THE ROLE OF THE STATE IN DEVELOPMENT PLANNING AND PREVENTION OF CRISIS

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Abstract
In this paper, I tried to present the analysis of the arguments for and against the state intervention. Contemporary role of the state is particularly important with the presentation of the world economic crisis, where the advantages and disadvantages of the market in the process of globalization are clearly recognized. Further involvement in the process of globalization and the promotion of market mechanisms are effective ways of resource allocations, while the role of the state apparatus is to promote economic development and act stabilizing in the state of the economic crisis. In fully free effect of the globalization and markets, resources are allocated in accordance with the demand of the consumers, while a national market is the organizational framework that brings together supply and demand.

Keywords: *State, development, market, market failures and planning.*

Introduction

The central question that meets all of the world economy is how to allocate between the alternative use of resources, in terms of the global competition. This issue is particularly important for all countries in the Balkans because they are less developed, and the basic needs of population for inclusion in European integration flows are much greater. Production resources are, according to the rule, limited, while on the other side, human desire for goods and services is almost unlimited. In a market economy, consumers' demand and production costs have a function to balance consumers' wishes and existing resources. To produce certain goods, it is necessary to attract resources from their alternative uses, mostly from the production of other goods, and to attract resources, producers have to bear certain costs. Market prices are efficient, but not a socially responsible signal that directs the manufacturers to offer more or less goods and thus affect the change of the production profitability The use of resources for the production of certain goods denies their further use for the production of other goods. So, the use of resources always costs and nothing is free. Of course, some products for individuals or groups can be free if the account is paid by someone else. This does not reduce the cost, but it only transfers it to someone else.

Politicians in most Balkan countries often use phrases such as free education, health, etc.. This terminology deceives, because nothing is free in a modern market economy. For example, resources that are used to build schools, could be used for the production of larger quantities of food in agriculture, or any other use. The costs of education, for example, consist of the value of all the products whose production is unfinished, so the resources could be used for education. State can transfer the costs from one subject to the other, but they can not be avoided, because limited resources have their cost, which is applicable to all areas of life. The reality of resources shortage is always present, regardless of the improvement of human welfare.

An effective way of development and integration in the globalization trends implies a dose of the state intervention in the economy, and it is not a minimalist effect, present in the free market liable to large impacts and crisis. Global capitalism should be combined with the coordinated international intervention, because there are areas where even integrated market does not provide

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good results, and where only the effect of markets can lead to some development problems. However, the state, especially if it comes to a democratic government, is not a mechanism for removing the mistakes and solving all kinds of problems (e.g., inadequate health care, poor education or the high costs of living). State can’t solve all the problems, no matter if the entity that makes decisions is in the public interest, as well as the mechanism for the correction is not always available when a market does not provide the desired result. What is important is, that there is no guarantee that the policy which represents the majority of the elected state representatives will stimulate economic development and that it will act preventively or stabilizing in the case of the economic crisis. Often, the governments selected by a large majority of voters adopt the economic policy measures that undermine the economic prosperity or lead ultimately to even bigger economic crisis.

It is wrong to put the sign of equality between the democracy and market economy. Most countries of the market economy have democratic political institutions, but it needn’t be the case. Political democracy doesn’t guarantee market economy, because there are cases of the democratic countries in the allocation of goods and resources, that rely on state regulations and tax policy instead of the market. Democratic elections themselves cannot provide the environment that leads to economic development. Only the constitutional regulations, which adjust the political processes and principles of a healthy economy, would contribute improving the economic development. Therefore, it is very important to limit the reach of the state authorities, in other words, to create its neutrality in relation to different interest groups, keeping in mind the global experience.

