

CEPAL

Review

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Prologue: the climate of opinion

A note on new directions in planning

Brian Van Arkadie

Any analysis of new directions for planning should not only point out the obvious shortcomings of free-market policies but also refer to the results of earlier periods of government interventionism.

The author finds it surprising that free market thinking should have gained ascendancy as a response to the world economic crisis of the 1970s, and he devotes a substantial part of the article to elucidating the aspects which could explain the unexpected ease with which it was possible to condemn the Keynesian approach as a failure and open the way to the full sway of monetarism. He also relates the development of political doctrine in the centres with the recent course of events in Latin America and the Caribbean.

He then goes on to examine the different styles of economic planning, noting that although State interventionism has been a success, the same cannot be said with regard to comprehensive planning exercises. What are the strengths and weaknesses of comprehensive planning? How far can we speak of planning in mixed economies? What are the main dimensions of State intervention in mixed economies which could justify planning processes? Such are the main questions addressed by the core of the argument set forth in the second part of the article.

Finally, the author deals with other issues which he considers of strategic importance, such as short-term macroeconomic management under conditions of balance-of-payments difficulty, medium-term promotion of an efficient pattern of production and trade, and the need to seek a better distribution of the fruits of economic policies.

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Issues of planning technique and method cannot be pursued very far in isolation from an examination of the political context in which planning is likely to take place and the substantive economic issues to be confronted. Nor can new directions be identified without some examination of the weaknesses of past efforts.

A renewal of interest in economic planning may be seen almost as a cyclical phenomenon in itself. In recent years, in the industrialized economies, multilateral agencies and important parts of Latin America, there has been an ascendancy of ideas about policy which have emphasized monetarism, liberal trade policies and reductions in government interventionism (for the sake of brevity designated here as the free market approach). At the international level, this view seeks adjustment to persistent balance-of-payments difficulties through a policy mix involving massive exchange rate adjustment, severe repression of domestic demand, particularly through contraction of the public budget, and trade liberalization. The limitations of that approach in the Latin American context are now becoming widely recognized, as evidenced by the recent unorthodox initiatives taken by the governments of a number of important Latin American countries.

It would not be surprising if developments in the industrialized economies also provide a political challenge to the ascendant conservative economic thinking in the coming two to three years. The pendulum is beginning to swing. "New directions" may in part be seen as an attempt to respond to a new political moment by formulating a coherent approach to policy in the mixed economy as an alternative to the current ascendancy of free market thinking.

The exploration of "new directions" for planning must not only address the increasingly evident inadequacies of free market policies in practice, but must also confront the record of earlier periods of government interventionism, which preceded the rise of free market orthodoxy in the 1970s. Did the conservative revival feed on the failures of the earlier period? Does

examination of that question throw light on the required dimensions of new directions in planning?

The political ascendancy of free market thinking can be interpreted as a response to the extended crisis in the world economy, which became evident in the 1970s. However, it is not self-evident why crisis should engender such a doctrinal response. After all, the response to the crisis of the 1930s was increased government interventionism—the New Deal in the United States, a range of radical initiatives in Latin America, even aspects of fascist corporatism in Europe. The eventual emergence of the Welfare State in Europe and the post-war hegemony of Keynesian economic thinking can all be seen as a response to the crisis.

At a superficial level it might be argued that crisis destabilizes existing establishments, and the post-war economic establishment was that of New Deal—Keynesianism. In the industrialized economies, however, what was striking was not so much the political success of the new right, as exemplified by Reagan and Thatcher, as the abdication of the middle (New Deal Democrat, Keynesian, Social Democratic Welfare Statist). The shift in policy represented not just a defeat from without but was also a collapse from within.

This is surprising, as before the onset of the crisis the long period of active government interventionism had been remarkably successful both in the industrialized economies and many parts of the periphery, in terms of plausible performance criteria, as reflected by a generation of sustained prosperity in the industrialized economies and historically high rates of growth in much of the periphery. This being so, it is really rather extraordinary that a leader writer's myth that Keynesianism had failed should have been so easily established. Even the view that import substitution had "failed" in Latin America was only established against rather abstract measures of efficiency or by comparison with the extraordinary successes of East Asia (apart from the many questions which can be raised about the validity of rather superficial international comparisons much beloved of economists, it might be questioned whether, even in the boom, export-led industrial growth would have been such a good bet if everyone had climbed on that particular bandwagon).

