

Planning, the Budget and Money -- Theories and Principles **計劃、預算與貨幣 – 理論及原則**

The traditional socialist economy is a planned economy. Why does it not keep to the ideal of total material planning as typified by the input-output table and resort to administrative instructions only? Why does it need money? Why is there a need for the fiscal budget of transferring funds and receiving profit remittance (providing subsidy)?

Money as unit of account and store of value

First, there is still a need for the unit of account to record the transfer of materials between enterprises and sectors because their efficiency still has to be monitored. Socialism is only a system where distribution is based on the principle of “to each according to his work” (按勞分配); only communism is based on that of “to each according to his need” (按需分配) because of unprecedented abundance and prosperity.

The entries cannot be “double entries” (e.g. X1 enterprise/sector gives so much to X2 and receives an equal amount from X3: hence its production is “balanced”) in most circumstances. The main reason is that the production processes in different sectors are not perfectly synchronized. The seasonal patterns (e.g. agriculture versus extraction versus manufacturing etc) may be different; so are the product cycles. Hence money has to play the role of the unit of account.

Secondly, the workers want to receive their remunerations in the form of money wages, not material goods or services. Money gives them the freedom to decide on what to consume, instead of directly bartering their labour for specific materials and services (e.g. one month of work for 20 catties of rice, 15 catties of vegetables, and 10 catties of pork etc.), which would drastically curb their freedom and choice in consumption. So money serves as a store of value, or as an intertemporal machine transferring purchasing power between the present and the future.

Policy implications

Given the existence of money, the planning authority needs to have a budget for the enterprises and the workers, and for the economy as a whole. Given the non-synchronicity among production units and consumers, the fiscal budget is a “monetary veil” that has the objective of ensuring “material balance”, efficiency, and consumer satisfaction.

These two factors are reality with which the socialist authorities have to compromise their ideals of material planning. They tolerate the existence of money somewhat reluctantly. In actual history, there were periods of extremism where the use of money was deeply despised, and barter dominated: e.g. the Cultural Revolution in China.

In any case, the above analysis explains the mode of operation under the principle of “aggregate balance” (綜合平衡) in socialist economies: (1) the ultimate principle of the “Three/Four Great Balance” (三/四大平衡) on the one hand, and (2) the hierarchical order of planning (計劃) → fiscal budget for non-repayable funds (財政---無償資金) → money and banking for repayable funds (貨幣銀行---有償資金) on the other.

Such a preference has both macroeconomic and microeconomic considerations in a deeper analysis. At the macro level, the emphasis for the socialist economy (a developing country with low level of industrialization, and surrounded by “hostile” capitalist countries: the former Soviet Union, China etc.) to implement a rapid process of self-reliant industrialization is the main reason.

At the micro level, fiscal policies are a much more effective way of ensuring the implementation of the plan, compared with money and banking, which could loosen controls.