The role of the state in development planning and prevention of crisis

1. Relationship between the state and the market

Market failures are the argument for the government intervention in the development process and the anti-crisis action (Arndt 1988, 1). In the past, market failures caused many under-developed countries to adopt different forms of planning in the allocation of resources. In not so distant past of the Balkan countries, centralized planning completely replaced the role of the markets and bureaucratic authorities made decisions about the allocation of resources. Sectorial allocation of resources was completely centralized. The role of the state in the development process and prevention of the economic crisis changes conceptually, after the fall of communism in the Soviet bloc and Eastern Europe. After the collapse of the central planning system, most of these countries changed to the introduction of a completely free market, which led to many negative consequences, due to the transition from one extreme to the other economic system. On the other hand, in many developing countries, the state failed to provide fundamental public goods, such as order, law, education, etc. (Ghosh 1984, 4). In the countries that have gone through the civil wars, it often came to a complete institutional blockade, for example, in Serbia at the end of the 1990s. Therefore, it is important to build a structure of law that is clear, unambiguous and non-discriminatory, because the legal system in the country affects the level of the economic activity. In this respect, in the world frames, the role of the state in some countries has been fascinating, when it comes to development (eg., Singapore, South Korea, Hong Kong, Japan and Thailand), (Wade 1990, 18).

On the other hand, in a predatorian state, the state power is not limited, in other words everything is ready to be snatched away in the political process, while robbery and usurpation are the main motive of conduct, especially in the political life of a country. In such types of the state (cleptocratia), the individuals spend more time on political organizing and fight to get a piece of the economic "cake" through the political activity, instead on the production of the "cake". This leads to a reduction of the total product, increasing intolerance, distrust and even hatred between certain groups in the society, where production stagnates, and life in this country is not nice. In such countries there is a higher degree of the ethnic and regional diversification, which probably leads to the internal conflicts and instability. In contrast, the state promotes the development, when it stimulates the production activity, and distimulates robbery, and has the role of a neutral force to protect property rights and force the execution of the contractual obligations. Effective law enforcement makes the attempt robbery of someone's property harder and reduces the funds which will be directed to the mugging and parasitic life.

Therefore, the main roles of the state in promoting development and successful integration into the global economic trends are:

1) correction of market imperfection;

2) preserving macroeconomic stability and providing the institutional framework, through which the market can give effective results;

3) protection of the natural environment and living environment;

4) provision of public goods (order, law, defense, etc..)

5) protection of the certain categories of the population;

In terms of preserving the macroeconomic stability and security of just and equal distribution of income, it should be kept in mind that the cost of transfer income, made by the state, may be higher than the net profit of the user, regardless of whether it is a company or individual. So, for example, it should be kept in mind that income transfers may be inefficient for several reasons related to the secondary effects: 1) programs that protect potential recipients of transfer payments, because of the troubles that come from their irrational and wrong economic decisions, encourage source which increases the likelihood of occurrence of the troubles. First of all, the transfers themselves affect the consequences of the troubles to be less painful, but reduce the motivation of the potential recipients to take all that is necessary in order to avoid troubles in the future. Both things are under the influence of the conflicting goals. If something is subsidized, it will appear even more. Transfers against poverty are not an exception to this rule, because they support high-risk life style. In the long run, negative consequences are far greater than the short-term gains (Gwartney and Stroup 1996, 6);

2) increased volume of transferred income slows the economic growth, because income is something that companies and individuals produce and earn, on the basis of providing goods and services that others are willing to pay, so that taxes and income re-distribution policies negatively affect the motivation for the tax payers and recipients of the transferred income profit. The motivation for the entrance to the activities that are not a subject to taxation is growing and resources are not used in such way rationally. Neither taxpayers nor the transfer recipients will make as much profit as it would be the case if there weren't the program of transfer giving. Competition for getting the transferred income will decrease a large part of the long-term profit of the transfer benefits users (the same source).

It should be kept in mind that the economic resources are limited, so the state must establish criteria for obtaining the transferred income and other political benefits. If there are no such restrictions, transfer payments, as a rule, always break the budget framework, and in such a situation the state is in the budget deficit and its revenues are lower than it consumes. Negative impact of the deficit on future generations can be seen mainly through the potential effect on savings and capital accumulation.