It is a fact that the boom ended, but it has neither been established that, assessed against reasonable criteria, the interventionist, Welfare State policies of the boom period performed badly nor has it been shown that they contributed to the boom's end. Indeed, for many by now Keynesian "failure" must seem greatly preferable to monetarist success. An adequate exploration of the surprisingly sudden death of the Keynesian consensus would require far more than a few discursive comments at the beginning of a short note. For our purposes, however, it might be useful to select a few observations.

During the long post-war boom, the managed market economies of the industrialized economies were able to resolve potential conflicts in a heavily positive-sum game. Government spending and modest programmes of redistribution sustained high levels of demand. Welfare measures promoted consensus and government intervention stabilized labour markets. Public funds promoted technical progress, albeit most decisively through defence spending. International development policy initiatives with a strong redistributive emphasis in the early 1970s, as exemplified by the ILO World Employment Programme, Basic Needs and all that, represented an effort to translate this Keynesian consensus at the centre into a set of policies for the periphery at precisely the moment the consensus was crumbling under the pressure of inflation at home and an international environment of heightened competition and a disintegrating financial system.

At the centre, national governments were faced with twin needs:

- i) to gain greater control of incomes and restrain the growth in consumption in the face of the slowdown in the world economy,
- ii) to accelerate the pace of structural change to adapt to fast changing economic conditions in a slowly growing international economy.

The system had two ways it could go. *Either* public consumption could be cut and the market could be used to discipline the work force and create the conditions thought appropriate for a faster pace of adjustment through private initiatives *or* greater intervention was required to control prices and wages and to directly stimulate structural adaptation.

Both were tried. The political contradiction faced by those who supported the

interventionist option was that whereas they saw the need to restrain income growth and promote structural change, their political base was among those seeking to increase the wage share and to protect the existing job structure. The proponents of the interventionist State accepted that new policies were necessary, but were successful neither in formulating their economic content nor establishing a political basis for a new initiative.

The free market option was also faced with contradictions —the monetarist policies brought down inflation and disciplined the work force, but at a heavy cost to many parts of the private sector; moreover, the combination of recession and heightened international competition gave rise to intensified protectionist pressure. The commitment to the free market has had the perverse although predictable effect of undermining the conditions necessary for liberalization of international trade.

Erosion of the Keynesian consensus also resulted from a changing view of the State among some of those political progressives who would have been among the first to rally to the defence of the interventionist State in earlier periods. For many of those most directly engaged in promoting the welfare and rights of the underprivileged, the institutions of the State came increasingly to be seen as element of the Establishment —part of the problem rather than the solution. In the development field, radicals joined the conservatives in their criticism of aid. In the industrialized countries, the ambiguities and compromises which had provided the successful political base for the New Deal —Welfare State rendered it suspect to the new Left.

A discussion of the evolution of policy doctrine at the centre is, of course, only indirectly related to Latin American events. However, the impact of the crisis has greatly reduced the freedom of manoeuvre of governments in the more badly affected peripheral economies and

has rendered them more vulnerable to the economic doctrines emanating from the centre. As transmitted through the IMF and supported by economic doctrines now dominant in the industrialized economies, important aspects of external economic policy (the exchange rate; debt management; the trade regimes) are raised from the status of *instruments* of policy to be treated as the ultimate *ends*, with the success or failure of policy being judged from the movement towards external balance, rather than from the consequences of policy for the welfare of the local population.

Adventures in liberalization have not replicated the success of East Asia. (Indeed in key parts of East Asia itself, growth has faltered.) Despite low growth rates and deteriorating living conditions, external debts have continued to accumulate. Of course ideologues of the free market can argue that their policies were not properly applied, just as much as advocates of planning can point out that planning has never really been tested, but pragmatism must react to outcomes rather than to hypothetical virtues.

