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MINISTERS AND HEADS OF PLANNING  
OF LATIN AMERICA AND THE  
CARIBBEAN

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## INDEX

	<u>Page</u>
PREFACE .....	iv
I. PLANNING AND ECONOMIC AND SOCIAL POLICY IN LATIN AMERICA AND THE CARIBBEAN, 1980-81 .....	1
A. Summary .....	1
1. The conceptual framework .....	1
2. Current development strategies and planning styles .....	4
3. Planning activities and results achieved during the biennium 1980-1981 .....	7
(a) General background .....	7
(b) National experiences .....	9
4. Economic policies and planning in the biennium 1980-1981 .....	20
(a) Background of the economic trends of the biennium .....	20
(b) The external sector and the management of economic policy .....	21
(c) The external context and planning .....	25
B. Conclusions .....	28
1. Formulation of diagnoses, plans and policies .....	28
2. Institutional framework and connection with short-term policies .....	30
3. International co-operation in the area of planning .....	34
II. PLANNING AND DEVELOPMENT IN THE CARIBBEAN .....	35
A. Background and prospects .....	35
1. General characteristics of the Caribbean economy at the beginning of the 1980s .....	35
2. Basic data on the subregional development strategy .....	39
(a) Strategy for the Caribbean countries in the third development decade .....	40
(b) The Caribbean Community in the 1980s ....	40

/(c) Problems, needs

	<u>Page</u>
(c) Problems, needs and priorities for consideration in planning development assistance for the least developed countries of the Eastern Caribbean .....	41
3. Planning vis-à-vis the challenges of Caribbean development: studies prepared for the meetings of Caribbean Planning Officials .....	42
(a) Survey of national planning systems in Latin America and the Caribbean .....	42
(b) How to plan --AFROSIBER-- the nine-point planning method and its application to development planning .....	42
(c) Six development planning problems in the small Caribbean States .....	43
(d) Report on survey of training needs for planning officials in the Eastern Caribbean .....	43
4. State action and planning .....	44
(a) General background .....	44
(b) Institutional support for planning .....	45
5. Central lines of action .....	45
6. Conclusions .....	46
III. COMPATIBILIZING ECONOMIC POLICY AND PLANNING .....	49
1. General considerations .....	49
2. The traditional disjuncture between strategy, plan and economic policy .....	52
(a) The time dimension .....	52
(b) Different approaches and perspectives: some technical considerations .....	54
(c) The political and institutional framework .....	57
3. Need for compatibilization .....	59
4. Obstacles to compatibilization .....	62
5. Experience in some countries of the region ...	65

/IV. PARTICIPATION IN

	<u>Page</u>
IV. PARTICIPATION IN THE PLANNING PROCESS .....	69
1. Introduction .....	69
2. Participation in the planning process .....	71
(a) The democratization of the Plan: ways and means and conditions .....	71
3. The requirements of participative democratic planning .....	73
4. Participative planning and concerted social action in Latin America .....	75
5. The search for concerted social action .....	78
V. INCORPORATION OF THE ENVIRONMENTAL DIMENSION IN PLANNING	83
1. Introduction .....	83
2. Means to a better incorporation of the environmental dimension in planning .....	87
3. Conclusions and recommendations .....	94



## PREFACE

The Latin American Institute for Economic and Social Planning (ILPES) has prepared several papers in accordance with the recommendations made by the III Conference of Ministers and Heads of Planning of Latin America and the Caribbean, held in Guatemala in November 1980.

This document summarizes these papers, including relevant background information and the conclusions and recommendations contained therein.

Section I contains a summary of the paper on Planning and Economic and Social Policy in Latin America and the Caribbean (E/CEPAL/ILPES/Conf.4/L.5, Document III-1). The complete text of this paper, in Spanish and English, is being submitted to the IV Conference.

Section II presents a summary of the paper on Planning and Development in the Caribbean Area, Background and Perspectives (E/CEPAL/ILPES/Conf.4/L.6, Document III-2), which is also being submitted in both English and Spanish as a Conference document.

Section III contains a synthesis of the paper on Compatibilization of Medium-term Planning and Short-term Economic Policy, a methodological study the preliminary version of which has been prepared by ILPES.

Section IV summarizes the ILPES document entitled Report on Participation in the Planning Process, and Section V contains a summary of the paper on Incorporation of the Environmental Dimension in Planning. The latter paper was prepared by the ECLA/UNEP, Joint Unit on Development and the Environment.



I. PLANNING AND ECONOMIC AND SOCIAL POLICY IN LATIN  
AMERICA AND THE CARIBBEAN, 1980-81

The main purpose of the study which is summarized here is to examine recent practices in the area of planning in Latin America and the Caribbean in the light of the countries' main problems and to see how planning is related to the implementation of economic and social policies. Conclusions are reached as how to strengthen future planning efforts and improve the implementation of public policies.

A. Summary

1. The conceptual framework

In the first introductory chapter, a conceptual framework for planning processes is discussed with a view to restating certain fundamental arguments concerning the need for planning, in the light of the critical status of economic and social policy implementation in most countries of the region and of the aggravation of the problems of slow growth, poverty and dependency on the exterior. When this crisis arose, it was associated with a weakening of the planning efforts of the 1970s, especially in those countries which have trusted completely in the virtues of automatic market mechanisms, which received the full impact of the recessive trends of the international economy:

In this conceptual framework an effort is made to set forth a generic definition of planning for the mixed-market economies of the region in which there is a high degree of State regulation of the economy and State production of goods and services. The regional experience has led to a view of planning as the set of procedures that must be followed in order to formulate and implement a national development plan, to rationalize and co-ordinate economic and social policy with a view to correcting the action of market mechanisms in the allocation of resources, income distribution and capital formation, all of this covering different time spans and decision-making levels.

/With respect

With respect to the drafting of the national development plan, it is pointed out that the plan should contain a description of the central characteristics of the development strategy, the role played by the various economic agents in implementing it and the fundamental aspects of the economic and social policy, rather than a detailed normative programme; the latter type of plan has on occasions proved to be too rigid, in light of the many changes that occur in the exogenous, conditions, both internal and external, to which the economic and social system is subject. According to this approach, planning is not viewed as a lineal and deterministic projection of the future but rather as a flexible tool for generating a set of alternative scenarios, the economic, social and political conditioning factors of which are explicitly stated.

Planning is not viewed as a formula which is antagonistic to the market; instead, the need to find an adequate balance between the two mechanisms is stressed. While it is recognized that the market is an effective mechanism for mobilizing productive resources and stimulating productivity and technological innovation, it is argued that there are important reasons for assigning an active role to the State and hence to planning; in some cases, this role would be one of corrective intervention and in others, of promotion and leadership of the development process. Some of these reasons are long-standing, but usually ignored by the proponents of orthodox positions; others are new and are the result of the recent failures of attempts to set up neoliberal models in the region.

The literature has long recognized cases in which market prices have failed to give the right signals for optimum allocation of resources because of the existence of external economies and diseconomies, public goods and economies of scale. In such cases, State intervention is of course, necessary in order to correct the distortions produced. In the less developed countries, these phenomena are particularly pronounced in the capital formation process and in the interaction between production and consumption processes and the natural environment, where they have led to pollution and over-exploitation of resources.

A second important argument in favour of planning is that it reduces uncertainty regarding the future, which is essential to the free operation of the market. This uncertainty usually has a negative effect on the decisions enterprises make regarding investments, causing them to seek excessive profit rates or to disregard medium --or long-term investments. Hence the need for the State to establish expectation as regards activity and prices in each sector and to co-ordinate decisions regarding public and private investment.

A third reason to support planning is that it provides for a social use of the surplus, which should be distributed among productive accumulation, consumption and State services. The crisis of capitalism in the periphery is, in the final analysis, a result of the incapacity of the market to provide a socially useful response to this question. Thus, by planning the use of the surplus, a matter which has political and technical implications the State can set in action a process of transformation of the system through which social exclusion and external dependency can be eliminated. This process will involve taking certain specific policy decisions regarding income, social expenditure, public investment, prices and credit, designed to reorient the structure of demand as well as that of production.

Finally, the marked instability which has afflicted the central countries from the beginning of the 1970s and the broader effect this has had on the countries of the periphery make it necessary for the state to take steps to provide stability through short and medium-term plans designed to minimize the negative effects of the international recession and ensure a sufficient degree of autonomy for long-term growth.

The four reasons mentioned above show why it is necessary to bring new vigour to planning efforts. Such efforts must, however, be carried out within the context of the public policy decision-making process. This process involves several stages, such as the definition of objectives and establishment of priorities pertaining thereto; the identification of restrictions on resources and institutions; the generation of technical and

/economic alternatives,

economic alternatives; the estimation of probable reaction of non-governmental agents; the selection of the best alternative and, consequently, of the "package" of policies to be applied; and the establishment of a set of procedures for follow-up, monitoring and appraisal. The application of a methodology such as the one proposed may be particularly relevant in the design of short-term economic policy.

## 2. Current development strategies and planning styles

The planning styles that are currently in force in the region are rooted in the development strategies adopted by the countries, either explicitly, in plans or other published documents, or implicitly, in the specific policies applied.

The diversity of development strategies may be analysed by means of four fundamental variables: (i) the role of the State and the market in the allocation of resources, (ii) the degree of openness to the exterior and the treatment given to foreign capital, (iii) the priority sectors and sectoral strategies, and (iv) the distribution of income, employment and social policies.

Chapter II contains an analysis of the way in which each of these variables is treated in the national strategies currently applied and shows the great diversity of approaches being taken.

Within this diversity, however, two main styles of planning may be discerned in the mixed-market economies, in addition, of course, to the socialist planning style prevailing in Cuba.

The first type of planning observed is that which is of an indicative and orientating nature, the primary function of which is to describe and disseminate the rationale desired for the socioeconomic system. It is based on the strengthening and modernization of a market economy system closely linked with the developed capitalist countries, in which the State plays a subsidiary and partially corrective role. In this type of planning, the central planning body may collaborate in the design of economic and social policies and in the co-ordination of their implementation on the part of the various decentralized ministries and agencies.

A second type of planning may also be identified in the capitalist market-economy countries of the region. This is the type which is used when the State's participation goes beyond the mere corrective regulation of the free market. In the countries applying this type of planning, the State has attracted a significant part of the economic surplus generated in productive activities and has promoted and set up a large sector of State enterprises which produce goods and services. Given its relative weight vis-à-vis the domestic or foreign private sector, the State has a decisive influence on the level of economic activity, the rate of growth and the maintenance or breakdown of macro-economic equilibrium and price stability. For theoretical or ideological reasons, the State becomes the leading agent in the development process, although private enterprise, both domestic and foreign, also plays a significant role. Economic and financial links with the industrialized countries are not rejected, but they are closely conditioned to the achievement of the objectives of the national development strategy. In these countries, planning becomes or should become a fundamental tool enabling the State to organize its own productive and investment activities and to promote the harmonious integration of the efforts of domestic business and foreign capital in the national development project. Thus, planning is aimed at regulating the market in order to encourage private agents to follow the directions envisaged in the plan. For this reason, the logic of the plan, which prevails over the logic of the free market, conditions economic and social policies. This means that the plan and the economic policy must be closely integrated at both the institutional and the technical or instrumental level.

It is very difficult, with the information available, to classify each country specifically, as practicing one or the other type of planning. Rather, there is a continuum of options within which the countries work, depending on what political and economic changes occur.

Nevertheless, the situation might in early 1982 be described as follows.

In the first place, there are three countries, Argentina, Chile and Uruguay, which, despite internal and external changes, were still committed to a basically indicative and orientating conception of planning.

/In the

In the second place, there are five countries which have adopted a basically regulatory planning style, with the State playing an active role in the economy. These are Brazil, Mexico, Nicaragua, Venezuela and Grenada. As regards the degree of coverage of the plans, it should be noted that in most of these countries there is an attempt to cover the entire range of activities of the economy. This does not mean, however, that the State intervenes in or regulates all areas.

There is a third group of countries, of those for which information was available, which practice planning style having different shades of emphasis, for which reason it is impossible to classify them as belonging to the category of countries which practice regulatory or subsidiary planning. These are Colombia, Costa Rica, the Dominican Republic, Ecuador, Jamaica, Paraguay and Peru. There are differences among them, depending on which sector of the economy is concerned. In general, planning is of the subsidiary type, but there are areas in which it is of the regulatory type, such as those pertaining to infrastructure, certain social development programmes, housing and specific sectors of production.

Finally, as regards the case of Cuba, it should be mentioned that this country proposes to further consolidate and improve its economic planning system and that its objectives include the effective monitoring of the Annual Plan and of the Five-Year Plan of the Economy by all factors taking part in the process so as to strengthen the planning work of the State bodies and agencies. Likewise, objectives are established for the plans pertaining to each branch and region.

In conclusion, it may be noted that there is a close correlation in the region between national development strategies and planning styles. In other words, the latter cannot be conceived as a procedure of public action without taking into account the substantive development strategies, inasmuch as the type of planning must be consistent with the strategy.

3. Planning activities and results achieved during the biennium 1980-1981

(a) General background

Of the sixteen Latin American countries analysed in this report, only two were not implementing published development plans during the period considered. Of the 18 countries of the Caribbean, around one-third did not have plans currently in force; hence, because of difficulties in obtaining information this report covers only the plans of Barbados, Haiti, Jamaica and St. Lucia. The plans analyzed are mostly medium-term plans; only in two cases were annual operating plans prepared (Ecuador and Nicaragua).

As in the case of the plans formulated during the 1970s, the plans adopted during the period 1980-1981 set forth a variety of objectives, including the following: (a) to increase the rate of growth of the product; (b) to improve well-being and per capita income; (c) to achieve more equitable distribution of income; (d) to stimulate the generation of employment; (e) to increase exports; (f) to control inflation. In addition, in several cases, other objectives are stated, including territorial integration, accelerated energy development, etc.

These objectives are presented in such a general way that the possible contradictions between objectives are not explicitly apparent. In most cases, there is no effort to establish compatibility between objectives, goals and the current and future availability of resources nor is any analysis attempted to establish whether there is consistency between objectives and instrumental policies. All of this reveals technical and instrumental shortcomings.

Six of the countries studied have made important changes in the institutional organization of planning. It is worth mentioning the case of Nicaragua, which in 1979 created the Ministry of Planning and assigned to it highly important functions within the State administration; and the case of Ecuador, which in 1979 created the National Development Council, presided over by the Vice-President of the Republic, which was given higher political standing than the previous Planning Board.

/In two

In two instances, there has been an increased concern for integrating monetary and financial programming to planning, even though it may be beyond the competence of the planning agency. Such are the cases of Venezuela, which in 1982 created the Financial Office for which CORDIPLAN serves as technical secretariat; and of Brazil, where the National Monetary Council is closely linked to the Secretariat of Planning through the relevant Ministry.

Finally, several institutional changes were made in the area of regional planning. These are described in the next section.

Problems relating to the territorial distribution of population, of productive activity and employment, of basic social services and of political power as such still characterize the basic structure of the Latin American economies and continue to stand as obstacles to a more rapid and better distributed economic growth.

The most significant development in this connection may be the pressure favouring a greater degree of territorial decentralization of power, and, consequently, of decision-making capacity. This pressure originates both in a revitalization of local demands for greater autonomy and in a growing conviction on the part of national governments that highly centralized systems of government and of administration cannot be managed efficiently. As a result of the political changes taking place in several Latin American countries, the question of territorial decentralization, either through new planning regions or on the basis of current political-administrative divisions, has gained considerable political strength. Such is the case, without a doubt, of Brazil.

In most of the plans, the regional aspect is emphasized. This is common for countries following different planning styles.

The action taken during the biennium has generally been consistent with the statements and orientation contained in the plans. Some significant advances have been made in Mexico, Brazil and Venezuela, where a series of measures has been taken to improve State administration of regional development funds, as well as to give greater participation to the States (Mexico), and to use fiscal incentives for decentralization (Mexico, Venezuela).

/Some countries

Some countries are considering action to be taken in the immediate future to include regional development among their national priorities (Paraguay and Peru).

An important component of regional development in several countries consists of the investment projects for a given region which, in some cases, are important to the nation as a whole. Such are the investment programmes for Itaipú in Paraguay and for the Guayas river basin in Ecuador, each of which would substantially enhance the nation's economic potential.

In most of the countries, there has been no appraisal of the impact the plans and policies applied during the biennium have had on regional development. This, then, is a matter which should be given priority by national and international agencies concerned with the subject.

(b) National experiences

Following is a summary of planning activities in six countries of the region, selected according to the availability of information.

In Brazil, the idea of planning with regard to public policies has change in the 1980s. This is probably due to the previous planning experience of the country, which, over the last twenty years, has had at least eight plans, all of which have, in one way or another, affected its economy. Nevertheless, some of the economic policies implemented --particularly during the most recent period-- were not strictly in line with the plans themselves.1/

The political and economic changes that have taken place since 1979 have modified the official position with regard to planning. The new philosophy has been stated in the National Development Plan for 1980-1985, which states that one of its basic characteristics is flexibility, which is essential in order for the Government and all sectors to be able permanently to adapt and adjust their behaviour and their action to existing circumstances, keeping in line with the national development objectives.2/

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1/ In 1971, a plan follow-up system was established, and in 1972, it was decided that National Development Plans should be drawn up, as official documents subject to approval by the Legislative Power. The Third National Development Plan for 1980-1985 is currently in force.

2/ República Federativa do Brasil, III Plano Nacional de Desenvolvimento 1980-1985, p. 11, Rio de Janeiro, September 1980.