If today's generation leaves behind itself many more factories, machines, buildings, knowledge and other resources for production to their children, then the production potential of the next generation will be higher. If the next generation is left behind with less production goods and more obligations on the basis of the debt, then their production capacity will drop in the appropriate way. The state often requires that the transfer recipient has a personal property, to have a proper job or to be someone in society. However, when the criteria is established, people, by rule, adapt their behavior in order to receive free money or other benefits from the state. Intensive involvement of the state in an effort to help one part of the population at the expense of another, turns the economic resources of the production to unproductive activities.

Market imperfections include the category of market prices, which may be unreliable guide to the socially optimal allocation of resources, because they do not reflect the opportunistic costs of the production factors use for society as a whole (Eckstein1957, 3). Prices of goods in such a situation do not reflect the marginal costs of the production. The existence of positive and negative externalities is possible, in the sense that some goods are insufficiently, and some others are well supplied at the market, and that from the social standpoint, such situation isn't reflected through the appropriate prices. The state may reduce the negative externalities through regulation and taxation, and to promote positive externalities through subsidies or provision of such activities (e.g. education and health care). Asymmetric information, moral hazard and the wrong selection, can also lead to market inefficiencies and potential crises (e.g. market bank loans – a borrower knows more about his situation than a lender, so that a bank can have bad loans on the basis of the wrong selection in the case of abusing the borrower). On the other hand, it would be very expensive for the bank to provide information about the high-risk clients. Moral hazard is present when the possession of security encourages the activities for which the client is insured, thus creating the conditions for high costs, which result in higher insurance premiums for all. In this case, the state can regulate private insurance, but it can also provide the same services at lower costs. Such an example would be the health insurance market.

The state has a particularly important role in ensuring fair distribution of income in three ways:

1. between regions
2. between generations and
3. between different social groups in society.

There are strong economic and political reasons to help the vulnerable categories of the population, especially in the situations of the economic crisis. Poor and unemployed people can be the main initiators of the civil unrest, criminal activities and ultimately the state of political instability. In this way, investment and economic growth can be deprived. It is important to have in mind what is left of the wealth to future generations, which often requires a change between the current consumption and investment. There are many ways in which a state can affect the reduction of the current consumption and raising investment in order to increase spending in the future (e.g. taxation, subsidizing, public investments, etc.).. The state, of course, is crucial in providing the institutional framework for effective market action (Chang and Rowthorn 1995, 2).

If the state does not perform the basic functions adequately and sufficiently, then the lack of credibility is reflected in the civil unrest, inability to maintain law and order, maintain private ownership and / or protect the vulnerable categories of the population. Investment and economic growth are positively correlated with the public credibility. Reducing the ability of the state and a decline of credibility is reflected in the increasing insecurity, which negatively affects investment and growth. Institutional framework is therefore important for different functions of the market. The state credibility is particularly important for attracting the foreign private investment. Poor policies and management of the state may not only contribute to declining confidence of the citizens in the country, but they can also endanger the prospects of growth. Without improving the effectiveness of the state, there is no significant shift in the economic progress and the appropriate action in the case of the economic crisis.

In many countries there is too excessive regulation and state spending, and it is therefore necessary to provide the reduction of these components in the case of the economic crisis. The

State should not be the only and exclusive provider of all the infrastructure and services of social importance. The regulatory framework for the basic protection of consumers and employees should be provided, with the introduction of the private sector in the competition. On the basis of the fundamental services that the state should provide in every modern economy, strategic intervention in the field of the sectoral policies is also possible. Government in such a situation takes an entrepreneurial role and intervenes where necessary, without endangering the private sector (Wade 1990, 18). Improving the state ability refers to providing the state structures services in a better way than existing and the reduction of the arbitrary actions, which lead to non-transparent decisions and corruption.

Because of all previously mentioned, most countries in the world, regardless of the present political ideology, publish development plans and strategies of action. This is the best way of establishing the development goals and demonstrating the initiatives in efforts to come to terms with the development and the crisis issues. Planning can serve as a catalyst for foreign investment and loans from the international financial institutions. As a rule, all these plans and strategies include five basic goals:

1) the achievement of sustainable economic growth and increasing per capita income;
2) righteous distribution of income;
3) controlling the external financial balance;
4) generating larger employment opportunities;
5) the preservation of macroeconomic stability.