It could be argued that the free marketeers have been quite successful in some aspects of their project —the boundaries of State economic activity have been pushed back, the role of the Welfare State reduced. It can even be argued that in part the very high rates of unemployment, perceived as a failing, are an integral part of the project, reducing labour's bargaining power and creating the conditions for survival in a more competitive economic environment. But it is not evident that the conditions for sustained economic revival have been created; the capitalist animal remains dispirited. In the centre, the result is a resurgence of protectionism, an unsurprising contradiction of the liberal ideology of the period. Throughout much of the periphery the economic devastation to be observed is difficult to view as a therapeutic purge likely to restore vigour to the system, but seems instead likely to kill the patient. The need for "new directions" is palpable.

II

The style of economic planning

The introductory paragraphs posed a choice between a "free market" and an "interventionist" position in the mixed economy. In the past what has been designated as *economic planning* might be seen as one form of government interventionism, in principle, at least, quite comprehensive and systematic in form. Whereas the case can be made that government interventionism has had many successes, it would be more difficult to claim that comprehensive exercises in economic planning in mixed economies have had much of a record of success. It was in 1968, after all, that Dudley Seers chose *The Crisis in Planning* as the topic for the inaugural conference of the International Development School of Sussex University. We are all familiar with the litany of failure in relation to comprehensive planning exercises — "targets" set for variables which could not be controlled nor even predicted, expectations of economic behaviour which had more to do with faith than analysis, a lack of clarity regarding key instruments and actors, and failure by governments themselves to accept the discipline of the plans formulated on their behalf.

We are all familiar with the virtues of comprehensive planning in principle, involving a process whereby sectoral and project plans can be co-ordinated and integrated, probably through an iterative process, testing internal consistency and feasibility, and providing an explicit framework for public allocation of resources. However, comprehensive planning has probably always been something of a Utopian concept in a mixed economy, and particularly where decision-making takes place in the context of a certain political pluralism. While an appropriate response to crisis may, be more vigorous intervention to push the economy in one direction or another, conditions of crisis make the technical aspects of comprehensive planning even more difficult to fulfil than in more stable times. The pursuit of comprehensive planning therefore probably involves delusions of grandeur, although comprehensive planning models may be of heuristic value.

If comprehensive planning is not very practicable, then how far is it useful to talk of

planning in the mixed economy at all? Certainly much of the practical economic business of government, and the pedagogical needs of economists, can be subsumed under the various economic policy headings (e.g., fiscal and monetary policy, trade and exchange rate policies, etc.), or treated in the context of the application of welfare economics to project analysis. Moreover, it is certainly more useful to understand how an economy works than to gain command over theories and techniques of planning which have little to do with the way decisions are in fact made. In particular in the mixed economy, key policy instruments work through the market. A precondition for influencing the market is understanding it. Nevertheless there is a strong case for taking an overall and systematic view of the economic activities of the State to provide a context within which to interpret the part played by the various tools of policy.

In this sense, economic planning in a mixed economy is nothing more than an attempt to place government economic decision-making in a more systematic and coherent framework than would normally be achieved through the piecemeal treatment of economic policy. Economists tend to provide an intellectual framework for doing this by treating governments in much the same way as they treat individuals or firms: the government is assumed to have certain characteristics of rationality and to possess ordered utility functions. While this approach has been productive, it has been so in part because it avoids any treatment of the actual decision-making processes which are the stuff of politics, with which economists may very well be at home in their working roles but which professionally they find it convenient to define as outside their particular competence. While this may be a useful tactic, it is surely an unsound basis for proper understanding or for an adequate pedagogy. However, although I have been long convinced that study of planning processes should extend to treatment of the realities of political decision-making processes, I have yet to see this done effectively in the training of economic planners.