The strategic objectives set forth in this Plan emphasize the improvement of the political institutions and the democratization of Brazilian society.<sup>1/</sup> Within this framework, the third Plan proposes the construction of a developed, free, balanced and stable society, for the benefit of all Brazilians, in the shortest time possible.<sup>2/</sup>

Within this general philosophy, the following major objectives are stated:

- accelerated growth of income and employment;
- improvement of the distribution of income, including reduction of levels of absolute poverty, and raising of standards of living of the classes having less purchasing power;
- reduction of regional disparities;
- containment of inflation;
- equilibrium in the balance of payments and control of external indebtedness;
- development of the energy sector, and
- improvement of political institutions.

Two of these objectives represent specific responses to the economic and political situation of Brazil: (1) the emphasis on the distribution of income, and (2) the priority given to energy development.

The emphasis on the distribution of income is the result of an awareness of the fact that, although the Brazilian "miracle" brought about a significant growth of the economy, it did not bring about an even distribution of the fruits of growth.

The objective relating to energy development represents a response to the dependency of the Brazilian economy on hydrocarbons, which has meant that, after the 1979 rise in oil prices, oil accounted for 46% of all imports in 1980. From the medium-term point of view, therefore, it is essential to the Brazilian economy that alternative domestic sources of energy be found in order to improve the balance-of-payments situation.

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<sup>1/</sup> Third Plan, op. cit., p. 20.

<sup>2/</sup> Third Plan, op. cit., p. 17.

The challenges faced by the Brazilian economy in the early 1980s --a high degree of external indebtedness, recession, inflation and reduction of the rate of growth-- led the Government to choose a path which seemed to leave out planning, with action being centred on short-term policies, mainly pertaining to the financial system. Such measures, however, have proved to be inadequate and it appears that an intermediate approach is now being taken, which includes selective monitoring and programming of certain key areas of the public sector which are vital to the management of credit, money and the balance of payments. This approach is reflected in the implementation of the SEST system for monitoring public enterprises, as well as in "pluriannual" programming, which consolidates the main aggregates of State enterprises for a period of several years.

Practice has shown that the planning system adopted has enabled the Brazilian economy and the State to deal fairly successfully with the difficult international economic situation in the context of highly significant internal political changes.

The economic situation of Costa Rica during the biennium was decisive in the application of the Development Plan for 1979-1982. In this regard, the Government has stated: "Since it was not possible to make immediate concrete changes in the economic and fiscal policy because of the surprising turn the economic situation had taken, ... the corrective measures that might have been taken to promote implementation of the National Development Plan were not taken and, there was instead discontinuity with respect to the general lines of the Plan". In particular, the short-term policy applied gave priority to reducing the deficit of the public sector, as well as to limiting imports, because of the serious shortage of foreign exchange. This meant that investment expenditures were substantially reduced during the biennium and hence that some of the investment planned had to be delayed.

To enable it to work towards achievement of the objectives of the Plan, as well as to make corrections in due time and to give it the necessary flexibility, OFIPLAN has certain powers in the area of budgetary policy, although not as many as it had prior to the biennium 1980-1981. The National Budget Office, previously attached to OFIPLAN, is now attached to the Ministry of

/Finance. During

Finance. During 1980-1981, OFIPLAN was a member of the Budgetary Authority, an agency which proposes budgetary policy to the National Budget Office. OFIPLAN's participation in monetary and foreign trade policies is an indirect one, as it works through the higher bodies of the State administration. Nevertheless, it is worthwhile to mention the difficulties that have arisen in connection with the preparation or implementation of the plans for the period 1980-1981, as they are seen by OFIPLAN.<sup>1/</sup>

There are several difficulties, some of them conjunctural and others administrative and legal. The former include the inflationary and recessive pressures which were evident in the Costa Rican economy during the biennium, partly as a result of external circumstances. This meant that priority had to be given to urgent short-term problems pertaining to financial management, reduction of the deficit of the public sector and the exchange policy. This meant that implementation of the Development Plan virtually came to a standstill because of the reductions in the levels of investment.

In addition, the planned levels of investment scheduled were affected by exchange measures and quantitative restrictions which raised the cost of imports of machinery and equipment.

One of the administrative and legal difficulties was the fact that it took so long to prepare the plan that it was not actually applied until almost two years after the new administration had assumed power. Also, the connection between the operational apparatus and the planning apparatus is weak and there is no provision for ensuring that objectives are based on conjunctural developments.

Notwithstanding the above, sectoral planning significantly strengthened in ministries and autonomous institutions, particularly with the establishment for annual operating plans, the preparation of which has begun for certain sectors.

In Mexico, the question of planning, as well as all the changes that have taken place in the system, must be viewed from the perspective of Mexican development over the last 50 years.

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<sup>1/</sup> Reply by Costa Rica to the ILPES survey of national planning agencies.

The Global Development Plan for 1980-1982 presents this continuity 1/ as one of the characteristics of the planning system. Consequently, when reference is made to the "new" conception of planning, the emphasis is on certain features set out in the Plan for 1980-1982. From the standpoint of State action, this conception has three major characteristics.

In the first place, planning is viewed as a comprehensive process. According to the Plan, "in order to be effective and consistent, planning processes must cover all the tools available to the State: public expenditure, fiscal, financial, monetary, price, commercial, labour and production policies, and, in general, all tools available to the public sector for orientating national development".2/

In the second place, the approach to planning is a flexible one, which takes into account the changing international scene that is so important to the Mexican economy. This flexibility means that the goals planned are not rigid ones,3/ and that they can be revised periodically.

Finally, there is a diversity of mechanism for achieving the objectives of the plans. In Mexico, the Plan is conceived as a means of co-ordinating the action of the public sector with that of the private and social sectors,

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1/ "Several planning exercises have already been carried out in the past in the country. These began with the General Planning Act of 1930; they gained the most consistent political support with the First Six-Year Plan of 1933, which provided a model for the Second Six-Year Plan of 1940, the implementation of which was prevented by World War II. The next step was the creation in 1954 of the National Investment Commission, which was known for its efficiency. In 1961, the Immediate Plan of Action for 1962-1964 was drawn up. The Economic and Social Development Plan for 1966-1970, drawn up in 1965, was satisfactorily implemented. In 1970-1976, progress was made in setting up programming mechanisms, as well as certain sectoral plans. In 1975, the Institutional Revolutionary Party prepared a Basic Plan of Government for 1976-1982". Plan Global de Desarrollo, 1980-1982, Estados Unidos Mexicanos, Poder Ejecutivo Federal, Mexico, 1980, p. 15.

2/ op. cit., p. 16.

3/ The plan document states the following: "This document is prepared in times of international uncertainty and therefore does not establish rigid goals, rather it offers perspectives based on indicators which are to be revised periodically within the context of permanent planning".

and within the public sector, co-ordinating the action of the federal and the State governments. Thus, the Secretariat for Programme and Budget uses four mechanisms, i.e., enforcement, co-ordination, agreement and incentives. The first of these mechanisms is related to the fact that the Plan is obligatory for the federal administration. The second, co-ordination, is concerned with agreements between the federal and the state governments. The third mechanism, agreement, is concerned with agreements between the public sectors and the private and social sectors. The fourth mechanism, incentives, involves all those instruments available to the Government to provide incentives to the behaviour of the public, social and private sectors.

From the institutional standpoint, the Secretariat for Planning and Budget, which prepares the Global Development Plan, is also responsible for preparing the annual budget in Mexico. Fiscal policy has been the main tool used in planning. During the biennium 1980-1981, certain institutional changes were made in the Secretariat for Programme and Budget in order to make this policy more effective.

In applying the Global Development Plan, however, two main difficulties were encountered: the fiscal situation and the external trade situation. As regards fiscal policy, the Plan envisaged a significant increase of public expenditure because it had been drawn up in a climate of optimism that was mainly nourished by the success of the oil industry, which grew faster than expected during the period 1977-1979.

As regards territorial coverage, the Global Development Plan places great emphasis on regional development and discourages economic and urban concentration in the Federal District and Guadalajara, as part of the strategy for industrial and agricultural development. This is accomplished by means of fiscal and credit incentives, as well as physical planning of industrial projects in which the State participates. Another important element of the Plan's strategy which is aimed at increasing regional development is the emphasis placed on agricultural development and the production of foods. As regards the institutions involved, COPRODES was replaced by COPLADES, a group of agencies which have greater autonomy at the regional level than

/the previous

the previous ones having changed from federal to state agencies. They have had a positive impact on regional development planning.

Important progress has also been made in the social field. A considerable institutional development of the planning apparatus was achieved as a result of the strengthening of the Secretariat for Programme and Budget and with the emphasis placed on sectoral and regional planning. Nevertheless, during 1980 and 1981 external circumstances caused external financial disequilibria and a difficult public finance situation which worked against some of the objectives of the Plan and created inflationary pressures. During 1982, as a result of all this, severe restrictive measures had to be taken to correct the aforementioned maladjustments.

Trinidad and Tobago has not had a development plan since 1973. It was to have drawn up the next Development Plan, which would have been the fourth national plan, in 1975. Instead, a different course was followed. The annual budget became the fundamental tool for government action through which each of the many agencies created and expanded after 1973 grew up its investment projects. This gave rise to two main problems: a lack of human resources and a lack of financial resources. Most of the projects required more and more qualified human resources, both technical and administrative, as a result of which the different agencies of the public sector began to compete with each other for personnel. At the same time, the projects were more costly and took longer to implement than originally planned. From 1975 on, there were relatively high deficits in public expenditures in national currency, these problems became more serious during the period 1981-1982.

The 1982 Budget Speech by the Prime Minister and Minister of Finance and Planning reveals the scope and purposes of planning as a means of dealing with the more crucial challenges facing the Government. Some of the goals mentioned are: to raise overall levels of productivity, to encourage the export sector, to increase the production of foodstuffs, to stimulate the housing and transport sector, and, fundamentally, to increase the efficiency of public enterprises. The Government also intends to expand coverage of the social sectors and facilitate popular participation in development tasks. The following functions are assigned to planning as such:

/(i) to prepare

(i) to prepare a medium-term programme of investment for the public sector as an initial step towards the preparation of a long-term multisectoral plan; (ii) to prepare the global plan for government expenditures within existing financial restrictions.

With regard to the institutional framework, the National Advisory Council established in 1976, which had drafted a five-year report in mid-1981, was replaced by the National Economic Planning Commission. The Ministry of Finance and Planning serves as Technical Secretariat to the Commission.

In 1982, the Government established a task force for planning. This group is to take a new look at multisectoral planning, taking into account the stagnation, since 1981, of petroleum prices, the decline of domestic production and the existing commitments, which originated in the heavy investment effort undertaken by the public sector.

In this context, the Government wishes to reintroduce discussions on planning without necessarily re-creating the plans that had been made before 1973, but rather identifying the problems of the economy, taking into account the changes that are likely to take place in the external situation.

Uruguay has had three development plans in its history. The first, for the period 1965-1974, was prepared by the Investment and Economic Development Commission and was set aside shortly after its publication. The Planning and Budget Office presented a new plan for the period 1968-1972, but it was not fully implemented.

A new plan was prepared for the period 1973-1977 which stated the basic economic strategy that has been followed by the Government since 1974. This plan stressed support for private initiative, incentives to foreign investment and promotion of exports. Although this orientation was maintained, the Plan itself was not implemented. No new development plan has been prepared in Uruguay, which has instead resorted to other methods for defining and co-ordinating economic policy.

/In 1973,

In 1973, the practice of holding conclaves began.<sup>1/</sup> These meetings brought together the President of the Republic, the Ministers and other persons mainly responsible for public policies, as well as representatives of the Armed Forces. Although they have not been established by law, these conclaves have set the basic policy lines of the Uruguayan Government. Neither the periodicity nor the composition of these meetings is established by law, but they are the main mechanisms for defining and co-ordinating government policy.

In 1974, as a result of the conclaves of San Miguel and Colonia Suiza, held in 1973, the document entitled "Commercial Policy of the Republic" was published. This document virtually replaced the Development Plan for 1973-1977, inasmuch as substantial economic and political changes had taken place in 1973.

In late 1981, the Fifth Conclaves was held in Piriápolis. It adopted the essential policy lines of the previous conclaves, thus setting the foundation for the development strategy.

As the Piriápolis document states,<sup>2/</sup> "It was understood that growth and economic development would be achieved by making use of the country's comparative advantages. For this reason, measures were taken to liberalize the domestic economy as well as to make it more open to the exterior".

Short-term policies have been based on a monetary approach to the balance of payments. As regards the allocation of resources, the aim has been to allow for a freer operation of the market, with a view to achieving

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1/ "Planning in Uruguay has been characterized (since 1974) not by the establishment of rigid objectives and quantified goals, but rather by policy lines that are flexible enough to adjust to changes as the situation requires. Periodically, Government Conclaves are held to evaluate what has been done during the previous period and to establish objectives and policies to orient the decisions to be taken during the next period". Reply by Uruguay to the aforementioned ILPES survey.

2/ Presidencia de la República, Secretaría de Planeamiento, Coordinación y Difusión, Lineamientos básicos de la política económica y social. Cónclave Gubernamental, Piriápolis 1981, República Oriental del Uruguay, Montevideo, 1982, p. 4.

a more efficient allocation of the resources available in the country. To this end, an effort has been made to eliminate tax and customs regulations.

In brief, a new mechanism has been instituted to define and coordinate the policies and activities of the public sector and to guide the private sector.

Thus, it may be concluded that although Uruguay does not currently have a development plan, it has had, since 1974, the elements of a planning process. It has had a political project and mechanism have been designed to carry it out. The main body responsible for planning and economic policy has been the conclave. During the period 1980-1981, the conclave's decisions were geared towards a greater degree of openness to the international economy and increased participation of the private sector and the market in the economy. The application of short-term policies, together with the evolution of the export market, led to a high level of external indebtedness and, because of the priority given to be objective of reducing inflation, a progressive overvaluation of the peso. The changed conditions on the external capital market, as well as the evolution of the Argentine and Brazilian economies, led the Government, beginning in 1981, to abandon some of the mechanisms used in applying the model, particularly the rapid rate of reduction of tariffs, the exchange policy and the policy of financial openness.

Thus, the consistency of the model applied up to 1980 was broken by a combination of unfavourable external factors along with the unforeseen negative effects of some of the economic policies applied.

In 1981, Venezuela adopted the Sixth Plan of the Nation (1981-1985), which consists of the global plan and 12 sectoral plans. The Plan established the following global objectives: (a) to improve the distribution of national income, (b) to obtain a sustained and permanent rate of economic growth, (c) to increase the efficiency and productive capacity of the economic system, (d) to strengthen the sociocultural processes of the population in order to consolidate the democratic system, (e) to reduce interregional disparities, (f) to maintain the export potential of petroleum and petroleum by products.<sup>1/</sup>

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<sup>1/</sup> See: República de Venezuela, Oficina Central de Coordinación y Planificación de la Presidencia de la República, VI Plan de la Nación 1981-1985, Caracas, 1981, p. 16.

The statement of purpose of the Sixth Plan mentions the link that exists between improvement of the distribution of income and an increase in jobs, both of which are the subject of specific policies aimed at achieving these objectives. In addition, considerable emphasis is placed on the subject of regional development and the need to reduce interregional differences in the country.

As regards the approach to economic strategy, the Plan proposes to maintain the levels of production of the petroleum sector, although a large-scale investment programme will also be implemented in order to expand future production capacity. This programme is expected to offer the industrial sector ample opportunity to begin a new stage of import substitution, especially of capital goods. Also, the policy of improving income distribution is aimed at giving new vitality to the domestic market for foodstuff as well as for a wide range of consumer goods.

No major changes were made in the Venezuelan planning system during the period 1980-1981. The Committee for Financial Co-ordination of State Credit Management was created to organize and co-ordinate the process of public indebtedness. Its function will be to centralize credit contracts and standardize procedures relating to loans, in order to allow for more expeditious access and better treatment in the financial markets. This Committee is made up of the presidents of the financial entities and CORDIPLAN serves as its technical secretariat.

In 1980 and 1981, in order to link planning with economic policy, the short-term operating plans were drafted. These plans are presented by CORDIPLAN in July of each year in order to enable Congress to consider them during its discussions on the budget for the following year.

In 1982, a revision of the Sixth Plan was undertaken because of two circumstances: the new external situation and the application of domestic policies designed to control monetary growth and reduce the fiscal deficit. The new external situation was the result of the increased service of the external debt, the stabilization of petroleum income, and the outflow of capital caused mainly by the difference between interest rates in Venezuela and those prevailing in main international financial centres. Since

/fiscal income

fiscal income had been cut back as a result of the drop in the real price of oil and a restrictive monetary policy, had been adopted, the level of expenditures proposed in the Sixth Plan was reduced.

4. Economic policies and planning in the  
biennium 1980-1981

(a) Background of the economic trends of the biennium

A fundamental characteristic of the trends of the biennium 1980-1981 is the deceleration of regional growth. During the second half of the 1970s, the region had achieved remarkable rates of growth, considering the restrictions of the external sector --the oil "shock" and the behaviour of the central economies. During the six-year period 1974-1980, the OECD countries grew at an average cumulative annual rate of 2%; during the same period, Latin America grew at a cumulative annual rate of 5%.

This behaviour had led the countries of the region to hope that they would gradually become independent from international economic developments. Actually, however, it was only the result of a strategy based on external indebtedness made possible by the favourable situation of international liquidity and on the assumption that it would endure over the medium term.

The first repercussion was felt in 1981: the region grew by only 1.5%, the lowest rate since 1940; the per capita product also declined (1%) for the first time since 1959. In 1982, the situation worsened: total gross domestic product declined (1%) and as a result the per capita product dropped by 3.3% and declined every country for which ECLA has comparable information.

