state as an instrument to manage the national economy in a way analogous to that in which individual firms manage their factories. There are a number of radically different ideas of how to realize socialist planning, depending on the writer and on the institutional assumptions made. Perhaps the three most important are the traditional Soviet-type model, the indirectly bureaucratically controlled model and the Tinbergenian model. The traditional Soviet-type model is the model traditionally advocated by Communists. The indirectly bureaucratically controlled model is the goal of reform Communists and of many non-Communist economists aware of the political constraints of state socialism. The Tinbergenian model is a Social Democratic model which has been implemented in the Netherlands since 1945 and

which is related to practice elsewhere, e.g. France and Japan. In the first model the central authorities attempt to determine directly all production decisions throughout the economy. In the second, current decision making is in principle left to the (state-owned) enterprises and the authorities restrict themselves to the determination of economic regulators (e.g. prices, taxes, exchange rates, rules of enterprise behaviour), investment planning and the main directions of technical progress. In the third, production is carried out mainly by private firms operating in a market economy but government economic policy, utilizing economic levers such as government expenditure, taxes, incomes policy, interest rates, exchange rates etc, plays a major role in the economy. The third model is often referred to as a 'regulated market economy'.