Depending on the country,the economic plan may vary in its ambition from the general statement concerning the objectives of detailed calculations of necessary resources, proposals for the action and the sum of output that each economy sector must accomplish in order to achieve a certain rate of economic growth. All that is beyond the general statement concerning the goals, inevitably includes some forms of the economic-mathematical modeling, from calculations of the connection between the sectors to key variables in the process of growth. Models allow planners to make decisions about how to achieve specified goals. They facilitate the strategic choice for the economic policy creators where it is not possible to achieve all the objectives simultaneously (Killick 1976, 10). Understanding the relations between different parts of the economy and knowing the economic parameters of the system allows consistent economic decision.

2. Economic planning

Knowledge that the macroeconomic policy, even in the market economy must be planned, does not mean at the same time that planning at the end of the first decade of the 21st century, in its essence, has the same role and importance as during the 60's and 70's of the last century. Almost all less developed countries at that time prepared development plans, where the vast majority of the international financial institutions insisted on the formulation of such plans, as a prerequisite for the provision of loans or aid (Meier 1965, 15). The philosophy of planning itself is universally accepted as the safest and the most direct road that leads directly to economic progress (Hagen 1963, 7). Confidence in planning as a tool in the economy management stems from the weaknesses of the market mechanism, in coordination between anti-recessive action and promoting development, which is especially manifested in the poor countries.

Where does the confidence in the usefulness of planning come from? The basis of planning and planning institutions is the widespread belief that it offers a unique adequate institutional and organizational mechanism to overcome the economic crisis and to achieve sustainable rates of the economic growth. Traditional aspect of planning involves three elements:

1. Planning institutions
2. The process of planning and

3. The plans themselves.

Planning institutions have as their goal improving long-term performance of the economy and as such must be well acquainted with the structure of the national economy. They take care of the long-term feasibility and sustainability of the planning programs. Independence of the planning institutions from various pressures (primarily political, but the interest groups as well) provides the acceptability of their analysis and credibility of their plans. Planning institutions represent a useful service, not only to view and study the overall social and economic environment, but they establish an objective framework for the creation of specialized study of the expected future, thus providing update information channels, where these are incomplete and defective. Institutions that implement the function of planning depend on the founded channel and practice that is implemented in a particular country, in order to ensure the effectiveness of the planning process. All operations of the planning institutions needn't be located in one place, but a division of responsibility for the policy implementation is possible, analysis and projections, as well as the diffusion of information on different agencies. These agencies may be in the form of private institutions, universities, institutes and the appropriate Institute. Similarly, some regions and cities that have a need for development planning, in the operational sense, can have their own planning departments and the Bureau.

The planning process is a set of rules and procedures through which the function of planning is performed. The function of planning includes collecting, processing and diffusion of information about the expected changes and developments in the social, economic and technical environment. It also includes making projections about the egzogenic environment and the evolution of price signals such as the prices of energy, raw materials, the rate of earnings, interest rates and exchange rates. It often involves the alternative scenario on the movement of developmental trends in response to these complex and associated changes. To make such projections successfully implemented, it is necessary to have enough information about the intentions and interactions of the economic agents that determine economic trends in major industries, sectors and regions.

Economic planning, understood in terms of the economic decisions coordination, in the long term has as its aim a direct impact, and in some cases the control of the level and growth of the main macroeconomic variables (Griffin and Enos 1970, 5). The ultimate goal of such action is to achieve a set of certain development goals. To achieve the objectives it is necessary to enable the macroeconomic stability by development planning, which basically depends on the level of the government activities methods of financing the same, as well as the macroeconomic balance between the aggregate income and expenditures. Macroeconomic instability can, of course, be caused by the factors that are outside the government control, such as the egzogenic shocks that often require a sanction in a long time with the help of other countries, but generally,the macroeconomic instability is a result of unsustainability of the planned national fiscal and monetary policies and programs. Symptoms of the macroeconomic instability reflect in the high and rising public debt in relation to GDP as well as in the high and growing inflation, even hyperinflation. The causes can be found in the macroeconomic imbalance, when the aggregate expenditures exceed the aggregate revenues. Only unsustainable imbalances lead to macroeconomic instability.