The biennium 1980-1981 also brought an acceleration of the inflationary phenomenon; in 1980 and 1981, the average annual variations of consumer prices were 56% and 58%, respectively, rising for the fourth year in a row and thus increasing the diversity of inflationary situations in the countries.

In 1982, regional inflation reached unprecedented levels, with the weighted average rate being almost 80%; it rose in 13 of the 23 countries for which information was available and was particularly high in Argentina,

/Bolivia, Costa Rica

Bolivia, Costa Rica and Mexico. Although there were specific differences from one country to another, the abrupt devaluations had a considerable effect on the level of domestic prices, except in the case of Colombia, where 1982 not only saw inflation go down but also marked the completion of a decade of remarkable price stability.

During the biennium, the downward trend in open unemployment which had been noted up to 1980 ended. Unemployment rose in 1981 and was unusually high for the region in 1982.

The difficult situation which the region is undergoing has also shown that economic policy often has no connection with social objectives. Where the prevailing strategy has been to promote growth with automatic redistribution, equity has been affected from the beginning because growth is slower; however, the negative effect on income distribution has been even greater when the greatest adjustments have been made through the labour market, causing a rise in open unemployment and urban and rural underemployment and a decline in real wages. The negative social repercussions have been aggravated by the reduction of public expenditure for social items which are labour-intensive or which complement private job-intensive programmes.

There is no question that the external disequilibrium noted since 1980 has become the major factor in the performance of the Latin American and Caribbean economy described above. It has also decisively affected its import capacity and its capacity to service the debt and has had a negative influence on economic growth, employment, price stability, income distribution and resource allocation.

Moreover, the behaviour of the external sector has critically affected economic policy and planning.

(b) The external sector and the management of economic policy

The crisis of the external sector had a different effect on the different countries of the region, depending on their economic structures, their situation with regard to oil, the degree and type of external indebtedness and, finally, the strategies and economic policies applied. All in all, the global situation is characterized by a notable increase in the deficit on current account and by a substantial modification in the way

/the deficit

the deficit is financed. This situation reached a climax in 1982, although the phenomenon of the new type of indebtedness had been developing throughout the 1970s.

As is well known, in recent years there was a significant change in the level and composition of the external debt; this change was also associated with a marked change in the sources and the cost of credit.

As the supply of international credit for Latin America shifted to private sources, the conditions for granting credit were changed and repayment terms were shortened. The amortization rate of the debt to banks was 42% for the period 1977-1980 and 46% in 1981 and will probably be higher in 1982.

As regards the cost of credit, in 1980 Latin America was obliged to repay around 18 billion dollars worth of profits and interest; these disbursements rose to 24 billion in 1981 and to 34 billion in 1982. Interest payments account for a major portion of these amounts, for not only has the level of the debt been higher but also, since 1977, the real interest rate has been positive. This increase in the cost of credit is shown to be even greater for Latin American debtors when the nominal rates are compared with the unfavourable trend in prices for their main export products. ECLA estimates show that, according to this criterion, the real cost of credit for the region in 1982 was close to 25%.<sup>1/</sup>

The increased service of the debt resulting from the shorter repayment terms and higher interest rates, along with the deterioration of the trade balance, have led to serious crises of liquidity. Moreover, even if external financing had guaranteed high profitability and generation of exports over the medium term, it would not have solved the problem of short-term foreign exchange requirements. Temporal profiles must be compatible with costs and benefits in order to ensure the flow of payments; the greater the dependency on private financing, the more critical will be the incompatibility of payments.<sup>2/</sup>

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<sup>1/</sup> ECLA, Provisional balance-sheet of the Latin American economy during 1982, E/CEPAL/L.279.

<sup>2/</sup> Fishlow, A., La deuda latinoamericana: ¿problema o solución?, CIEPLAN, Notas Técnicas N° 39, October 1981.

In view of the above, policies designed merely to regulate demand are not likely to succeed if the aim is to reduce external deficits while the aforementioned exogenous factors are out of control. It is therefore urgent that short-term changes be made in the international financial system, inasmuch as the burden of the adjustment now falls almost entirely on the deficit countries; over the long term, it will be important to solve the structural problems facing the developing countries in their trade relations with the central countries, as well as in their integration schemes.

Although inadequate management of fiscal and exchange policies partly explain the fall in the product in some countries and extra-economic problems hinder performance in others, there is no question that the formidable restrictions of the external economic situation have severely curtailed the economic potential of the region.

The reappearance of external strangulation has seriously undermined those development strategies which were excessively based on external savings. The favourable credit terms of previous years encouraged an erroneous lineal projection of such trends as a framework for development strategies and favoured policies of external indebtedness without linking them to public or private investment programmes or programmes designed to generate or promote adequate savings of foreign exchange. As a result, some countries obviously obtained more credit than they could use productively; i.e., external loans replaced domestic savings and gave rise to an increase in consumption, speculation and the purchase of weapons.<sup>1/</sup>

The vulnerability of the economies of the region to external "shocks", at both the commercial and the financial levels, is very disquieting. This sensitivity favours erratic patterns of growth which have cyclical fiscal and monetary implications that sometimes tend to expand the effects of the international cycle.<sup>2/</sup>

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<sup>1/</sup> ECLA, Provisional balance-sheet of the Latin American economy during 1982, op. cit.

<sup>2/</sup> The marked cyclical behaviour of private international banks should also be noted.

A quick glance at the world financial scene will reveal a high and variable rate of inflation and a high interest rate which affects the service of the debt in the developing countries and economic activity in the industrialized ones; this in turn causes a deterioration in the terms of trade of the developing countries, particularly the non-oil exporting ones. The great instability of the foreign exchange markets and the marked external disequilibria appear to be only manifestations of a more profound economic crisis. Underlying this is a problem of international competitiveness and difference of productivity among industrialized countries, which is related with the limits and possibilities of the so-called industrial redeployment and the technological and political readjustments which it involves. This underlying problem, which is structural in nature and is only aggravated by the energy crisis, is overlaid by a more transitory problem arising from the restrictive policies applied by the industrialized nations in order to combat inflation. The monetarist bias of these policies has led to a higher real interest rate on the financial markets, and this in turn hinders plans for expansion and productive and technological readjustment.

As is well known, the sum total of the external disequilibria must be zero; hence, the non-oil exporting developing countries will continue to have high deficits as long as: (a) there is no symmetry in the demands made on surplus and deficit countries to adjust their payments; (b) the oil-exporting countries do not have a greater absorption capacity; and (c) the industrialized countries do not change the distribution of the deficit by increasing their imports from the non-oil-exporting countries.<sup>1/</sup>

High priority should be given, in the economic policies of the region, to redefining the criteria for indebtedness. This, of course, means that consideration should be given to associating loans with investment projects that are highly profitable and can generate or save foreign exchange. This in turn brings back to mind the importance of evaluating the social impact

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<sup>1/</sup> R. Zahler, Actual situación financiera internacional y sus perspectivas para el futuro cercano, Seminario CEPAL/IPEA, Brasilia, november 1981.

of projects and investment and pre-investment programmes, particularly in the public sector.

The regulation of external indebtedness (as regards amounts, terms and uses) is crucial, since the magnitude of resources involved makes it difficult to manage monetary policy as regards the neutralization of monetary implications, on the supply side, and/or changing the private portfolio of assets in a distabilizing way, on the demand side.

The resurgence of inflation has already shown clearly that it does not only respond to monetary pressures; hence, in order to stabilize domestic prices and to achieve external stability and other economic policy objectives, it would be necessary to improve co-ordination and avoid subordinating the economy as a whole to short-term financial problems. Thus, it is urgent that economic policy be viewed from a medium-term approach in order to provide orientation for taking short-term decisions. Planning must be aimed at providing adequate collaboration in this important task.

(c) The external context and planning

The main lines of economic policy should be set forth in the plan, so that the fundamental guidelines of fiscal, monetary, external and employment policies, and policies regarding prices and income, etc., reflect the basic patterns of accumulation, growth and distribution envisaged in the development strategy and in the medium-term plan. However, drastic changes in the external picture as regards the economic relations of the countries of the region have made it necessary to attach increasing importance to economic policy measures that are more closely linked with monetary and financial measures. Because these requirements are dynamic in nature, the instruments and partial objectives must be constantly reviewed, evaluated and reformulated; this usually affects the validity of the medium-term objectives and goals. Failure to forecast adequately the changes that occur in key macroeconomic variables, particularly of the external sector, has made it necessary to redefine priorities, sacrificing growth, distribution, employment and even price stability in order to control the external disequilibrium.

/The situation

The situation in 1980-1981, and more dramatically in 1982, helped in many cases to reveal the excessive rigidity of various economic plans and the difficulties encountered in designing alternative scenarios.

It is also known that the planning agencies cannot maintain overall control over the economic policy process. Normally, the institutions concerned with the budget and with monetary and financial operations work quite independently; this is all the more significant during a period of relative abundance of external resources, such as the years immediately preceding 1980.

The rigidity of medium-term plans and their tendency to become outdated, as well as the autonomy of the financial institutions, explain to some extent why development strategies based on indebtedness were applied. If adequate projections had been made, the real cost of credit would not have been underestimated and it would have been possible to study ways to make better use of those external resources.

In those countries where significant financial movements took place, the planning bodies tended to be left out of strategic decision-making, although some of them do take part in the boards of directors of the central banks and are required by law to monitor the external indebtedness process.

This shows the need for a planning approach aimed at enhancing political and technical effectiveness. Planning must cease to be concerned with the global normative aspects and react more quickly and flexibly to short-term policy requirements and economic challenges.

That is why the short-term situation, that mixture of political and economic phenomena that gives rise to the economic policy process, presents a challenge for development planning in the region that must be taken out without delay. If progress is to be made towards unifying managements of the economy, there must be greater co-ordination among the three different but closely related levels: economic policy, the development strategy and the plan.

Because it is urgent that these three aspects be made compatible with each other, planning must provide a medium-term framework for economic policy as well as a permanent projection of the results than can be expected of this policy over the short term.

/In this

In this context, a plan, understood as a set of macroeconomic projections designed to serve as a guide for medium-term policy-making, must contain sufficient information on the financial implications of the policies proposed. It must also suggest alternative policies and tools to ensure the necessary harmony among the different time spans concerned. Since it is, of course, impossible adequately to forecast all future situations that might affect economic policy implementation, it might be useful to describe some indicators that can be easily interpreted and rapidly obtained and which can be used to guide short-term decisions. By permanently monitoring the behaviour of these indicators within certain critical limits, it should be possible to ensure that the goals of the plan are accomplished --or to determine whether they are only being partially accomplished, according to short-term data and implications-- and that medium-term macroeconomic equilibrium is preserved.

An effort must also be made to extend economic policy over longer time spans. Monetary-financial information and information on the external sector have a fairly regular periodicity and this could be extremely useful as an information base for short-term decisions. If these indicators are adequately interpreted, it should be possible to maintain periodic control so as to compare results with goals, thus obtaining valuable information on the gaps in value and constant prices. This would allow for well-informed, timely and well-planned action to be taken should serious disequilibria be detected.

Finally, this effort to make planning more flexible and to make economic policy fit into a more permanent framework can be greatly enhanced by a more flexible attitude towards planning itself. The region has already begun to face this challenge, to which the countries are attaching increasing importance. As has been noted, a book plan is not a sine qua non of planning; the co-ordinated execution of public programmes, the use of a set of specific indicators with a certain degree of linkage among them, and, finally, the relative reduction of uncertainty with respect to some macroeconomic projections continue to be fundamental to a unified management of the economy.

/The point

The point now is not whether or not a formal medium-term plans has been drawn up, goals stated and a set of institutional procedures followed. While much of this is decidedly useful, it appears to be more advisable to orient substantive planning towards a search for greater consistency among public activities, maximizing the effectiveness of economic policy processes within the limits of technical, political and economic viability.

The renewed debate on the role of the State in development process, particularly in light of the experiences of this biennium, will help in promoting such a revision of planning, considering that the pressures for government to assume a skillful and effective role in managing development is not only not declining but rather seems to be increasing.

## B. Conclusions

The above analysis leads to a series of conclusions which, for purposes of clarity, have been grouped into three major areas. These concern the tasks to be accomplished in future and the priorities to be assigned to the vast range of duties and functions of the planning agencies and those responsible for economic and social policy-making. The conscientious completion of these tasks and duties will made it possible to consolidate the progress made by most of the countries in recent years. Thus, there appears to be a true rebirth of planning in response to the crisis of the neoliberal models established in various countries during the 1970s.

### 1. Formulation of diagnoses, plans and policies

Several significant steps have been taken in this area, although certain problems must still be solved.

Several countries have prepared and published medium-term development plans, in a renewed effort to update diagnoses and formulate comprehensive strategies. This is the case with Brazil, Colombia, Costa Rica, Ecuador, Mexico and Nicaragua, which published such plans in 1980, and Venezuela, which published its plan in 1981. Other countries have abandoned the

/idea of

idea of formulating and publishing development plans and programmes and have not substituted such efforts with alternative action, whether it be the elaboration of global strategies, an improved co-ordination of economic policy or the strengthening of operational planning in the public sector. Uruguay, on the other hand, substituted the previous planning exercises with mechanisms such as the so-called conclaves, in order to provide overall orientation and political support for the implementation of major economic and social policy measures.

In other cases, progress was made by introducing into the plans explicit social objectives and, quite often, by including employment and income redistribution as explicit objectives within the development planning process. This occurred in Brazil, where income redistribution objectives were included, and Mexico and Nicaragua, which introduced employment and redistribution as objectives of the growth strategy. In Panama, the generation of jobs was included as an objective of the growth strategy for the 1980s. Despite these advances, it is important to point out the need, in future efforts, to work for the organic integration of employment, income distribution and social policy in the development plans and strategies. In this regard, two aspects should be stressed. The first is of a theoretical nature. In Latin America, there is no mechanical relationship between growth, employment and a more just distribution of income; this has already been analysed and stated by ECLA and other United Nations agencies, as well as by various Governments of the region.

The second point concerns the experience gleaned from the recent and continuing international recession: how to distribute the costs of a necessary adjustment policy more equitably among the different social groups within the countries. This problem has been clearly revealed by the difficult experience of the biennium, which has shown that the workers and, in general, the lower income sectors have had to bear the brunt of the adjustment. In this regard, it is considered that planning can and should make an important contribution towards enabling the countries to evaluate short-term policies according to their impact on employment and income distribution.

/Another important

Another important aspect which should be strengthened in future is the gathering of information and the analysis and forecasting of the behaviour of the international economy, an effort which can greatly benefit all countries. In practically every case, one of the greatest difficulties encountered in the planning process has been the absence of a reliable external framework in the context of which possible scenarios for the countries can be designed, as well as suitable policies for dealing with the external situation. In many cases, this area is beyond the scope of planning, as may be noted in the development plans that are currently in force, which only in a few cases make reference to international developments. Such references, however, are mainly made for purposes of historical recapitulation rather than as a projection of the scenario with which the country would be faced. This dimension is usually not included in the plans. This variable is, in its different aspects (financial, commercial, etc.), of fundamental importance in the shaping of economic policy; thus, a first positive lesson that must be learned is that it is necessary to improve mechanisms for obtaining information on the international scene and forecasting the way in which it might affect the economic behaviour of the country.

## 2. Institutional framework and connection with short-term policies

In several countries, particularly Ecuador, Mexico, Nicaragua and Venezuela, there has been an institutional strengthening of planning whereby the national planning agency has been established or reorganized or given broader and more important functions than it had traditionally had. In some countries, the link between planning, budget policy and programming of the public sector has been strengthened; such is the case of Mexico, where a planning system including the budget preparation process was established; and of Brazil, where a structural system for monitoring public enterprises was established. Several countries have also strengthened their pre-investment agencies and applied methodologies for evaluating public sector investment projects.

/Some of

Some of the Caribbean countries have made progress in strengthening their institutional organizations and information systems, with a view to formulating and implementing development plans or rationalizing the investment process.

One of the remaining weaknesses of the planning system is the lack of linkage with short-term policies. In some countries, the planning agency is involved with the budget or the approval of investment programmes; these are the exceptions, however, inasmuch as in most cases there are no established mechanisms for ensuring that the objectives and projects of the development plan are included in the budget. Likewise, the planning agency usually has no power to take initiatives with regard to fiscal policy and there are no institutional co-ordination mechanisms, except in some countries. Linkage with monetary and foreign trade policies is weaker than linkage with fiscal policy; this may be seen in the instruments used by the planning agencies, which usually do not take into account short-term problems and policies. This also affects conjunctural analysis, for which the planning agencies are poorly equipped. Their participation in economic, monetary or foreign trade policy boards is often limited by the capacity of their technical staff, which is usually small. In addition, the high turnover at the higher or intermediate levels has prevented them from firmly establishing technical and administrative procedures capable of providing continuity and permanency to the work of the planning agencies.

Consequently, an aspect which should be given greater attention in future is the integration of short-term policies, particularly monetary, fiscal and foreign trade policies, with development objectives and medium-term planning. This is an area in which planning can make a valuable contribution towards the appraisal of domestic policy options available to the countries of the region, particularly in view of the current critical situation.

As regards fiscal policy, several countries have adopted restrictive fiscal measures and this has had a negative effect on investment, employment and social programmes. Under present circumstances, careful consideration should be given to the positive effect of public expenditure

/on employment

on employment, in order to reactivate the economies. Planning can be most useful in this connection, in view of the fact that several countries now have considerable experience in this area.