In a brief note it would be foolhardy to probe at any depth the contentious matter of the theory of the State in capitalist society. However, it might be useful to briefly, and somewhat cynically, characterize some of the functions of State interaction in a mixed economy, in which competing economic interests are likely to contend for political influence, although typically the administrative system is likely to be particularly responsive to the dominant economic interests. Broadly, State intervention in the economy can be seen as having three contrasting dimensions:

a) *Management*, broadly consistent with the interests of dominant economic groups, by:

- i) supplying *public goods* (infrastructure);
- ii) *orchestrating* the efforts of the private sector, where this is unlikely to be achieved effectively through the market (e.g., promoting the collective business interest in the international economy);
- iii) *resolving conflicts* and massaging recalcitrant elements to provide a congenial (profitable) environment for private economic activities;
- iv) *disciplining* groups which might unsettle the plans of the dominant interest;
- v) undertaking *macro-economic* management tasks which are inherently a central government responsibility;
- vi) *monitoring* the rules of the game which govern competition between competing groups in the economy;

b) *Entrepreneurs hip*: at times the State can play an entrepreneurial role, promoting structural change in line with an intellectual technocratic image of the future, distinct from that emanating from private economic actors.

c) *Redistribution*: the State may act to redistribute income and wealth, most dramatically when political events result in a sharp disjunction between the political and economic structure, but also as a rational pre-emptive strategy supported by the more far-sighted among the privileged.

The fulfilment of these functions does not require a comprehensive planning exercise; after all, we are addressing the issue of planning in mixed economies, in which the bulk of economic activity continues to be co-ordinated through the market and much of the detail of economic decision-making is of no great concern

to government. Even a more interventionist policy should be selective in scope, and in practice the analysis of the impact of policy will always be partial. To guide its own actions the government needs to analyse those elements of the economy which impinge on its central tasks (e.g., macro-economic management) and policy objectives.

Whether the systematic intervention of the government in the economy is furthered by a national plan is essentially a pragmatic issue. A national plan, conceived as a statement of the government's medium-term policy intentions and spending programmes, and its expectations for private sector performance, is neither a necessary nor a sufficient condition for effective policy-making and intervention in the economy. It can be useful. It can, for example, provide the occasion for a more thorough-going stocktaking and revision of policy than would be likely in the normal course of events. It can provide a better context for a review of public spending programmes than an annual budgeting exercise and can concentrate the public mind on important resource allocation choices. Plan documents, on the other hand, have often been statements of aspirations of no more credibility than partisan election manifestos. Their formulation can also divert great amounts of professional energy from tasks which could be of more practical effect.

A somewhat different case can be made for *indicative planning*, through which the government assesses the broad implications of its own decisions and those of other major economic actors for the economic environment. The formulation of an indicative plan could provide a useful context for co-ordinating public and private plans and in some circumstances could have a stimulating effect on expectations. The usefulness of indicative planning will depend at its credibility and therefore on its realism and on the apparent effectiveness of any consultation process from which the plan is derived.

Having argued that planning should be selective and partial, and questioned the necessity for a national "plan" as such, is not one left with little other than *ad hoc* policy making, my support for which perhaps reveals my (quasi) Anglo-Saxon origins and seems in contradiction to the very notion of planning? A not unimportant verbal point to note here is that there are two quite different meanings of

"planning" —on the one hand, the orderly, considered and systematic formulation of a course of action; on the other hand, decisive or effective intervention in the economy. Decisive intervention is often opportunistic, a response to opportunity or crisis, involving the concentration of attention on a limited sphere of activity. Perhaps in this regard a useful distinction can be made, in describing government economic action, between *routine* and *strategic* planning.

Routine planning involves the systematic application of economic logic to the detailed day-to-day decisions of government. For example, the public investment budget should be submitted to cost-benefit appraisal, at least for substantial projects. Effective financial control should be exercised over the recurrent budget, which should be formulated on the basis of systematic projections of revenues and expenditures. In some areas, programme and performance budgeting may be applicable (subject to the realistic constraints of administrative capacity). Within the public sector, manpower planning might involve an ongoing assessment of manpower requirements, utilization performance and incentive systems.

Planning in this sense should be built into the government decision-making structure at the appropriate levels, with the necessary data support systems and established criteria. About such planning activity there is little new to be said at a general level. There is a considerable literature on project analysis and budgeting, and training in the available techniques is well established. Possibly one weakness is that the treatment of the *economic* logic of decision-making at the sectoral and project level has been over-emphasized as compared to the importance of a robust knowledge of the substantive character of

the sector or project content (in respect of which government officials are often poorly equipped).