Economic plan is the main document that specifies a set of the macroeconomic goals that are to be achieved for the planned period of time, determined by the strategy to be implemented in order to achieve these goals. Plans can be partial and comprehensive. Partial plans cover only the part of the national economy such as agriculture, industry, tourism, etc.. With the comprehensive plans, quantitative economic targets arise from the national socio economic priorities, so the government takes care of their realization. The government also organizes a framework for implementation, coordination and monitoring of the macroeconomic development plans. Why is the economic planning given such an enormous importance, especially in the poor countries? In response to this question, the instability and weakness of the market mechanism in these countries should be kept in mind, as well as high unemployment. Market mechanism of the poor countries is not able to fulfill the main operating task of the macroeconomic development planning. This task is related to mobilizing the limited resources in a way that will lead to structural changes in the direction of stimulating the economic growth and development of the entire national economy. Therefore, the planning is accepted as a central point in the management of the economic development.

Macroeconomic development planning assumes mobilization and direction of resources to the regions and sectors in which the maximum effectiveness in achieving the long-term goals is expected. Developing components of the economic infrastructure at the level of the national economy should be developed with the most rational use of the domestic and foreign funds. In order to ensure adjusted relations in achieving the long-term macroeconomic goals, the government often controls and manages (through the appropriate instruments) the economic activities of the private sector.Macroeconomic planning is, of course, more feasible and suitable for implementation in mixed economy of the developing countries than in the developed market economies. Why? Because the number of variables that must be taken into account is much smaller, and more suitable for control, with the lower degree of the observed development of the national economy.

Planning completes inadequacy and weakness of the market mechanism to ensure the optimization of the economic performance in accordance with the national socio economic priorities over the decisions of individual factors. Market mechanism in less developed countries is characterized by an incomplete, defective structure and method of conducting transactions. The factor markets in these countries are often ill-organized, which allows the appearance of the distortion prices that do not give the correct economic signals, both for the producers and consumers. The main task of the governments in poorly developed countries is to integrate the market and modify prices, so they could maintain costs of resource usage in producing goods and services in a most realistic way. The goal of the planning is to remove the disparities and distortions that may lead to wrong allocation of the resources to investment projects that do not reflect the long-term social interests. An example of such investment that is not in accordance with the planned long-term goals is in the allocation of the resources into projects of low priority, such as production of luxury goods for the rich part of the population.

It should be emphasized that the planning defines the targets related to the future development of the observed economy and often going into details with the development plans is a necessary condition for the provision of the international bilateral and multilateral assistance. Development plans often reflect the project description for which the financing of foreign donors is necessary, while at the level of the entire economy, the desired future economic development in fact reflects the projections of the applied macroeconomic models. Development plans usually reflect the medium-term projections (up to 5 years), with larger or smaller incorporation of the long-term perspective. Elaboration of the medium-term plans is usually displayed at the annual level. Limitation of the data and weak industrial diversification in poor countries are the most suitable for the realization of plans with short and predictable time horizon.

Conclusions

Sumarizing previous experience, we can say that the state has had a vital role in global economic integration in many countries, but not as a supplier of goods and services, but as an economic coordinator that corrects market disproportions and provides a framework in which the market evolves in the direction of the effective fitting. The market, of course, exists without the state intervention, and it works through the recognition of the signals by which the economic factors direct their actions. This does not mean that the state should never interfere nor control all economic events.

State planning and direction of the funds and benefits cannot by itself stimulate the economic progress. If companies get more funds from the state, and less from the consumers, they will spend more time in trying to meet politicians to get benefits, and less time to meet customers. Therefore, the role of the markets and the private sector is irreplaceable in the process of planning. There are many reasons to believe that the owner, who risks his own money, makes better investment decisions than the authorities, who make decisions about another person's money, ie. tax payers money. The reason is very simple: if the investor makes a mistake,an investment project is a failure for which he will directly bear the consequences in mind of the loss of his property. On the other hand, the connection between the selection of the productive projects and state planning is poor, even though the project is productive. If the project is a failure and brings loss, it may have only a negative impact on the organs of the state planning.