As regards foreign trade policies, the use that was made during the biennium of tariff and exchange instruments has taught some valuable lessons.<sup>1/</sup> Several countries have continued to apply tariff reduction schemes at a particularly critical time and this has created difficulties for domestic activity and accelerated the growth of the external debt. Planning can contribute to a more rational definition of the tariff policy, by outlining the industrial profile and, in general, substitute activities that will allow for full utilization of the natural, human, technical and financial resources of the region, and improve the supply for domestic and subregional markets. This does not mean that absolute tariff barriers must be established but it does mean that more comprehensive objectives than the mere private efficiency of a given industry must be envisaged, e.g., technological incorporation, employment and economic growth.

With regard to exchange policies and external indebtedness, planning can make substantial contributions. During the biennium, exchange policies and external debt policies were changed repeatedly and the real exchange parities and the flow of external capital were altered, jeopardizing the relatively successful growth of exports from the region. There were, however, two different situations: one, in which such changes were "inevitable" because of the external recession, and the other, in which the changes were brought about by erroneous or unbalanced domestic policies. In many countries of the region, the "exchange delay" fostered by excessive indebtedness encouraged excessive importing and had a negative effect on production. In the same way, the lack of regulation of external indebtedness generated a critical payment situation in many countries. In the design of medium-term policies for dealing with the current crisis, the planning agency can play an important role by proposing stable

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<sup>1/</sup> Enrique V. Iglesias, "The international recession and Latin America", in CEPAL Review, N° 17, August 1982.

policies concerning exchange measures and indebtedness aimed at developing investments and productive capacity and ensuring a sustained growth of the product.

As regards regional development, planning can contribute towards improving the design of short-term policies by clarifying the impact of macroeconomic policies --such as external openness and fiscal discipline-- on regional patterns of growth. Regional planning is also urgent as a means of checking the strong trend towards decentralization in several countries of the region, which has arisen as a result of the severe inter-regional disparities in economic and social indicators. It is also important to mention that in most of the countries, no evaluation has been made of the effect which the plans and policies applied during the biennium have had on regional development; this points to the need for national as well as international agencies to give priority to this matter.

Another aspect on which further work is required is that of the planning and management of the public sector, particularly in order to establish rational systems for monitoring State enterprises and institutions. Advantage should be taken of the experience already gained in this area, which is especially important to most countries of the region. This is one of the areas in which planning can make a significant contribution to the design of public policies. Thus, for example, the preparation and establishment of a system of accounts for the main real and financial variables of the public sector, including State enterprises and decentralized agencies, would allow for more effective management of State activities as related to short-term policy objectives.

In general, the improvement of planning methods in the public sector can be an important means for achieving the modernization of the State and facilitating social participation.

Finally, it should be noted that some progress has been made in the introduction of participative systems and mechanisms for achieving social agreement, as well as in existing planning schemes. At any rate, this is

a field in which considerable effort must still be made in order to ensure greater social accountability in plans and the planning process.<sup>1/</sup>

3. International co-operation in the area of planning

In order to find medium-term solutions to the external commercial and financial strangulation, it will be necessary to strengthen intra-Latin American trade, as well as the regional integration schemes. This means that the countries of the region must make a determined effort to co-ordinate the global planning of their economies, their external trade and complementary activities, such as the overland and sea transport systems, and the regional development of watersheds and frontier areas.

In addition, it is evident that some countries have made significant progress in some areas of planning, especially as regards the management of certain techniques and the organization of the public sector, while others still have serious deficiencies in these or other aspects.

The two aspects mentioned above point to the need for a more active co-ordination of efforts among the countries of the region, firstly, within existing economic integration schemes and bilateral and multilateral agreements, and secondly, through a continuous exchange of experiences within the framework of existing agreements on horizontal co-operation.

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<sup>1/</sup> See: ILPES, Informe sobre planificación participativa, Santiago, Chile, April 1983, which is summarized in Part IV of this document.

## II. PLANNING AND DEVELOPMENT IN THE CARIBBEAN

### A. Background and prospects

#### 1. General characteristics of the Caribbean economy at the beginning of the 1980s

The countries of the Caribbean as a whole suffered the same as or more than other countries from the effects of the deep recession which affected the world economy during the three-year period 1980-1982. The majority of the available economic indicators show that the situation was similar to that following the War.

In addition to the adverse conditions in the world market, there were special factors, such as smallness shortage of capital, limited natural resources, transport and communications difficulties, great vulnerability to natural disasters and a fragile and not very diversified economic structure. In addition to all this, there is a wide variety of economic and social systems which generate special relationships based on integration, solidarity and co-operation.

Following the same trend as Latin America, the evolution of the global gross domestic product is uneven, the situation in 1980 and 1981 being one of stagnation and regression. Except in a very few countries which recovered rapidly, adverse external conditions had a negative effect on the growth rate. In addition to the widespread economic regression, there were the devastating effects of Hurricanes Frederick, David and Allen, which affected the main export commodities during the past three years.

For various reasons, negative growth rates, some of them associated with the low growth rate of sectors as important as agriculture, manufacturing and tourism, were recorded in Bahamas, Barbados, Guyana, Haiti and Suriname. As for Trinidad and Tobago, Belice, Grenada, Montserrat, the Dominican Republic, Antigua and Barbuda and St. Kitts-Nevis, they showed decreases in their annual growth rates. By contrast with this situation, Jamaica staged a significant recovery, and the

material product of Cuba showed a high growth rate as a result of the technological innovations introduced in the production of cane sugar, the increase in tobacco exports and the efficacious reorientation of the economic management system.

In the external field, the high disbursements for interests and profits had the net result of a widespread deficit in the balance of payments on current account. Trinidad and Tobago was an exception to this rule, and showed a positive balance of US\$ 532 million because it is a net exporter of petroleum. Within this picture, in 1981 Cuba also experienced a negative trade balance of 822 million Cuban dollars as compared with one of 542 million in 1980.

The tourist industry, a leading source of foreign currency for the majority of the countries, suffered a decline both in the total number of visits and in income. Both of these variables suffered declines of close to 15%. Salient features of this sector include the recovery by Jamaica, the sustained dynamism of tourism in the Dominican Republic and the increase shown by Cuba, which received 2.4 million tourists per day in 1981, a figure 3% higher than that recorded the previous year. The price of sugar, one of the main export commodities and a basic source of foreign currency, fell considerably in 1981 to close to 7 US cents per pound, or 40% lower than the production cost, after having risen above 40 US cents per pound in 1980. This situation was aggravated by the decline in the price of bananas, which was also pronounced, and the destruction of a large number of the plantations by hurricanes David and Allen.

Exports of bauxite, a basic commodity in the economies of Jamaica, Guyana and Suriname, encountered difficulties in the international market and did nothing to mitigate the stagnation of non-traditional exports. To complete the picture, attention should be drawn to the high degree to which the Caribbean countries are dependent on energy and to the fact that in spite of the estimable co-operation programmes undertaken by Trinidad and Tobago, Mexico and Venezuela, petroleum imports remained one of the main factors responsible for the deterioration in the balance of payments.

/With respect

With respect to the per capita gross domestic product, the subregion is notably uneven, as a result of the differences in the resource endowment and the lack of diversification in the productive system. For all the member countries of the Caribbean Development and Co-operation Committee (CDCC), the per capita product amounted to US\$ 365 in 1970 and ten years later had risen to US\$ 888.

In 1980, which we are using as our base year, while Trinidad and Tobago had a per capita income of US\$ 3 731, Haiti's was barely US\$ 227. Suriname's was US\$ 2 471; Jamaica's, US\$ 1 323; Barbados', US\$ 2 523; the Dominican Republic's, US\$ 756 and Grenada's US\$ 612. Only five out of a total of 17 countries managed to exceed the subregional average.

With regard to unemployment, the available information for the year 1980, which is based on household surveys and population censuses, shows high indexes of open unemployment, and there is good reason to believe that the indexes of underemployment or hidden unemployment were also high, especially in the services sector.

Finally, so as to give a full picture of the state of employment and because of the importance of the manufacturing industry in this respect, it is worth noting that concentration in respect of the generation of the gross manufacturing product is much more pronounced than it is in connection with the gross domestic product. The Dominican Republic, Jamaica and Trinidad and Tobago contributed a 84% of a total product of US\$ 2 453 million at current 1980 prices. This high degree of concentration has persisted for a number of decades and speaks eloquently of the magnitude of the effort required to generate sources of employment and investment outside of the traditional agricultural sector.

The average level of industrial growth, which was close to 16% in 1980, was exceeded only by the Dominican Republic and Jamaica, with 22% and 16%, respectively. In spite of its rich petroleum deposits, Trinidad and Tobago was under the average, with 14% industrial growth, which would appear to show the need for a greater effort to promote domestic processing within a process of gradual import substitution and export promotion.

Table 1

CARIBBEAN: PER CAPITA DOMESTIC PRODUCT OF THE CDCC MEMBER COUNTRIES

Country	1970	1975	1980
<u>CDCC member countries</u>	<u>364</u>	<u>747</u>	<u>891</u>
Bahamas	-	-	2 322
Barbados	678	1 506	2 253
Cuba	-	-	-
Dominica	309	387	500
Grenada	340	406	612
Guyana	378	591	543
Haiti	89	159	227
Jamaica	750	1 414	1 323
Dominican Republic	328	688	756
St. Lucia	346	528	739
St. Vincent and the Granadines	227	333	459
Suriname	792	1 296	2 471
Trinidad and Tobago	844	2 429	3 731
<u>CDCC associated members</u>	<u>367</u>	<u>613</u>	<u>757</u>
Antigua and Barbuda	314	424	1 000
Belize	442	-	741
Montserrat	583	538	769
St. Kitts-Nevis	<u>246</u>	<u>515</u>	<u>522</u>
Total	365	744	888

Source: ECLA, Office for the Caribbean, May 1981.

/In addition

In addition to the factors to which attention is drawn above, the share of the agricultural product in the gross domestic product is, as was to be expected, notably higher than the share of the manufacturing product. The available statistics show that in Dominica it was 38%; in Grenada, 24%; in Guyana, 30.5%; in St. Lucia, 14%; in St. Kitts-Nevis, 19% and in Jamaica and Trinidad and Tobago, 7.8% and 6.9%, respectively. In confirmation of these shares, it should be noted that agricultural exports accounted for 61% of total exports at the beginning of the 1980s. By country, agricultural exports as a percentage of total exports was 93% in Dominica, 98% in Grenada, 62% in Guyana, 19% in Jamaica, 83% in St. Lucia, 98% in St. Vincent and 4% in Trinidad and Tobago.

Finally, within the CARICOM integration arrangement, the data available for four countries<sup>1/</sup> indicates that reciprocal exports amounted to US\$ 353.5 million in 1980 and rose to US\$ 376.2 million in 1981, tending to stagnate later on. Imports totaled US\$ 5 502.7 and 5 130.8 million in 1980 and 1981, respectively; but intraregional exports within the CARICOM area represented only 6.4% and 7.3% in those years. This provides some indication as to both the possibilities for integration and the scant diversity in production in the economies as a whole.

## 2. Basic data on the subregional development strategy

In the Caribbean countries, ever since their recent accession to political independence, many efforts have been made by various bodies, institutions and individuals to define global or national development strategies. In this connection, one of the characteristics of the region is its abundant, but in many cases scattered and incomplete, literature on economic and social development. During the past decade, in which there has been a spirit and outlook of renewal, the works published have made valuable technical, methodological and political contributions to the identification of development projects which increase well-being

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<sup>1/</sup> Barbados, Guyana, Jamaica and Trinidad and Tobago.

and allow for the full use of the available resources. From this point of view and in consideration of the role which economic and social planning is expected to play within the development process, an attempt is made below to summarize the central ideas contained in the latest contributions made in connection with the adoption of the "subregional" strategy or strategies.

(a) Strategy for the Caribbean countries in the third development decade 1/

In its key section, this strategy emphasizes that a central problem consists in the need to raise and improve the efficiency of the economic system and to intensify and propagate economic growth in addition to reducing the external vulnerability of the region within a framework of self-reliance and self-determination. Within this general context it is suggested that if the objectives and instruments established are to make sense, there must be an appropriate planning component which contains concrete participatory elements.

The options available for approaching these objectives fall basically under two main headings: the strengthening of bargaining power and the full exercise of planning. In other words, it is for the entire community to strengthen the regional, subregional and national co-operation agencies so that concurrently with the establishment of a flexible planning system adapted to the size and structure of the Caribbean economies, it will be possible to make efficient use of available resources and achieve an appropriate balance between domestic and foreign activities.

(b) The Caribbean Community in the 1980s 2/

On the occasion of the sixteenth meeting of the Council of Ministers the Caribbean Community (CARICOM), a group of high level experts was established for the purpose of preparing the "Integration Strategy for the

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1/ ECLA, Office for the Caribbean "Strategy for the Caribbean Countries in the Third Development Decade", October 1980.

2/ See The Caribbean Community in the 1980s, Report by a Group of Caribbean Experts. Appointed by the Caribbean Common Market Council of Ministers. Georgetown, Guyana, January, 1981.

Caribbean during the 1980s". The group made its basic objective that of reviewing the progress made in the integration movement and making the necessary recommendations for achieving greater dynamism and efficiency.

The high quality of this report is undeniable. Thus, in view of the great effort made by CARICOM, attention should be drawn to some of its main ideas.

The document points out that the integration process is more than a mere trade arrangement, being a collective commitment to offer the inhabitants of the countries concerned additional opportunities for development, while at the same time increasing the bargaining power of its member States. In summary, it establishes the fact that integration makes the feeling of unity valid and constitutes one of the main means of achieving self-reliance. Perhaps in no other area of the world is the concept of integration as valid as in the Caribbean area. The common features and assets of the Caribbean countries include their size, geographical isolation, scale of production, ideological pluralism, structure of production, geopolitical location, the level of their human resources and the diversification of their natural resources. And this, as stressed in the report, may make it possible to achieve, through the application of the integration and co-operation effort, a type of development which is superior to that which would result from the sum of efforts made by the individual States acting in isolation and without co-ordination.

(c) Problems, needs and priorities for consideration in planning development assistance for the least developed countries of the Eastern Caribbean 1/

For the purposes of planning as such, the report draws attention to the administrative difficulties due to the small size and large number of projects characteristically contained in the development plans of the smaller countries. These projects require enormous institutional support, disperse resources, promote dependence, parcel out governmental support sparingly and give priority to short-term objectives in whose micro-economic aspects the donor countries do not participate as much as they

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1/ Document prepared by CIDA in consultation with the World Bank and the countries of the region, May 1981.

should. In addition to all this, the report mentions that in and of itself this situation counteracts efforts to integrate the subregion so as to reap the rewards offered by economies of scale. In fact, although external per capita aid is relatively high, its impact has been reduced partly because the resources received have to a considerable extent been dispersed on small, short-term projects.

3. Planning vis-a-vis the challenges of Caribbean development:  
studies prepared for the meetings of Caribbean  
Planning Officials

(a) Survey of national planning systems in Latin America and the  
Caribbean 1/

Using a questionnaire prepared for this express purpose by special missions to the countries, a report was prepared which takes an objective approach to the various ways of putting planning into practice and the high degree of risk involved in transferring techniques and methods into a different historical and institutional context unless there has already been a gradual process of adaptation and adjustment. According to the report, planning in the Caribbean has three characteristic traits: first, it is associated with the management of external development funds; secondly, is directed towards the restructuring of the economies and finally, it is admittedly still unclear how it fits into the institutional framework of the countries. In addition to advancing these ideas, the report also points out that the problem of the countries is not that there is a dearth of four or five-year plan projections since almost all the countries have broad experience in that regard; the problem frequently has more to do with political and institutional support.

(b) How to plan --AFROSIBER-- the nine-point planning method and  
its application to development planning

This is a clear and coherent method for dealing systematically with development planning. The study is not intended to solve the various planning problems encountered every day but merely presents the points,

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1/ Noel Boissierre, Survey of National Planning Systems in Latin America and the Caribbean. Document presented at the First Meeting of Planning officials in the Caribbean, Havana, Cuba, 25-31 January 1979.

elements, steps or minimum inputs which any planning effort must contain. Briefly, the method proposed consists in the following steps: analysis, prognosis, evaluation of resources, objectives, strategies, repercussions, balances, execution and examination. 1/

(c) Six development planning problems in the small Caribbean States 2/

On the basis of four basic prerequisites for planning, six basic Caribbean planning problems are identified. The prerequisites are:

(i) the maintenance of a minimum amount of control over that which is to be planned; (ii) will and commitment in respective planning; (iii) technical and philosophical understanding of the method; (iv) organizational machinery. In the light of these prerequisites, the same document

considers that the priority planning problems in the Caribbean would be:

(i) lack of control; (ii) weak political commitment; (iii) lack of appropriate organizational structures; (iv) inadequate information; (v) insufficient human resources; (vi) inability to formulate effective strategies.

(d) Report on survey of training needs for planning officials in the Eastern Caribbean 3/

According to the report, one central theme dominates the training scene in the Eastern Caribbean: in addition to the fact that the countries are widely dispersed with little inter-agency co-ordination, there is no clear understanding of the way in which national planning at macro-level relates to the formulation and implementation of projects at micro-level.

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1/ Trevor Farrell, AFROSIBER: Analysis, Forecasting, Resource Evaluation, Objectives, Strategies, Implications, Balances, Execution and Review.

2/ According to Trevor Farrell, document submitted to the First Meeting of Caribbean Planning Officials, Havana, 25-31 January 1979.