While the bulk of planning activity in government involves routine, piecemeal decision-making, there is also a need for the government to make strategic choices both in relation to macroeconomic policy and in pushing for those changes in institutions and the policy régime which it sees as key requirements for the fulfilment of its political mandate. In these terms *strategic planning* can be seen as something quite different from comprehensive planning, in that far from addressing the full range of economic activities and formulating targets for all sectors of the economy, a relatively narrow range of tasks are identified as requiring the attention of top policy-makers. In the reality of politics, it is precisely by concentrating attention on a limited agenda that a government is likely to have some impact on economic events. Concentration of attention on what is important is the way that effective use can be made of the scarce *political* resources of government.

What this implies in terms of institutional structures is that two types of planning capacity are required. In the line ministries, government agencies and the finance ministry there is a need for a working capacity to plan and monitor the implementation of detailed projects and programmes —a routine planning and management capacity. There is also a need at the centre of the political system for a high-level staff capacity able to identify the priority areas for analysis and to advise the top political authorities regarding strategic choices. This is, of course, not an original view of the way policy is made, as it reflects the actual practice in many countries. The distinction does not tend to be treated explicitly, however, in academic discussions of planning and policy-making.

III

Strategic issues

The strategic policy issues on the government's agenda depend both on the nature of the political régime and its priorities, and upon the economic context. While it can be argued that virtually all Latin American and Caribbean countries have had to grapple with severe balance-of-payments

problems in recent years in one form or another, there is a wide variation in their size, economic structure and politics. The policy agenda is therefore bound to vary greatly from country to country. In a broad sense, however, it is possible to identify certain strategic issues which are

likely to be of common concern. Among possible areas, three which are of very general concern, and which are interrelated, are:

- Short-term macroeconomic management under conditions of balance-of-payments difficulty;
- Medium-term promotion of an efficient pattern of production and trade;
- Distribution issues.

1. *Macroeconomic management*

A number of Latin American governments seem to be exploring the ground between the extremes of past IMF orthodoxy on the one hand, and a radical policy of repudiation of the debt and physical controls on the other. A central part of any research and training effort should involve intellectual support for such efforts.

This implies the formulation of alternative models of the adjustment process, seeking adjustment paths which avoid the repression in domestic economic activity required by orthodox policies, through policy mixes which are coherent in the sense that they are likely both to be effective in practice and to provide a plausible basis for international negotiation.

This will involve analysis on two fronts. On the one hand, a systematic interpretation of the interplay between domestic variables and the balance of payments is required, including such elements as the budget, credit formation and money supply, the price-income generation mechanism, the exchange rate, and direct controls on the balance of payments. On the other hand, analysis is required of the external environment, including options in negotiating the debt.

Implicit in this argument is the belief that there are a range of options available and that, in particular, there are courses of action preferable to the repression of domestic activity as a means of restoring external balance. Moreover, in relation to external negotiations there are foreign interests at stake other than those of international creditors. It is unfortunate that external negotiations are exclusively focussed on the IMF and the banks, giving too much weight to the interests of bankers and too little to those of traders and direct investors. In the context of the debt, however, it is by now evident that debtors do not need to shoulder disproportionate burdens in order to service it, as it is in the

creditors' interest to maintain an appearance of good order in relation to a debt which will, anyway, not be repaid, while on the debtor's side nothing would be gained from outright repudiation, other than psychic satisfaction.

Pedagogically, treatment of macroeconomic issues requires an understanding of the monetary approach to the balance of payments and of the monetarist position on inflation, the role of the money supply, alternative approaches to the exchange rate issues, Keynesian and neo-Keynesian (structuralist) alternatives to the monetarist view and, perhaps most important of all, a systematic exploration of recent Latin American experiences, including actual experience with IMF programmes, examples of monetarist policies in practice, and recent attempts at innovation in handling the external debt and the domestic income-price generation process (e.g., Brazil, Argentina, Peru).

2. *Medium-term production and trade policies*

If the short-term need is to ensure that the response to balance-of-payments problems is not simply one of deflation, the medium-term need is to restore growth momentum through a pattern of growth which avoids a future external payments block. The second area of concentration is therefore industrial and trade policies.