What is considered very important is the accuracy of the information regarding planning and directing the state funds to promote development and anti-crisis action. Since planners allocate state investment funds and subsidies, managers of the private and public companies can often give them incorrect or personal information about projects that would help them attract attention to themselves and the state benevolence. Logically, it can be expected that each of them will try to convince the directors of the state funds that his company or industry is exactly what is the most valuable and most needed for the general benefit and welfare of the society. However, there is no way that the central planners collect enough information to create accurate national plan completely, because the world today is the world of dynamic changes. It makes sense to plan, but what is more important, than the state bodies and state experts in this regard is the initiative of the business entrepreneurs. So basically, the state economic planning cannot replace the market decisions, nor political decision-making can replace the private entrepreneurs’ decisions.

In most less developed countries during the last decades, the public sector increased engaging in GDP and the participation in the total investment, but also produced the ineffective and wrongly directed economic growth in the huge majority of cases, which has resulted in low capacity utilization, decrease in yield and high costs of the public investment and projects. Public project is productive when it is possible to allocate its costs, so that all citizens benefit from it. The solution of the problem is to increase the role of the private sector in undertaking projects, which overall leads to more efficient usage of the resources. In the case of state-induced price distortions, it is considered that its elimination will lead to a balanced influence of the market mechanism. Are the markets in the Balkan countries that are not the members of the EU characterized by properly functioning and balance? Such markets are characterized by numerous shortcomings and imperfections, which are the barriers for the effective functioning.

The lack of effective competition, especially in the industrial sector, provides a large concentration of power. In such a situation, output is lower than the potential, and costs higher due to the lack of competition, which leads to a transfer of wealth from the consumers to monopoly manufacturer. In such cases, government intervention is justified in the reduction of monopoly power through the price control or regulation of the company size. Market, in the initial stages of the development process, can’t enable capital formation without the state intervention. In the later stages of development, the private sector cannot often direct the massive funds necessary for the establishment and functioning of specific industries and the education of human capital. Even in properly functioning markets, high inequality in the income distribution is possible, which also justifies the state intervention, in order to achieve broader social welfare. Especially the question of the insuficient market role in the development process refers to the equal access to information and the presence of high uncertainty in the case of the economic crisis. Availability and quality of input and output are often unknown information to producers and consumers which, of course, on the macroeconomic level, does not lead to effective allocation of resources.

Divergence between the actual and planned development of evaluation, is one of the main reasons for the failure of the plan. Plans are often made to satisfy the interests of the ruling political structures, and as such too ambitious, unrealistic and substantially inconsistent, because they combine competitive and conflicting goals. In large measure, such plans and strategies are unreliable because they are based on the cheapest and incorrect data. Accuracy and quality of the data collected in most underdeveloped countries are not reliable, often due to insufficient technical and personnel training of key participants in the development plans.

Not only subjective difficulties are present in the unsuccessful macroeconomic projections of quantitative and qualitative target. Most open economies depend on the developments at the global world market. This means that all larger external shocks and upheavals reflect on the condition of the domestic economy and its long-term perspective. Despite the objective constraints, there are two main reasons for the failure of the planning subjective nature and they derive from the lack of perseverance and political will to implement plans and institutional weaknesses that restrict development opportunities.

The process of economic development is the process of structural changes that violate the existing economic structure causing the fall of some and the rise of other industries. Such changes may be discontinuing, as it is the case with most countries in transition, which can have multiple repercussions in terms of: the fall of the standard of living of the population, falling output, the increase of inflation, etc.. State intervention and planning in the direction of maintaining long-term perspectives of development are necessary components to overcome these limitations over time. State intervention and planning of the development have a critical role in promoting economic growth, only through the market mechanism.

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