3/ Dr. George Reid, Report on Survey of Training Needs for Planning Officials in the Eastern Caribbean. Document prepared at the request of ECLA/ILPES, Port-of-Spain, June 1981.

This makes it impossible to gear the action of the State to the basic development objectives and also makes it hard to give projects the importance they deserve by virtue of contribution to major planning objectives.

In the section devoted to national experience, mention is made of the fact that in all the countries, with the exception of Grenada, a planning is not co-ordinated under its relatively little personnel for plan design, execution and evaluation. A final observation, which bares on nearly all the countries of the Eastern Caribbean, is that the excessive concentration of efforts on project planning without a clear framework of objectives at national levels may present difficulties.

#### 4. State action and planning

##### (a) General background

Planning in the Caribbean is difficult to define. There is an abundance of styles, and the differences between one State and another are highly significant in the generalization and definition of an image-objective within a rigid pattern. Some people think the basic problem is related to size and to the difficulty of applying techniques, methods and concepts which would be valid for countries of different sizes. Others believe that planning calls for complicated institutional arrangements within which decisions of an indicative or mandatory nature can be implemented. It is thought that both of these views are invalid since the concept of size is independent of the objectives of foresight, coherence and unity to which any modern State may aspire, and, moreover, it is the various combinations of factors, and not just the extent to which a specific factor is lacking, which determine the magnitude of a country.

Insistence must, however, be placed on the fact that if planning is to fit in with the Caribbean island system, it must be flexible and adaptative so that it can responde dynamically and rapidly to the changes in the internal and external scenario.

/(b) Institutional support

(b) Institutional support for planning

In keeping with the ideological orientation of its governments, a wide sampling of systems in various combinations are to be found in the Caribbean. The main document, from which this summary was taken, a detailed appraisal is made of the main institutional characteristics in operation in each country.<sup>1/</sup> To summarize, the following conclusions are drawn from this appraisal: the planning units of the Caribbean form part of a complex institutional arrangement, and they do not, in general, have as much technical personnel as they need. In addition, the tasks of project formulation and evaluation frequently absorb a good deal of time available. All these things make it difficult to devote sufficient thought to the best national development strategy and to ensure that planning consists in tasks which have more to do with administration than with the management and promotion of development.

5. Central lines of action

After two decades of experience, the problems touched upon in a pioneer study by Arthur Lewis still persist, although in a latent form. Where industrial development is concerned, the failure is largely attributable to an externally induced development process and was not the result of domestic factors or the way in which the resources available within each country were used. With regard to this situation, there are two basic facts which planners cannot afford to overlook either: first, an effort to raise the levels of productivity in the crop-raising sector is a task which cannot be delayed because it is the only way of guaranteeing self-reliant growth. If the region remains a net food importer, it will be next to impossible for any development plan to enjoy permanent success. If, in addition to the stagnation of the tourist sector in the region and its high energy dependence, its most valuable productive resource were underutilized and abandoned, the outlook for well-being and growth would be even dimmer.

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<sup>1/</sup> ILPES, Planning and development in the Caribbean area - Background and Prospects, 1983.

The secondly point, which is related to the one raised above, is that the Caribbean countries must orient their economies to foreign trade within a regional dimension in such a way that not only will the process of import-substitution be accelerated, but the region's traditional and non-traditional exports will also be promoted. Intra-regional trade is at a minimum, and inter-regional trade needs to be expanded and diversified.

At bottom, what is being stressed here is the need to strengthen both the domestic and the external market, establishing an inter-relationship between the exporting and the primary sectors. In the context of the Caribbean, the strengthening of this inter-relationship has some additional advantages --it would promote job mobility, it would relieve the situation wherein in the tertiary sector the only opportunities for employment are in tourism and the "informal sector" and it would generate value added by raising the level at which raw materials are processed.

In view of the high degree of dependence on external financing, foreign investment and technology, the style of industrialization chosen to strengthen the sector exporting primary products should be based on a recognition of the basic components of all industrial planning --selection of the sectoral priorities, the best production techniques and regional projects which two or more countries can participate in. Within this perspective it will be possible to modify what is known as "industrialization by invitation".<sup>1/</sup> In other words, that style of industrialization recommended almost exclusively by foreign capitalists and promoted by means of an inefficient system of subsidies.

## 6. Conclusions

Some of the points made in the paragraphs above may be stressed by way of conclusion:

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<sup>1/</sup> For further details, see Andrew S. Downes, Industrial Planning in Barbados: Performance and Prospects, University of the West Indies, Barbados, January 1982.

(a) The fact that the Caribbean area in an island system, based on a fragile and dependent economic structure, means that there are only a limited number of intersectoral links and multiplier effects, which gives rise to the need for a flexible and adaptative planning system with a perspective which is regional but at the same time consistent and integrated at national level on the basis of national development strategies.

(b) Because the institutional structure for planning is weak and few technical resources are available for the exercise of its task, planning efforts should rely primarily on the design of global development strategies and not on a broken chain of projects at micro-economic level.

(c) At the sectoral level, the "diseconomies", or costs observed in some plans, are basically due to the lack of a national strategy in which sectoral policies can be coherently and clearly provided for.

(d) Experience shows that planning needs to cut back on some of its administrative tasks and stress those which are related to the promotion and management of development.

(e) Although the development priorities are relatively clear, the instruments and resources for achieving them out are not. In this connection, there is an urgent need to raise the operational capacity of planning.

(f) Because the region is highly fragmented geographically, planning exclusively at national level runs into severe limitations at the operational level and in terms of scale. Planning must be supplemented and supported by integration schemes and regional co-operation, and when the progress made at the level of theory in this connection points to the need to review concepts and techniques before deciding in favour of an automatic transfer.

(g) The technical and institutional bodies dealing with the phases between (micro) project and (macro) plan need to be harmonized and integrated so as to keep external aid from being dispelled and prevent the dispersion of State efforts among activities with little impact on global development policies.

(h) One of the characteristic features of the Caribbean is that its political and institutional typology is such that it is possible accurately to define development or planning styles. The variety ranges between socialist countries with centrally planned economies, mixed economies, market economies and economies where State intervention is secondary. This political pluralism is one of the great resources of the region although it presents planning with new challenges from the point of view of design and application.

### III. COMPATIBILIZING ECONOMIC POLICY AND PLANNING

#### 1. General considerations

As a general introductory framework, to facilitate a more suitable analysis of the problem of compatibilizing, it is helpful to distinguish three levels in relation to the formulation of a process of economic development: the strategy, the plan and the short-term economic policy.

The usefulness of this classification, when it is possible to apply it, lies in the recognition that, for there to be consistency in an economic programme, the areas, mechanisms, institutions and instruments must be properly harmonized at the three levels mentioned. If this does not happen, as is usually the case, this is usually the main reason for incompatibility between plans and economic policy.

The development strategy is the most general and most long-term expression of the process of formulating an economic programme. Within this the major outlines for guiding the development process must be made explicit. In particular, an attempt must be made to define clearly the decision with respect to the desired combination between the use of the market and government regulations as mechanisms for allocating resources and co-ordinating the economic activity. Here it should be pointed out that what is relevant is to identify the mechanisms and instruments through which the regulation criteria are implemented, by means of, for example, the production of public enterprises, public investment, public incomes, transfers and expenditures, quantitative and price controls, income policy, etc. This is needed not only for an adequate incorporation into the plan and design of economic policy but also for making a correct assessment with respect to restrictions and functions of behaviour and reaction of the private sector to the public policies.

/In relation

In relation to the above, there are two priority areas in the process of economic development which also need to be defined at the strategy level: accumulation and redistribution. As for the former, it is essential to define explicitly which economic agents will be responsible for saving and which for investment. Here it is necessary to understand that the character of the institutions which act as intermediaries between savers and investors should be harmoniously integrated with the agents and policies relative to this process (taxation, credits, monetary policies, prices, etc.). In particular, it should be noted that the correlations between external saving and domestic saving, are not insignificant and within the latter between private and public saving; there is a similar tendency with public and private investment as with that which originates abroad.

The redistribution of income, consumption and/or assets and policies to deal with the problem of extreme poverty and non-satisfaction of basic needs is another essential ingredient of the strategy. In this respect the role of the State is particularly crucial, and the concrete areas in which the redistributive problem is to be dealt with should be made explicit; for example, transfers of physical and/or financial property, tax policies and public expenditure, price and/or income policy, employment policy, etc. Here, as in the process of accumulation, it is important to understand that the specific instruments and adjustment mechanisms which are most appropriate for achieving these objectives are closely related to the initial postulates with respect to the roles attributed to the market and the State in the definition of the strategy.

On a more operational level, the resources needed to implement the public policies must be obtained from sources compatible with the strategy itself, so that the objectives relating, for example, to external economic independence or relative price stability are not undermined from the beginning.

Another global aspect which needs to be clearly defined in the development strategy, is related to the degree and selectivity of the combination of economic openness and/or protection of international trade of goods and/or capital. The importance of a clear orientation in this respect naturally lies, on the one hand, in the rationale of the chosen development strategy. On the other hand, this definition should guide the design of the plan and the economic policy in respect of the degree of integration among the various sectors (fiscal, monetary-financial, external) and in sufficiently weighing the relative importance of production for different markets (domestic and external, mainly). Finally, although the relationship of the domestic market with international markets may have different levels and degrees of effective protection between the real and the financial productive sectors, the impact of external shocks on the domestic economy and the speed with which the imbalances are transmitted from the domestic markets to the external, or vice-versa, will be closely related to the combination of protection/openness which has been chosen.

From another perspective, the strategy relating to the external sector in fact introduces priorities with respect to sectoral growth which must be respected in the plan and formulation of the economic policy.

Other types of considerations, such as those related to employment, productivity and wages and salaries (linked to the objective of accumulation), price stability, regional development, or to specific social groups (directly related to the redistributive objective), etc., should attempt to be defined and have their relationship indicated with the mechanisms and instruments to be incorporated harmoniously in the formulation of the plan and design of the economic policy.

Although in practice the distinctive and divisory elements of the three levels are usually not clearly defined, analytically the plan corresponds to the strategy presented in a time horizon and specific programme, with a description of dynamically designed projects, programmes

/and mechanisms

and mechanisms for the achievement of these objectives; or, in other words, the plan is a formalization of the strategy. The economic policy, on the other hand, corresponds to the concrete decision-making process, from the executive point of view, where the specific methodology of the various fields (fiscal, foreign trade, monetary, prices, incomes, etc.) is used to achieve short-term objectives, which are sometimes equivalent to the means for achieving long-term objectives.

The above paragraphs briefly summarize the principal components which should define and detail within the postulates of the development strategies fully enough so as to bring out, or at least clarify, possible inconsistencies in the national economic development projects. It would also be very useful to analyse the possible incompatibilities between the role and design of the agents, institutions, mechanisms and instruments which implicitly or explicitly occupy a major position in the development strategy in comparison with those emphasized in the plans and/or short-term economic policies. Thus, it bears repeating that any programming or planning on the short- or long-term must be inserted harmoniously in a development strategy, and in the formulation of the latter it is essential to specify certain guidelines which help define the characteristics of the strategy adopted and which should be respected in the process of planning and that of designing and formulating the short-term economic policy.

2. The traditional disjuncture between strategy, plan and economic policy

(a) The time dimension

One of the most obvious but nonetheless important factors which tends to make the harmonious integration between strategy, plans and policies difficult is the fact that the time horizon for the three levels is usually very different. A global development strategy, which as mentioned contains the broad outlines which guide the economic process

/in general

in general terms, must be framed in relation to the structural characteristics of the country, so that it is only foreseeable as a result of the process of development itself, which may undergo significant changes over a long period of time.<sup>1/</sup>

Plans have different time spans; however, most of the efforts of planners have been traditionally concentrated on five-year periods or longer; short-term economic policy, on the other hand, usually has a horizon of no longer than one year.

The impact of the different time perspectives on the relationship between planning and short-term economic policy is due to the lack of an adequate methodology which would allow for the integration of the two levels of economic behaviour. It is also necessary to specify the inter-relationship between the objectives of economic policy --and their sequence in time-- and those of planning and the development strategy. Normally the executors of economic policy have to choose, in an inter-temporal approach, to prioritize certain objectives to the relative detriment of others, a choice which usually is not foreseen in the formulation of the plan, and even less in the development strategy. Along with this, on the one hand, there is a certain degree of rigidity inherent in the traditional formulation of plans, which makes them somewhat inflexible for purposes of incorporating domestic or external changes quickly, and, on the other hand, the objectives of a good part of short-term economic policy are usually modified frequently as a result of situational pressures, and they end by being disassociated with the major objectives of the plan.

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<sup>1/</sup> Certainly development strategies may be modified fairly frequently, as a result of political and economic changes, both domestic and external. However, their idea is based on the assumption of a certain permanency in their guidelines over time.

The fact for unexpected reasons the economy has moved away from the trajectory associated with the plan, in view of the rigidity of the latter, maladjustments in time horizons and changes of emphasis placed on objectives, may be one of the principal causes of the perception of the "failure" of planning from a short-term perspective.<sup>1/</sup>

(b) Different approaches and perspectives: some technical considerations

From the methodological point of view there is another area of possible disjuncture between plans and economic policy, referring to the approaches used, implicitly or explicitly, in their formulations.

Experience shows that planners have traditionally concentrated their efforts on, and have given priority to, the analysis of production (aggregate, sectoral and regional) and supply. In general, the plan tries to express the operation of the economy by emphasizing the intra- and intersectoral relations of the economic activity. Usually the macroeconomic balances are estimated on the basis of some behavioural functions (such as consumption, imports, etc.), accountable equivalents and some very decisive assumptions about exogenous variables, almost always related to the external and/or domestic financial sector (flow of international capitals and external indebtedness, domestic financial saving, sources and uses of monetary resources, etc.). As for the economic imbalances and allocation of resources, the planning approach

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<sup>1/</sup> As Murrel points out, referring to developed countries, this does not mean that planners or planning offices do not play an important role in economic management. The author emphasizes the unique and privileged position of planners in evaluating the economic process from a perspective of long-term development which is not held by those responsible for housing ministries (concerned with the fiscal budget), the central bank (concerned with maintaining exchange parity) and political officials elected for relatively short periods (concerned with indicators considered to be very relevant in pre-election periods; such as inflation rate and unemployment rate). See P. Murrel, "Planning and Co-ordination of Economic Policy in Market Economies", in Journal of Comparative Economics, Vol.3, N°2, June 1979, pp. 163 and 164.

is centred on real variables, particularly "quantities" of goods, services and/or factors. Generally considered as "objective variables" of planning are those relating to the rate of growth, level and composition of production, and other redistributive variables (wages, jobs, taxation). Changes in the relative prices (domestic and external) and monetary imbalances are usually considered marginally, with the implicit assumption of a certain "passive" adaptation of the latter to plan projections.

The short-term economic policy, for its part, has traditionally been responsible for formulating and executing programmes on domestic and external macroeconomic imbalances, with special emphasis on financial programmes (particularly those connected with inflationary pressures, fiscal matters and balance of payments); and has concentrated its analyses, efforts and methods on an attempt to control the rate of growth, level and composition of aggregate demand. The evolution and balance of some "real" variables, of major importance in the analysis of planning, often have only a residual character here.

The economic pressures of the current situation, as well as political considerations, tend to grant priority to objectives such as the stability of prices, balance of the fiscal budget and public enterprises, stability of exchange policy, maintenance of a given level of international reserves and external indebtedness, etc. The most highly developed interrelationships from this perspective are the integration of the budget of the public sector with the projections of the balance of payments and with the monetary and financial programme. Unlike the planning approach, here not only is there an emphasis on the analysis of variables related to the financial sector, but also priority is given to the study and projections of the expected evolution of the flow of international capitals, world and national rates of interest, the relationship between domestic inflation and international inflation relevant to the country in question, demand and supply of means of payment, determining factors in expected inflation, etc. Emphasis is thus placed

/on the

on the analysis and importance of the nominal variables, particularly the domestic and external monetary and financial variables (which mainly affect the volumen of demand) and the determining factors of some relative prices (such as internationally tradeable and non-tradeable goods which affect the composition of demand).

From another angle, it is interesting to note that medium- and long-term planning has tended to have a normative character, to which the economy must adapt itself. In the short-term economic policy approach, on the other hand, the tendency has been towards an excessively flexible management adjusted to current situations. This difference in perspective, which is too rigid and normative in traditional planning and too flexible in short-term economic policy --which tends to distort it-- could have contributed to the distance which has arisen between them.<sup>1/</sup>

All the above brings out the existence of a complex reality which probably makes it possible to explain in large part the traditional disjunctures between planning and economic policy. In other words, not only is the time horizon usually different between the two, but there may be something even more profound. Objectives, budgetary and technological restrictions, behavioural functions and extent and speed of reactions to changing incentives of the various economic agents, and the variables which are explicitly or implicitly considered residual, can be and usually are very different in planning and economic policy.

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<sup>1/</sup> A different theoretical approach which values planning as a guide to the process of development, but not as a norm for it, and which supports an intermediate approach between planning and traditional economic policies, adapting the plan to concrete situations, is described in C. Matus, Planificación de situaciones, Mexico City, Fondo de Cultura Económica, 1980.

(c) The political and institutional framework <sup>1/</sup>

In most of the countries of the region, planning has an advisory and co-ordinative nature, rather than one of implementation. The latter function in terms of the concrete responsibility for economic management, generally remains in the hands of the agencies of economic policy. It is closely related to the institutional insertion of the offices of ministries of planning in relation to the housing ministry, office of the budget, treasury or central bank, and it is in these latter that the final responsibility for the practical implementation of economic management and policy usually lies.