In recent years this area has been dominated by neo-classical economic ideas (e.g., Little, Scott and Scitovsky; Belassa; Krueger). The strength of the neo-classical argument rests both on the logical case for flexibility and efficiency as a basis for effective industrial performance and for reaping the gains from trade, and on the examples of extremely successful growth performance on the part of those newly industrialized countries (NICs) that have achieved high rates of export-led growth. (It should be noted that Kaldor, on somewhat different grounds, was long an advocate of export-led growth.)

Without exploring the many issues relevant to this policy area, a few simple points might be made:

- i) in this debate, autarky cannot be treated as a plausible option. The potential gains from trade are real, and the trading option provides a rough check on the efficiency of domestic resource allocation: i.e., there is considerable merit in the neo-classical logic;

- ii) nevertheless, efficient industrial growth and exploitation of the potential benefits of trade are not necessarily best achieved through a non-interventionist free trade policy: East Asian success, for example, apparently involved a strong element of organized transformation of the productive base to improve comparative advantages, with a skillful combination of exploitation of domestic markets and penetration of export markets —the trick seems to be to combine import substitution and export promotion in such a way that they are complementary rather than contradictory;
- iii) care should be taken in generalizing from East Asian experience, since experience from the boom period is not necessarily a good guide in a slow-growing world economy, a widespread popularization of the strategy is likely to have "crowding out" effects reducing the potential benefit, and more specific local conditions in addition to a supportive policy régime may be required for success (consider, for example, the poor performance of export platform initiatives in the Caribbean);
- iv) this suggests the need for concrete analysis of the overall range of Latin American and Caribbean experience of industrial and trade policy.

Industrial planning initiatives are likely to be most effective when designed as co-operative ventures between government and the key actors, despite possible conflicts of interest (e.g., between government and multinationals or between different industrial groups). The government must combine an activist role in support and in orchestrating the growth in capacity to produce for domestic and export markets with the manipulation of policy instruments to promote efficient production. In other words, the government and the productive sectors together need to create the conditions for a fast rate of adaptation to new technical opportunities and trading conditions in world markets.

Conservative thinking has tended to see a high rate of adaptation to changing conditions as the outcome of an adjustment process which sharpens the competitive environment essentially through the combination of domestic deflation and exposure to heightened international competition by reductions in trade

barriers to open up the economy. The weakness in this position is that deflation undermines the prospects for the investment required to create technical innovation and new productive structures. The alternative is to base non-deflationary macroeconomic adjustment on investment programmes and shifts in incentive systems that generate new patterns of production. This requires analysis of policy options and interventionist strategies to promote positive structural adjustment. There is a real danger that alternatives to the rigours of monetarist deflation could, in practice, centre largely on defensive measures which minimize adaptation.

In analysing policies and plans for international trade, the persistence of slow growth in the industrial economies will lend renewed urgency to the promotion of regional co-operation, South-South trade and counter trade. Continued analysis is required of the record of modest successes and numerous failures in such areas.

3. *Distributional issues*

In economic policy, as in many other aspects of human life, fashions come and go, but the poor remain, and in conditions of economic stagnation their numbers grow absolutely and even, in many countries, relatively. Yet as human needs have increased, in the 1980s redistribution has fallen out of fashion, at least at the level of international official discourse. The emphasis on basic needs of the 1970s has given way to adjustment policies in the 1980s, as though concern about poverty were a luxury to be indulged in during good times, only to be dropped when the going gets difficult. There is, of course, some harsh realism in such a reaction, in that as the claims on diminishing scarce resources intensify it is the weak who lose.

However, it is neither morally acceptable nor even wise in terms of the narrow self-interest of the better-off (who, after all, have a particular stake in a reasonable degree of social stability) that the burden of adjustment should be borne by the already disadvantaged.

There is therefore now an even greater need for work on distributional issues and analysis of the impact of policies on the situation of the poor. There is a need both to improve the welfare of groups outside the productive system

(children; the old; the disabled) and to mobilize idle and low-income labour in income-generating productive activities. The 1970s saw significant professional developments in relation to distributional questions (e.g., the development of social accounting matrices, analysis of the so-called informal sector, work on

choice of technologies) which should provide the basis for practical policy analysis.

There is thus a need for renewed analysis of the possibilities of combining redistribution with the pursuit of other objectives —at this moment, macroeconomic adjustment and renewed growth.