Undoubtedly these institutional and power aspects also play an important role in explaining the disjuncture between planning and economic policy. Sectoral, regional and social problems, possible conflicts between the executive and legislative powers, shocks of the internal or external economic situation, etc., condition the degrees of autonomy of those responsible for the economic policy, and the latter usually ends by being very distorted in relation to its initial concept and the postulates and projections of the plan.

The attempt to integrate planners and managers of economic policy into professional organizations, although it contributes to greater mutual understanding and a certain harmonization of the two levels, presents the problem of indefiniteness in the resolution of possible conflicts. But it is also important to note that the methodology inherent in most of the plans makes them very rigid and makes it difficult for the planners to deal with problems arising from the political, economic and social situations with the desirable flexibility and initiative.

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<sup>1/</sup> For a diagnosis of this experience and an alternative proposal, see Eduardo García D'Acuña, "Pasado y futuro de la planificación: una perspectiva latinoamericana", in Pensamiento Iberoamericano, Revista de la Economía Política, N°2 (July-December), Madrid, 1982.

Integration, at the government level itself and if possible under the same administration, of planning and economic policy is a necessary condition for advancing towards greater co-ordination and compatibilization between the two. However, it is inevitable that the medium-term planning and the planning institutions, on the one hand, and short-term policies (of the central bank and the housing ministry, mainly) on the other, will consider different questions, with different methods and using different variables which are also expressed differently (for example, some in constant values, while others in expected current values).

What should be sought, then, is to obtain institutional forms of articulation between the two levels, in which the responsible agencies at one of the two levels can be assured of participating and expressing their points of view in regard to the decisions of the other. Finally, it should be noted that although there are great difficulties in achieving a complete conceptual co-ordination, there is a margin enabling each of the levels to take positive steps to become closer to the other. This requires methodological advances which would effectively flexibilize the formulation of plans,<sup>1/</sup> on the one hand, explicitly incorporating in them the domestic and external financial aspects and the principal relative prices (real wages, real exchange rate and real interest rates, cost of energy and production of public enterprises, sectoral prices and prices of capital and consumer goods). On the other hand, it is essential that in the design of the economic policy the assumptions should be explicitly defined in relation to the growth of production, the situation of employment and investment; and all in a perspective of broader horizons than those of the immediate economic situation.

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<sup>1/</sup> Thus, a major part of short-term planning, such as operative plans, consists in practice of reducing the time dimension of the medium- or long-term plan, rather than making the proposals of plan more flexible and operational.

### 3. Need for compatibilization

The analysis of the previous point suggests the obvious need for compatibilizing medium and long-term planning with short-term economic policy. This is due to the partiality of both approaches, considered separately, and to the substantial progress which would be made in the process of economic management if there were a trend towards a convergence of the two orientations.

Furthermore, the urgent need for compatibilization, according to some authors, is due to the recognition that in various countries the plans have not been effectively implemented.<sup>1/</sup> From the political and institutional point of view, it has become necessary, as mentioned above, for there to be a single unit where planning and economic policy are concentrated and interact with each other.

At the technical level, from the point of view of planning, besides the facts mentioned in point 2, it is necessary to place more emphasis especially on the public sector, since there is ample evidence that even the decisions about fiscal expenditure and expenditure of public enterprises have not been well integrated into the planning process,<sup>2/</sup> and some of the guidelines of the latter have not been implemented by the public sector bodies.<sup>3/</sup> From another angle, the need for compatibilization arises, for example, from the fact that if it has been decided to follow a given exchange policy, which implies limits to the real possibilities of credit policies, these should be considered in the financial and credit aspects of the plans.

As for economic policy in general, and fiscal policy in particular, it is well known that they tend to be guided by the current values of the

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<sup>1/</sup> See P. Murrell, op. cit., p. 163

<sup>2/</sup> Ibid., pp. 153-155.

<sup>3/</sup> Ibid., pp. 150, 158-161 and 163.

variables. This short-term view, by not considering the "permanent" values, which may remain stable over the long term and which should be made explicit in the plans, helps to accentuate the relatively erratic and unprogrammed character of the economic policy as evaluated from a broader perspective. Moreover, the traditional analysis of the macro-economic balances tends to be made in terms of flows (saving-investment, export-import), which works against a longer term concept of the economic policy itself, by not taking enough account of the impact of the flows on the stocks (of productive capital or external debt, for example). Even further, from the perspective of those responsible for the economic policy, concerned with controlling the growth of aggregate demand, investment expenditures are sometimes identified with those of consumption, with their different implications as regards productive capacity and potential for future economic growth being relegated to second place.<sup>1/</sup>

In the short-term economic policy, the attempt should be made to broaden the time horizon in which decisions are made, beginning with the fiscal budget, since having a public investment plan covering several years should be only a first step in extending the horizon of decisions to the entire budgetary area. Other aspects usually dealt with exclusively on the short term could also be susceptible to medium-term plans, for example, the use of international credit and the evolution of the external debt. The monetary programme mostly implemented by the central banks of the region, could be an initial basis for integrating the two levels, planning and economic policy, from the perspective of the latter on the short term. This is because the structure of this programme uses an approach which, although it emphasizes nominal financial variables, can be modified by using a general equilibrium approach in order to attempt to incorporate the contribution of planning into it.

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<sup>1/</sup> This paragraph brings out two of the most important roles of planning in relation to the need for compatibilization: first, its role of controller of economic policy and, second, its mission of permanently projecting, on the medium and long term, the implications of economic policy. Note that if planning and economic policy, are under different jurisdictions, this aspect of compatibilization may lead to institutional conflicts.

In more general terms, what is needed, as a minimum, is to standardize the languages and define the objectives of both fields. When the latter are contradictory, it becomes necessary to make a profound analysis in order to minimize, in view of the requirements of the current situation, the deviations of the real trajectory of the economy from the planned sector, as well as to redefine the goals, restrictions and initial conditions in view of the changing reality, in the reformulation of the plan. Also necessary is a common diagnosis between the planners and those responsible for the economic policy with respect to the behavioural functions and reaction speeds of the different economic agents. This would make a decisive contribution to the integration of the two approaches, since the differences would tend to disappear as the theoretical analysis and empirical evidence presumably verified the terms of the discrepancies. Another of the areas requiring more careful study is that of the implicit or explicit stability through time of some functional economic relations and their connection with (and reaction to) public policies.

Lastly, the need for compatibilization is derived from the exigency in the developing countries of not sacrificing long-term (structural, growth and redistributive) goals because of basically conjunctural considerations. This requires, on the one hand, that the economic policy should be forced to consider elements such as those mentioned in order to minimize the size and duration of the costs associated with dealing with the current economic situation and trying to achieve the proposed distribution.<sup>1/</sup> As for planning, as mentioned, it must incorporate more rigorously and more explicitly the implications of the financial, internal and external imbalances and the changes in the more important relative prices from a macro-economic point of view, in order to make the economic management more effective and help provide it, practically and concretely, with more social rationality.

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<sup>1/</sup> For a recent study on this subject, see Políticas de estabilización y empleo en América Latina, Investigaciones sobre Empleo N° 22, PREALC, Santiago, Chile, 1982.

#### 4. Obstacles to compatibilization

One of the obstacles already mentioned is the institutional insertion of planning and economic policy. Political and administrative considerations have tended to relegate planning in practice to an advisory and diagnostic role, with economic policy taking the responsibility for executing the programme. This has helped separate planning from economic policy, and a redefinition of the institutional position of the two, and their administrative and political relationships, obligatory consultations, etc., would help reduce the importance of the problems raised by incompatibility.

In any case, the considerations noted above support the hypothesis that if the policy measures were adopted by executive bodies not necessarily connected with planning bodies, this would not imply that compatibility between policies and plans were ensured on the assumption that the two processes were concentrated under one solid management.

For one of the major obstacles to compatibilization appears to lie in the lack of internal and/or external coherence, both in plans and in economic policy. This is important because on many occasions plans and economic policies, considered in isolation, are internally inconsistent. This means that they have an inherently inadequate structure of partial models of equilibrium (or disequilibrium), or, if they attempt to be generally balanced, they have sectors or activities which are incorrectly specified. Also, as mentioned, the implicit evolution of unspecified variables may turn out to be very far from reality. From another perspective, macro-economic models, frequently used by economic policy and by planners, have been the subject of growing criticism because they consider to be constant the values of parameters estimated on the basis of historical data which, especially in countries where large-scale economic and institutional reforms are carried out, have a high probability of changing in the future.

With respect to the problem of coherence, it is necessary for the plans and economic policies to be internally and externally coherent for a pre-determined period of time. Internal consistency means having a generally

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balanced approach which makes it possible to verify, in each case, the consistency of the principal repercussions of the various measures proposed in relation to the objectives of the economic policy and the plans.

External consistency means that the instruments, mechanisms and agents of economic policy and plans should be adapted to the political, institutional and social feasibility of the medium which they have been formulated.

In addition to the political and institutional aspects and those of the possible internal or external inconsistencies of the plans and economic policies, there is another obstacle to compatibilization in the implications derived from the various perspectives with which both planning and economic policy perceive the economic process. As pointed out, elements which are objectives for the plan might be restrictions for the economic policy, and vice versa; something similar occurs with the variables whose behaviour and time trajectory are either defined or are left in residual form, etc.

Another element which "marks" any macro-economic policy and which is unlikely to be able to be specified in the formulation of a development strategy, and with respect to which the plans show very little flexibility of adaptation, refers to the initial economic conditions and the nature and size of the imbalances which require correction. The orientation, results and feasibility of a given economic policy are very much conditioned by the initial situation actually presented by the economy at the time of implementation of the policy. The size and direction of the important macro-economic imbalances, such as inflationary pressures, unemployment rate, balance of payments situation, etc., are also significant in the design of more appropriate combinations of instruments to be implemented by the global economic policy. Something similar occurs with respect to uncontrollable and unforeseeable changes in the world economy (such as variations in the terms of trade, inflation, recession and changes in the international interest rates), and the domestic economic and political situation itself, such as strikes, natural disasters, etc.

We should not forget to mention that another obstacle to compatibilization is the limitation of economic theory and analysis, especially in the area of macro-economic analysis related to the relationship between nominal

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and real variables. The exact form in which changes in nominal values are distributed between variations in prices and quantities is now being debated, which naturally makes it difficult to relate the analyses of economic policy (which are usually done in nominal terms) with those of planning (which work primarily with constant values). Nor should it be forgotten that while plans are not accompanied by the proposed instruments for a concrete implementation, it is difficult to specify the areas where they conflict with economic policy and where their compatibilization thus becomes more difficult.

With the above in mind, and recognizing that there are areas where the incompatibility cannot be reduced (especially those associated with uncertainty and with domestic and/or external shocks which are difficult to foresee), the obstacles to compatibilization will be considerably reduced if they are dealt with simultaneously from the political-institutional perspective and the technical perspective. The latter requires a serious reconsideration of plans and policies with respect to their relationship with various aspects of economic analysis. It thus appears appropriate and necessary to develop generally balanced models which incorporate the characteristics of long-term equilibria and also make it possible to perceive and develop the temporary imbalances of the different economic sectors. This is an area which has not yet been very much developed in the literature and where the technical element may make a definite contribution to reformulating the traditional considerations of short-term economic policy and those of planning, and simultaneously reduce the margins of incompatibility between the two.

5. Experience in some countries of the region

This section summarizes the conclusions reached by three countries of the region --Costa Rica, Mexico and Venezuela-- on their respective national experiences with regard to compatibilization, which are contained in the studies prepared by a joint research project co-ordinated by ILPES.<sup>1/</sup>

In the case of Costa Rica, the study shows the institutional mechanisms established to ensure the compatibilization of plans and policies, and it analyses how this is done between the National Development Plan, 1979-1982 and the economic policy actually applied during the period. In general, the study concludes that the compatibilization achieved was only very partial, and that this was due to various factors, both domestic and resulting from the unfavourable international economic situation. Among the former are the lack of continuity and systematization of the policies applied, the considerable decision-making autonomy in the area of financing of State enterprises, the weakness of the Plan in regard to providing precise guidelines on economic policy and the inadequacy of the instruments used. More especially, the limited flexibility of the Plan and its lack of revision in view of substantial changes in the external framework prevented the planning from being a useful guide to short-term policy.

The study of Mexico, in its preliminary version, reviews the institutional structure of the system of government of the country, points out the principal agencies of the National System of Democratic Planning of Mexico, and summarizes the main outlines of the development of the System in the period 1977-1982. In regard to the compatibility of plans and programmes at the level of the Federal Public Administration, the study

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1/ See OFIPLAN, Planificación de mediano plazo y políticas económicas de corto plazo, un análisis sobre su compatibilización en el caso de Costa Rica, San José, Costa Rica, June 1982 (OFIPLAN/020/82/PG/04/mimeo); Secretaría of Programming and Budget, Compatibilización entre política económica de corto plazo y planes de mediano y largo plazo, Mexico City, February 1983; CORDIPLAN Compatibilización entre políticas económicas de corto plazo y planes y estrategias de mediano plazo, National monograph, Caracas, September 1982.

indicates the existing institutional machinery, especially in the area of the Presidency of the Republic and the Secretariats of Programming and Budget, Housing and Public Credit, in five departments: planning, programming, budgeting, appraisal, information and legal aspects. More specifically, the study describes the tasks of the Commission for Financing and Expenditure, an inter-ministerial body responsible for co-ordinating the decisions of each secretariat, in order to harmonize the decisions on public expenditure with those on financing, using three basic instruments: the Expenditure Budget, the National Financial Programme and the Law on Income of the Federation. In the sectoral area, important factors are the functions carried out by the Sectoral Co-ordinators for establishing directives for the formulation of projects, budgets and flows of funds from the branches and entities grouped together in each sector, all in accordance with the guidelines and orientations issued by the Offices of Orientation and Global Support.

The study also shows the use of two technical instruments to facilitate compatibility: Programmes of Action of the Public Sector (PASP) and the Matrix Methodology System (SMM), with the latter making it possible to verify global, regional and sectoral consistency of programmes, their requirements for information, their schedule of implementation and their appraisal criteria. With respect to perspectives for compatibility, the study shows the need to continue improving the institutional and operational mechanisms already in existence, with a view towards integrating the active participation of the various sectors of the Mexican society by means of Forums of Popular Consultation.

The study of Venezuela, after reviewing the institutional structure of the planning system, the current compatibilization machinery and the evolution of the economic situation and the policies applied, draws various conclusions on the national experience about how to improve consistency between the former and the plans formulated. First of all, it describes the inescapable need to make periodic revisions of medium-term

plans in order to provide the planning process with continuity, especially in open economies where the international phenomena tend to make plans obsolete; for this reason, work has begun on revising the Sixth Plan. Secondly, there is a need to enrich the design and content of the global and sectoral plans, through a coherent conceptualization of their relationship with the budget programmes and allocation of resources. In this way the plan can gain in strength, control and timeliness, and can facilitate the political decisions related to its implementation.

In the third place, it is very important for the effective periods of the medium-term plan to coincide with those of the presidential term, since if this is not the case, as in Venezuela, there occurs a marked disjuncture between the plan and the policies. It is precisely with reference to this situation that actions are being proposed to correct it in Venezuela.

Finally, there is a need to promote a permanent integration of public bodies into the economic management of the country, and to improve programming instruments on the short-term, such as conjunctural studies, analytical models, sectoral operative plans and mechanisms for controlling the management of State enterprises and autonomous institutes.



#### IV. PARTICIPATION IN THE PLANNING PROCESS

##### 1. Introduction

The assumption on which the argument developed in this document is based is that in terms of both theory and practice participative planning is, a desideration and will remain so far a considerable time in Latin America and the Caribbean, where planning has, in general, been a State activity with relatively few connections with the groups which make up society. For this reason, the democratization of the Plan, or the incorporation of the social sectors in the various stages in the planning process, has been established as an objective. It is felt that this practice might ensure that further progress is made in institutional training and would bring theory, practice and even personal experience to bear making it possible to approach the participative planning ideal.

It is commonly agreed, as shown by this report, that participation is fundamental to democratization. However, the new alliance formed by the old approach to democracy and the modern approach to planning presents difficulties because of its divergent origins. On the one hand, planning usually suffers from technocratic pretensions which does nothing to facilitate the task of incorporating it into democratic institutions; however, this should not be taken to mean that there is no need to rethink planning from a democratic prospective.

On the other hand, it should be borne in mind that parliamentary democracy suffered from populist and even demagogic deviations, which in some cases caused it to overlook the requirements of technical rationality almost entirely.

Both these things happened in countries of the region not because of abuses of planning or of democracy but because of a lack of real power in both of these areas. In the last analysis such things happened because both planning and the democratic process were held back by the way in which real power was structured.

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At the same time it seems clear that the growing interpenetration of the State government and of society has shown that public policies are not formulated, approved or implemented in a social vacuum but are moulded by the social actors in accordance with their capacity to mobilize a variety of power resources. In this way, the mere construction of social optima or sub-optima following a purely technocratic view of the general welfare or public interest, usually has unforeseen results in that the vectors resulting from public action tend to deviate considerably from what the technicians have envisaged.

The idea of concerted social action which, when seen in the eyes of the governed, might be termed "participation in the tasks and fruits of development", emerged in response to the inadequacy of a technocratic approach to planning and in an attempt to ensure that the aims of contemporary democracy were achieved. Concerted social action requires such a degree of consistency and co-ordination that the social actors are forced to subscribe, either formally or informally, to an agreement which provides for the arbitration of their disputes and for the performance of the tasks and the award of the benefits provided covered by the national development project.

This new style calls for important changes both in the social structures and in the State planning agencies and also in the behaviour and attitudes of the bureaucracy and the technocracy --a substantial task. However, it must also be borne in mind first that these changes must be accompanied by other changes of historic import to create and strengthen the social groupings in large marginated or disorganized sectors and to further their interests within mixed economies, heterogeneous societies and nascent or fragile democracies, and secondly that such changes require gradual economic democratization of the society in such a way that the power of the élitist and extra-national interest groups is considerably reduced.

There is need to reiterate that the task of strengthening the civil society is one of historic scope. Actually, in order to surmount the present situation of social sub-organization, especially with regard to peoples' production units (co-operatives, self-managing units, etc.), voluntary

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organizations, trade unions and territorial associations of every kind, a methodical, conscious and sustained effort must be made in various steps and probably over a long period of history. Nevertheless, the magnitude of the effort must not be a deterrent to trying to initiate it now, while the decade is still in its early phases.

Only in the context of a restructuring of the representativeness of the social sectors will it be possible to design viable systems and mechanisms for concerted actions. Also within this context the technical rationality of planning can be constructively combined with the substantive rationality of democracy.

## 2. Participation in the planning process

### (a) The democratization of the Plan: ways and means and conditions

#### (i) Ways and means

Two approaches to democratic planning can be envisaged. In the representative approach an attempt would be made to achieve the objectives of development by democratizing the society and the economy, using the institutions characteristic of a democratic system. At the most such a model calls for changes in the Parliament to equip it to take technical decisions within the broader time frames characteristic of more complex societies. At the same time, representative democratic planning means that the executive power shares with parliament the data and projections on which the options to be taken into account when laws are established are based.

The existence of a governmental agency responsible for the Plan in the strict sense of the word, directed hierarchically and having a monopoly over the performance of auxiliary government functions is perfectly compatible with such a sub-type of democratic planning.

The second approach to or type of democratic planning is participative planning, and its characteristics and requirements are specified below.

#### /(ii) Conditions

(ii) Conditions

The conditions of representative democratic planning include the development of a cognitive component of the system for settling the present and future disputes related to the society. Thus, it calls for constant social training which changes the technical optima and sub-optima determined either by the "invisible hand" of the market or by the "superman" planner, as Downs would say. Social training requires a constant dynamic in which the actors adapt themselves to new situations which modify their mutual relations.

While the social actors play the central role in representative democratic planning, technocracy, bureaucracy, a subordinate parliament and the political parties do not by any means play a subordinate role. The actors are bound by an agreement to participate, which is not a populist game involving the exclusion of technical rationality nor a play of power with no formal rules or machinery.

It is not possible to go into detail here concerning the actors, institutions and mechanisms which make up the scenario of representative democratic planning. In short, the Parliament and the political parties must have the competence and ability to make political choices in a situation in which they are always confronted with any number of conflicting technical options and social interests. It is for the technocracy to make explicit the options and restrictions involved in the decisions on the agenda. The government has the task of keeping things moving in general. This is especially decisive at two moments in the process --at the beginning when it must turn its political project into a technical model which can be discussed appropriately, and in the implementation stage, when the government works through the bureaucratic apparatus to ensure that the administrative specifications do not stray from the terms of the social contracts reached in the provisional settlement of conflicts of interests between the actors.

3. The requirements of participative  
democratic planning

As stated at the beginning of this chapter, a democratic planning model of a participative nature is a theoretical desideratum. This is because it is a model which, in addition to the basic institutions of democratic policy, provides for organizations, mechanisms and bodies which deal with the co-ordination and participation of the social actors who formulate and implement the Plan and the public policies. In reality, therefore, this type of democratic planning makes it obligatory to ensure that the sectors are better represented so as to obtain their participation at all the levels and phases of planning and to institutionalize the bodies, mechanisms and procedures included in them.

With regard to the representativeness of the sectors, it is indispensable for the social directors to obtain their mandates from "social" elections so as to avoid the formation of oligarchies composed of employers, trade unionists and professionals, in general. With regard to the social actors who are cut off or lack power resources, they must be represented provisionally, in the person of a trustee or a State-appointed attorney who will act as social arbitrator until full access to such resources is obtained.

The requirement of participation at all levels is related to the political order and to the economic order. At the level known as macro-participation, there is the underlying assumption that participative planning is one of the processes of a participative form of democracy and not just the micro-participative component or the community development component of a given social order. There are two reasons for insisting that there be participation at all levels and in all stages of planning. First of all, it is because of the lack of confidence owing to the oligarchical pressure which is applied either directly or by the bureaucracy, it being assumed that the power resources are unequal and that the governmental apparatus is segmented and at times has been taken over by certain social

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sectors. Secondly, such participation in all phases safeguards against the discontinuity of participative training which causes support and motivation to be confined to the initial phases. Situations of discontinuity have their worst effects on recently incorporated actors or on social groups with a low level of organization and few power resources.

In so far as bodies, mechanisms and procedures are concerned, participative democratic planning calls for a specific planning subsystem with its own exclusive competence and jurisdiction. The first preference would be for a special body in the form of an Economic and Social Council, with decision-taking powers in respect of the formulation and approval of the Plan and with powers of a consultative nature, whether optional or compulsory, in respect of the drafting of economic and social legislation by the National Parliament.

The special subsystem on participation should also concern itself with the sectoral and regional levels. The regional context is, as already been stated, a favourable area in which to practice participation in that the spatial area covered by a region makes it possible to maintain personal contacts and the value of and reasons behind the matters to be settled are easier for the citizenry to understand.

The demands made on Parliament, the parties, the technocracy and the Government which, as stressed above, they have to meet if they are to play their planning role effectively, are the same with regard to participative planning. Information agencies and the communications media are of course indispensable if permanent contact is to be maintained with the social groups and the population in general.

In the sphere of sectoral policies, participative planning demands a careful selection of crucial issues which involve the population, and as everyone knows, such issues are usually covered by social policy.

Attention is often drawn to the participative potential of education, housing and health. It would be more meaningful to identify those areas which call for intensive participation and are capable of generating self-sustained action. It lies outside the scope assigned to this document

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to present a detailed consideration of the participative potential of each particular social policy in detail. In any case, where all such policies are concerned, it is necessary to ensure that the felt needs are channelled towards the relevant decision-taking bodies, avoiding the support or consultative mechanisms called into play in connection with authoritative decisions.

Finally, in participative planning an attempt is made to identify those responsible for social action in terms of their projects and motivations.

#### 4. Participative planning and concerted social action in Latin America

The structural heterogeneity, the broad social gaps, the weaknesses of the State and the recurrence of the authoritarian phenomenon, among other factors common to the region would be enough to discourage any attempt at participative planning and social co-ordination. In spite of these and other drawbacks which have not been mentioned, encouraging signs of progress are to be observed in the countries of the region.

Those aspects of participation and social co-ordination which have the most distinctive Latin American Flavour have to do with the democratic system. It is in fact possible to argue that the consolidation and strengthening of democracy in Latin America depend on the achievement of a social contract or some form of concerted social action.

The political changes introduced in the Andean subregion at the end of the last decade and the beginning of the present decade have resulted in significant modifications in the types of political participation prevailing in Ecuador, Peru and Bolivia. The new systems make it possible for the body social and politic to be represented more effectively in collective decisions and in particular in those relating to participation. This, however, amounts to more than an attempt to improve representativeness in that the political ideas promoted by those governments are aimed at turning planning into an instrument of democratic consolidation. In other countries

of the region, democratization processes are observed which obviously point to the existence of greater political participation and participation in general. The case of Brazil is used as an example in this connection. In its reply to the ILPES Questionnaire it noted that "following a long period of centralism, an attempt is now being made to redefine the political system within a framework which is more decentralized and participative".1/

Secondly, attention should be drawn to the fact that the constant enlargement and growing complexity of the Latin American State has resulted in a new need to co-ordinate the various institutes, enterprises, autonomous bodies, etc., which constitute the State apparatus. The State response to the demand must come in the form of a dual process of intra-bureaucratic co-ordination and incorporation of the different social sectors which are the objects of State action. This explains the proliferation of sectoral committees made up of civil servants and the supervisors of social organizations. The need for such action naturally becomes more pressing when the central government and the public enterprises and autonomous entities sector are of a significant size. This is the case in Mexico, Colombia and Venezuela, among other countries. A recent inquiry into the Sixth Plan of Venezuela shows the achievements and drawbacks of Sectoral Planning Committees.

Thirdly, in spite of all the limitations which can be observed, regional planning seems to be the sphere in which it is most feasible to incorporate the groups at the base of the social pyramid into the tasks of the Plan. This is also the view of the governments, which, in their replies to ILPES, tend to identify regionalization (decentralization) with participation especially when the decentralization extends to the communal or local level where it is possible to articulate the presence of organized social groups with representatives of the governmental apparatus.

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1/ Reply of Brazil to the ILPES Questionnaire, p. 1.

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Thus, for example, Panama's experience with regional planning exceeds the norm which prevails in Latin America. Strictly speaking, participation in regional plans requires an original political model.

Fourthly, the surveys also show that some countries have fairly recently established governmental programmes aimed at promoting and assisting marginal urban and rural areas. Two points need to be made in connection with this.

First, not all countries have special programmes for such groups. In those cases it is assumed that the social programmes available for the entire population also cover marginal, urban and rural sectors. However, they are known to give preference to the demands of the organized social sectors (working class groups and middle sectors), to the detriment of persons, such as those in the marginal groups, who are not so well organized. For this reason, it is very likely that unless special programs are provided, such marginal groups receive insufficient attention.

Second, the policies which are applied are limited and circumscribed, their coverage is generally local and they are directed at specific groups. They are not articulated within the general planning framework, and often they correspond to isolated ideas which have their roots in various kinds of projects generated by both international and national agents.

In the social policy carried out by many governments, preeminence is given to integrated rural development programmes implemented for the purpose of raising the standard of living of the peasants living in economically depressed rural areas.

The case of Mexico is interesting in this connection; "there are three very distinct facilities: the Integral Rural Development Programme (PIDER), the Mexican Food System (SAM) and the Programmes carried out by the Office for the General Co-ordination of the National Plan for Depressed Areas and Marginated Groups (COMPLAMAR)".<sup>1/</sup>

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<sup>1/</sup> Response of Mexico to the Inquiry on participation in planning.

The great majority of the countries of the region have reported on formal and informal educational policies, preferentially aimed, here again, at rural sectors. Their basic objectives are literacy and the increase in the number of school enrolments; there are also a smaller number of technical and sanitary educational programmes. With respect to the national systems of formal education, present in all the countries which answer the survey, a greater degree of participation is shown although this is only in the policy and plan formulation stage and is normally of a consultative nature.

As for the housing policy, the situation varies. There are countries which have a State system for financing housing, under which experiments of a co-operative type are carried out. Self-help building is also of considerable importance in a few countries in producing housing solutions, those solutions consisting in the provision of a minimum services infrastructure --pipelines, electricity, water and site.

In nearly all the countries there are primary health care programmes, which are carried out on a regular basis but do not meet the needs of the population.

##### 5. The search for concerted social action

As soon as it was institutionalized, Latin American planning tried to create bodies within the system to promote the tripartite discussion of planning among representatives of the governments, the entrepreneurs and the workers. Paradoxically, the search for ways and means of taking concerted action has taken place on the marginaling of such bodies when they have existed and, in general, tends to be led by other formal and informal mechanisms through which the governments establish contact with the entrepreneurs and the trade unions to learn their views and where their interests lie.

/In Honduras,

In Honduras, Peru, Venezuela, Mexico and other countries efforts to set up forums, machinery and institutions designed to facilitate the ways and means of social co-ordination have been reported; in any case this is the field in which the most progress might be expected to be made in the future.

Although the present critical conditions may not favour a global co-operative movement, planning might nevertheless manage to become a political instrument which, by lengthening the time span in which it works, makes it possible to redefine the interests at stake, making them compatible with one another. At present, the share of the working class in a stagnant social product cannot increase without impairing the real income of the entrepreneurial groups or disappointing the more or less immediate expectations of those same groups. Of course it is likely that those groups will adopt defensive strategies which will affect the rate of investment --unblocking investments or savings, flight of capital, hoarding, unproductive investment, raising their propensity to consume, etc.--, with the result that the initial stagnation or poverty will become more marked, which in turn will increase the possibility that the workers will take radical measures. The entrepreneurial groups also may develop offensive strategies for the purpose of obstructing greater participation of the workers in the product, even to the point where they ask for more authoritarian political conditions.

Consequently, in State action there is a choice between one or the other type of interests without the possibility of achieving the relative satisfaction of both being entertained, which throws the democratic processes into jeopardy.

If the time frame is extended as mentioned above, this might lead to a redefinition of interests by the productive sector as a whole, which would be accompanied by long-term

/investment policies

investment policies based on an assumption of reasonable growth rates for the sector and growing participation on the part of the workers in the future results. This would make it significantly more likely that the workers would adapt their collective behaviour to be in harmony with those goals.

The up-dating of a scenario with those characteristics means facing problems which cannot be overcome by entrepreneurial and worker strategies based exclusively on resources derived from economic relations, so that it becomes necessary to create a social environment where discussion can take place.

Moreover, the very nature of the capitalist economy means that the entrepreneurial groups in and out of themselves are also unable to achieve the effective overall co-ordination of the individual behaviour of their members, at least to the extent required, since the various entrepreneurial units are in competition with each other and therefore do not fit in to this general context. Consequently, entrepreneurial behaviour cannot be adapted to the general framework unless there are extra economic mechanisms to make it rational insofar as the units involved are concerned.

In the case of the workers, the presence of such mechanisms is even more essential since their ascent to a national development strategy such as the one suggested depends on their expectation of future benefits to be consolidated over the long term; there is also a need for an effective political guarantee of fulfillment without which conditions will be so uncertain that a redefinition of interests will be impossible.

Another example of distributive conflict (possibly more relevant in the context of economies which are not very well developed) concerns the income appropriated by the State from the exploitation of resources, such as petroleum in a quasi-monopoly or situation of great international demand. Here the

/absence of

absence of a structure governing economic relations which would provide a background against which the conflict could be resolved, means that from the beginning the processes and mechanisms of distribution are extra-economic, i.e., political. Nevertheless, there can be alternative ways of resolving such a conflict (always provisionally), two of which are discussed below.

If the conflict in any way involves the satisfaction of immediate interests, distributive action by the State is subject to all kinds of pressure and manipulation by groups concerned with those interests. Typically, distribution will come in the form of subsidies with no greater consistency than that provided by the social distribution of power.

This kind of solution favors fragmentation into spheres of influence and interest groups making it difficult to consolidate those interests which are more general, comprehensive and permanent. As a result it obstructs the allocation of resources for the achievement of growth targets and therefore strengthens the various conflicting groups in their refusal to co-operate once the income of the State is significantly reduced because the possibilities offered by the international market have dried up or because of fluctuations in that market.

Thus, an approach to resolving conflicts related to distribution which in theory tended to keep the democratic political structures in place can in fact produce the opposite effect when the economy is at a critical phase.

If, however, there is a change in the time frame in which the interests at stake are defined, a national development strategy may thrive.

If the social groups are to adhere to and act in accordance with a global strategy of this kind, there is a need for general mechanisms which will provide an effective guarantee that the global strategy will be implemented.

/Planning can

Planning can provide for such a system of extra-economic mechanisms which can change the time frame as required. However, the large majority of social groups also demand real opportunities for gaining control over such mechanisms. Once they are released from what is assumed to be the will of the dominant groups or of certain politico-administrative agents, it may not be reasonable, from their point of view at least, to adhere to a global development strategy and it would certainly not be reasonable for them to abandon short-term strategies which are incompatible with the global strategies in pursuit of future benefits whose attainment is basically in doubt.

It is at this point that participation emerges as a true key to the problem in that it would make it possible to institutionalize the control required if planning is to play the role mapped out for it.

Obviously, social groups might gain control over each other and also over the State by drawing up defensive strategies which are put into operation through non-institutionalized channels. However, this option has a fair amount of disruptive potential and if adopted can considerably reduce the likelihood of normal democratic growth.

Enough has been said to show that a link exists between political democracy and concerted social action and also that planning of a participative nature plays a key role in the forging of that link.

V. INCORPORATION OF THE ENVIRONMENTAL DIMENSION  
IN PLANNING

1. Introduction

At the risk of oversimplifying, it could be said that the essence of the work of global planning which has gone on in Latin America has mainly been concentrated on two types of tasks.

The first task is the achievement of an optimal allocation of scarce financial resources between consumption and investment (distribution over time, which ensures a dynamic growth of future product and consumption), and between a multitude of alternatives for current investment (intersectoral distribution, which ensures the future adjustment between the structures of global demand and supply). This optimization exercise is carried out in terms of annual monetary flows, such as production, saving, investments, consumption, exports, public expenditures and the other familiar variables of national accounts.

However, these flows are the result of the use and transformation of the total stock of natural resources and the environment, a process in which the natural heritage of the society is changed both positively and negatively. The incorporation of new arable land by a process of expansion of the agricultural frontier, the creation or obsolescence of a resource due to a technological or behavioral change, or the accelerated desertification of semiarid lands due to overexploitation alter the productive potential of the society, but are phenomena to which the formal planning studies often do not pay enough attention. On the other hand, the investment required to replace exhausted or obsolete fixed capital, or to expand it, is a key variable in planning. In other words, the constructed environment (the fixed capital of the economist) is a carefully planned and accounted for total quantity, whereas the stock of natural resources and its ecosystemic qualities, which have as much or more importance for the existence and future development of the society, are frequently left out of planning and economic computation and calculation.

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These second basic task of planning is to achieve macroeconomic consistency. Financial stability requires that there should be a tendency towards a balance between global supply and demand and saving and investment in order to avoid inflation or recession. Fiscal income must be offset by expenditures, external purchases by foreign exchange income, and labour demand by supply if the aim is to avoid respectively, imbalances in the fiscal budget, an unfavourable balance of payments and unemployment, and their undesirable consequences.

However, it is also becoming necessary for planning to concern itself with carrying out similar, more frequent and better exercises in consistency with respect to the demand for and supply of the natural resources which are the material and energy base of development. For example, it is necessary to improve methods and systems of analysis of the requirements for pure water due to urban expansion, industrial projects, or the extension of crops and their irrigation needs, determining the deterioration of the quality of water that these uses imply. Account must be taken of the fact that this pure water is "produced", inter alia, by the forests covering the hillsides of a basin, and that the deforestation of these hillsides and the use of these soils for other purposes may thus be incompatible with projects of urban, industrial or irrigation expansion. And just like water, the soil, flora and fauna, air, sea resources and tributaries of the ecosystems which interconnect these elements --and their capacity for reproduction, regeneration and assimilation of waste-- are limited, alternatives use factores essential to development.

The incorporation of the environmental dimension in planning thus means creating among planners, and in their planning methodology the awareness and ability to consider natural resources and their ecosystemic characteristics as scarce and alternative use resources; expandable, reproduceable, capable of deteriorating and being exhausted, according to how they are treated; interrelated with each other and with human activities in many complex ways; whose use inevitable implies costs and benefits which affect the different social groups in various ways;

/whose costs

whose costs may be minimized or even avoided, and whose benefits may be increased by appropriate environmental management; and where a thorough and creative, scientific and technological study may generate interesting opportunities for taking advantage of the environment for developmental purposes. <sup>8</sup>

Obviously, the incorporation of the environmental dimension in planning does not merely consist of adding a chapter or appendix on the environment to the development plan. Its deep significance consists of systematically examining, from the beginning and throughout the entire process of planning, the opportunities and potentialities as well as the risks and dangers inherent in the use of the natural resources of the society as a basis for its development.

Moreover, natural resources, the constructed environment and ecosystems are not abstract categories in a planning model; they are spatial-regional, concrete and interconnected realities. Thus the incorporation of the environmental dimension in planning also necessarily implies that the latter process must be expressed in terms of the use of space and natural resources, which must have a concrete geographical specification, and that the process of territorial organization thus becomes a determining factor.

The planning methodology which has been generally followed in Latin America has paid little attention to the above considerations, largely because, like the development strategies themselves, it has been very influenced by a style fundamentally based on imitation of the patterns of development of the industrialized countries.

This methodology has thus meant, among other things, that the structure of global demand has very little relationship with the structure of the real resources of the society.

One result of this profound maladjustment has been the very crucial role of foreign trade and external financing in the countries of the region. As demand is structured on the basis of the international tastes and preferences of the middle and high income sectors, these must be satisfied by importing the corresponding goods and services, or the technological

/inputs required

inputs required to produce them locally. As a result, natural resources must be specialized to produce for these new domestic demands, or to generate the necessary exports in order to finance the imitative consumption and life styles. In the food production process, this frequently means that traditional crops are displaced, and this leads to a serious deterioration and exhaustion of the corresponding resources.

The incorporation of the environmental dimension in planning could also be reduced to studying the environmental impact of development programmes and projects. This approach, although also necessary, is passive, partial and fairly often unilaterally conservationist. But something else is needed, namely an approach which considers the environmental, natural resources base of the society as one of its principal potential development factors, along with its human potential.

Genuine development can only result from a rational and sustainable use of the resource base of the society, through the adoption of appropriate technologies and an equitable and efficient social organization.

This in no way implies that an autarkic development is proposed. It is obvious that the countries have much to gain from international trade and specialization in activities with comparative advantages. However, what must be avoided is overspecialization which leads to mono-exportation, and it must be understood that the comparative advantages are not a given, but rather can and should be created through a dynamic process designed to penetrate the international markets. Nor it is a question of excluding technologies and imported patterns of consumption, but rather of evaluating their social, economic and environmental effects, carefully and critically and thus discriminating through appropriate policies.

Finally, it is interesting to recall, as mentioned at the beginning of this chapter, that conventional economic theory and the policies derived from it deal with flow or short-term variables, on the assumption that the long-term variables related to the store of natural resources, scientific and technological knowledge, patterns of behaviour, etc., are constant or change very slowly. The compatibilization of the flow

/variables, as

variables, as indicated, is essential to short-term balance. The compatibilization of the long-term variables related to natural resources, population, knowledge, culture and international relations with each other and with the short-term variables is essential in order to achieve a socially, economically and environmentally sustainable development over the long term. In other words, the flow variables have an influence on the variables related to the structure of resources, population, culture, etc.; although their influence is modest in the short run, it may be very significant in the long run. The long-term implications of short-term political measures should thus be carefully studied in any planning exercise. Moreover, development policy requires explicit long-term policies in areas such as education, territorial management, population, and science and technology, which in turn must be compatibilized with each other and with the short-term measures. These in fact are the so-called structural variables, which are assumed to be constant in the current economic policy, but which become crucial variables in long-term planning, where environmental considerations acquire all their significance.

2. Means to a better incorporation of the  
environmental dimension  
in planning

The balance sheet of the situation of Latin America with regard to the incorporation of the environmental dimension in planning certainly does not show positive results. On the contrary, the environmental situation in many areas and various productive processes tends to be growing worse, meaning that the traditional planning system of the countries does not seem to be the most promising way to incorporate fully the problem of the environment.

An analysis of the various levels of planning shows clear differences in the degree of incorporation, and especially in the effects achieved at each level. There is no doubt that more efforts are being made every day to achieve this incorporation at the macro-planning level. The inclusion

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of the environment as a basic factor in development is now widely accepted and results in more explicit proposals when global objectives and approaches are defined.

Thus, some characteristics of a different development style at the level of global, long-term objectives, strategies, policies and plans would be aimed at achieving a dynamic economy which would see, to maximize the levels of standards of living; to reduce and finally eliminate social and economic inequalities; to make possible an appropriate, fully participatory, political order; and to achieve an environmental and energy sustainability. To this end, activity at the macro-economic level should be guided by a long-term planning with a social approach. This requires the identification of long-term policies based on three major global objectives, which could be summarized as follows: quality of life; self-determination and environmental sustainability.

At the other extreme, the micro-economic level, there is also a growing tendency to incorporate the environmental dimension both in management and in the analysis of the impact of investment projects on the environment.

A fundamental problem lies in what could be called "meso-planning", which means that, on the one hand, the global or macro proposals are not presented adequately and, on the other hand, at the micro-economic level there are no specific guidelines and adequate frameworks, and there are disjunctions in relation to the entire system.

For these reasons, an exploration of ways to achieve a better incorporation of the environmental dimension in policies, shows that the most appropriate appear to be sectoral planning, planning of human settlements and water basins, and the combined approach of multiregional planning and determination of relevant processes.

Better incorporation in the traditional sectors (agriculture, mining, industry, education, etc.) will require an effort to ensure that those responsible for sectoral policies take into consideration environmental factors. Whether there is greater or lesser attention paid will depend

/on the

on the development objectives and priorities proposed by each economic sector. The planning of the various economic sectors is usually structured on the basis of the growth of the product and the income of the sector. Although other development objectives appear to be explicit, such as the creation of jobs and on some occasions the elimination of poverty and satisfaction of basic needs, the goals of growth apparently have priority over the others.

In sectors such as agriculture, the pressure to increase growth leads to an inadequate assessment of the environmental dimension. Here two problems arise. One is the effect on the ecosystemic wealth, a question which remains unrecorded because of the lack of national heritage accounts. In the agricultural activity, since it deals with the alteration and modification of productivity and type of production of natural ecosystems, its ecological cost is high and the problem is detected only over the long term. Moreover, when new spaces in the forestry and agricultural activity are incorporated, part of the accumulated ecosystem is usually harvested, to the detriment of the natural heritage.

In industrial planning, a noteworthy effort is currently being made in Latin America to develop this branch, except in the exceptional case of some countries. In the cases of planning with a protected or controlled market, the State tries to stimulate industrialization basically by seeing that the investments offer high private short-term profitability. Herein lies the main stumbling block to incorporating the environmental dimension, since the "internalization" of environmental costs is in contradiction with this high profitability, and this keeps many economists and planners from introducing these concepts.

In the efforts being made to localize industries, a series of environmental aspects should also be considered, based on the organization of space; among these could be mentioned the population, included the capacity for absorbing the wastes of the ecosystem affected, the mobility of the labour force, the transport of inputs and products, competition for the use of given resources such as water, etc.

/Policies being

Policies being generated in the social sectors need to go more deeply into the structural causes of the state of the society, so they can promote measures aimed at solving them; thus, the problem of controlling levels of pollution are usually dealt with in the public health agencies of the ministries of the sector, but dealing with the causes is outside the realm of these ministries.

The solutions proposed through planning of human settlements are a result of the growing importance of urban problems and the high growth rates of the cities, particularly of the metropolises. Urban development policies thus can make integrating proposals where a series of sectoral and spatial policies can converge. In view of the magnitude of the problems and population involved, the cases of metropolises or metropolitan regions undoubtedly justify an ad hoc treatment, but one which is obviously related to regional planning.

The solution by means of regional planning, as stated earlier, is an interesting and appropriate way of incorporating the environmental dimension, especially by the retention of fiscal surpluses, and environmental management which considers investments more in line with regional dimensions and characteristics.

In the regional treatment it must also be made clear whether it can be presented through traditional areas or whether it will be necessary to create specific areas based on the importance the environmental problem may have in the latter. Undoubtedly, if it is possible to create specific areas and provide them with the necessary political and legal instruments, a greater incorporation of the environmental dimension into the problematic of development will be achieved.

The planning of water basins fits in with this objective, since it is based on the environmental management which could possibly be used to deal with water and related resources. But experience in the management of basins points up a series of difficulties which need to be faced. In the first place, the excessive rigidity displayed in too strictly establishing the physical limits of a basin has often meant not considering the integration of one sector of a basin with another, or treating as one unit

/sectors from

sectors from the same basin which would perhaps have been more suitably treated separately, or the incorporation of the analysis of potentials for inter-basin water transfer. Secondly, many of the plans for water basins have been made by trying to superimpose a new system of planning on the existing one, thus entering into conflict with it. This has led to institutional difficulties, lack of co-ordination and conflicts to define institutional power, rather than doing a complementary and co-ordinated job. Something similar occurs when areas are defined on the basis of a large infrastructural investment such as a hydroelectric dam, an irrigation project or an area for intensive agricultural treatment.

Solutions by defining "relevant processes" are an interesting method to be explored, to the extent that traditional planning does not satisfy the requirements of the environmental problem. This method tries to define processes of development where there is a closer interrelationship between the socio-economic area and the environmental area, both in reference to possible negative repercussions and to possibilities for a creative and positive change. These processes may have different degrees of generality or specificity; a general process might be urban development, a more limited one that of a marginal urban area, and another even more specific one the supply and organization of transport in this area.

In this way innumerable processes may be defined based on the problems and potentialities of each country, establishing its own priorities. Some of these processes are present in nearly all the countries: industrial localization; industrial pollution; urban air pollution; management of national and other parks; management of wildlife; urban-regional land management; expansion of marginal urban areas; use of agricultural land in urban expansion; food contamination by insecticides; deterioration of soil used for forestry and agriculture; forestry and pastureland management; peasant development; management of water works; development of irrigation and drainage areas; expansion of the agricultural frontier; mining pollution; pollution caused by petroleum transport; management of coastal marine wildlife; sea pollution by land waste; management of mangrove swamps, etc.

/If it

If it is decided to adopt this method to incorporate the environmental dimension more efficiently, inter-agency commissions will need to be established with powers of execution and co-ordination as well as with the necessary resources. It does not seem appropriate to propose new special agencies, except in some cases, since the basic need, rather than to create new functions, is to revitalize actions already assigned to agencies and/or to co-ordinate them with each other.

With this planning method there is the danger of seeing as priorities exclusively those the processes which deteriorate the environment, leaving aside the importance of incorporating the environment in the planning of a positive transformation of nature. In other words, there must be some assurance that it is not a question of exclusively holding back deterioration but also of planning and managing nature with a view towards its long-term reproduction.

In recent years there have been various methodological advances in the treatment of some relevant processes. Under the ECLA/UNEP project on horizontal co-operation in Latin America on styles of development and the environment, four of these processes were studied in order to recommend policies which would duly incorporate the environmental dimension. These were: environmental management of large-scale water works, expansion of the agricultural frontier, metropolitanization, and peasant survival in high-level ecosystems.

It is interesting to note the following aspects of an overall analysis of the four processes:

(i) there is a need for an integral, historical and long-term approach which would analyse the various transformations of the environment in relation to flows of material, energy and information;

(ii) the main factors influencing each process are those related to economic decisions based on the need to increase production and/or the well-being of the population; for this reason the environmental dimension is considered only in so far as it does not enter into contradiction with these short-term objectives, or when the environmental deterioration is serious enough to generate these contradictions;

/(iii) the

(iii) the predominant development style in Latin America tends to leave its mark on each of these processes; thus, environmental management must adapt itself to the trend towards hugeness in water projects and towards energy priority; the expansion of the agricultural frontier responds to the productive need generated by domestic demand and the international market; metropolitanization sums up the polarization of social forces and the negative distribution of income and environmental wealth; and problems of peasant survival are basically derived from the exogenous technological model adopted by agriculture;

(iv) the above four processes have clear spatial manifestations, a fact which suggests the appropriateness of co-ordinating them with regional planning. For one of them, the process of environmental management of large-scale water projects, it is difficult to define the area and spheres of influence;

(v) the processes present the need to incorporate the environmental dimension beginning with the formulation of plans, programmes and projects so that policies being developed take the environmental dimension into consideration from the start;

(vi) in the four processes the solution of the most important and serious environmental problems does not depend so much on the recognition of the problems or on the technological instruments used, but rather on the possibility of removing social and political obstacles to make the recommended policies feasible.

In analysing the most appropriate ways to incorporate the environmental dimension more fully in the specific policies, the best seems to be to determine the significant processes and their spatial location in specific region or areas. In this way the policies adopted will harmonize short-term with medium and long-term plans.

The experience of some Latin American countries can also provide valuable background. For example, the worsening of air pollution in the specific area of a given metropolis has led to activating and formulating specific policies to be applied in the area. Another example, but of positive transformation, could be the experience in areas of integral rural

/development. In

development. In some of them planning has been in the traditional form, but in others more ingenious idea has been used which has resulted in an environmental management of the resources, thus making possible a sustained, long-term development.

### 3. Conclusions and recommendations

All of the above, as well as the development planning experience in the Latin American region, might make it possible to draw a series of conclusions or recommendations with respect to the incorporation of the environmental dimension in planning processes in Latin America. It is obvious that this idea is still in the exploratory phase, and that each of the following points is rather a preliminary outline of a path which would have to be defined through action and reflection, with an understanding that each item would be an orientation to be developed in the future:

- (a) Planning must be based on the most complete evaluation possible of the natural resource potential and sustaining capacity of the environment. This means, among other things, in addition to the traditional concern for flows (or transformation processes) there must be a greater concern for stocks (or heritage of natural resources) and on this basis the process of planning must be guided.
- (b) It is necessary to strengthen regional planning and territorial management and create, when necessary, ad hoc systems to deal with environmentally relevant processes. These seem to be the best ways to establish a system of planning with an integration of the environmental dimension.
- (c) It is essential to impart general knowledge on the environment and ecology to university professionals, especially those who will later become planners and executers of projects. Scientific environmental training is basic both for creating awareness and the possibility of interdisciplinary work and for understanding the complex challenges posed by the environmental question.

/(d) In all

(d) In all formulations and evaluations of a project, programme or plan of any significance, it is necessary to introduce obligatorily a prospective, long-term study which analyses its objectives and probable and possible consequences over a long period of 10 to 20 years on the population, territorial management, use of resources (soil, water, energy, etc.), education, science and technology, patterns of consumption, life styles, and international relations, and which will generally have long-term effects in one way or another on the environment.

(e) It is urgent to promote the establishment of institutions which would analyse, study and debate long-term strategies, emphasizing the broadest framework of the natural resource potential and environmental quality.

(f) It is essential to start taking accounts, inventories and surveys of national wealth indicators. Thus, emphasis will be placed on the development of the productive potential of the environmental supply and not merely on the short-term economic flows measured by traditional national accounts.

(g) Global planning must become the field for the adoption of long-term strategies on population policies, education, science and technology, patterns of consumption, international relations and use of resources and the environment.

(h) Regional planning will be the appropriate field for policies on territorial management, organization of space, localization of productive activities, development of resources, migrations, ecosystems, etc.

(i) Sectoral planning must emphasize technological options and alternatives, in all areas referring to the use of scarce resources, environmental deterioration (pollution) and scientific and technological development in specific sectors.

(j) It is essential to institutionalize the interaction among global, regional, sectoral, human settlements, basins and specific project areas, without hindering the creation of the necessary ad hoc systems and methods. This is the only way of developing the potential of economies outside the options provided by a long-term view of integrating plans and planning levels: integrated projects in regional and national plans versus isolated, one-time projects. In brief, it is a question of organizing a system and

style of planning which defines concrete ways of really incorporating the environmental dimension and which use the current instruments of planning available as well as new developments in the area. The establishment of a sector on the environment is thus very different, in practice, from the creation of plans, programmes and projects on this subject.