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FOREWORD */

1. This document was prepared as a support paper for the discussion of the Agenda proposed for the Fifth Conference of Ministers and Heads of Planning (see Document CM 5/2), its aims being to provide some background data and raise some issues to stimulate the interchange of experiences and ideas on this occasion. It was originally presented to the Technical Sub-Committee Meeting held in Brasilia in December 1984, where comments and observations were made which are incorporated here.

2. The background data and arguments advanced in this paper are naturally relative, in the sense that they are not valid for the whole of the Region, nor do the issues raised reflect with absolute uniformity the problems which are most pressing in each country. The interest of the work lies in its usefulness for suggesting to the members of the Fifth Conference some items which might serve for discussion within the Agenda.

3. The first section presents the main items proposed for concurrent debate at the First and Third Plenary Meetings:

- The external crisis and the reactivation programmes of the 1980s; and
- Economic and social policies: the role of the State in the tasks of the future.

4. In the second section questions are raised on two other items associated with the above-mentioned and which will also be considered in the Working Group and at the Second Plenary Meeting:

*/ This is an updated version of Document ST-VII/5 distributed in November 1984.

- Problems of decentralization in governmental decisions; and
- Employment, income and social programmes in the second half of the decade.

5. Despite the broad character of the Agenda, it is far from being exhaustive, and concentrates on aspects of economic and social development more in line with the activity of the national planning agencies. This explains in part its omissions in respect of sectoral dimensions of development (especially in the case of each productive sector: mining, energy, agriculture, industry, etc.), the specific policies for which are usually the responsibility of other government institutions.

6. Hence, the present document does not claim to be a diagnosis, an analysis or a presentation of a thesis. As indicated above, it merely seeks to provide a subject platform which may give more effectiveness to the exchange of experiences at the Fifth Conference. The decision to produce it - adopted at the intergovernmental meetings preparatory to the Fifth Conference - was based on the belief that the background data and current issues set forth here will assist each Delegation - freely and independently - to prepare its own contribution to the discussion.

PART ONE

THE CENTRAL ITEMS OF THE FIFTH CONFERENCE

7. The information available on the implications of the crisis for the development of the countries and on their modes of planning and applying public policies suggests that this Fifth Conference will be an exceptional forum for the exchange of experiences. Indeed, now that we are half way through the decade, we can rely on a better assessment of the recessive crisis and anticipate the role that planning and the co-ordination of economic and social policies should play in the near future for the recovery of development.

8. It is proposed that the debate should be organized mainly around two items: The External Crisis and the Programmes of Economic Reactivation, and The Role of the State, of Planning and Public Policies in the Promotion of a new development to be sustained in the medium term. Since the two items are closely related it has been decided to discuss them at plenary meetings and simultaneously. In this introductory paper, however, they will be treated separately.

Item I:

THE EXTERNAL CRISIS AND THE REACTIVATION
PROGRAMMES OF THE 1980s

9. The international recession and the way in which each national economy has coped with it, have redefined in no uncertain measure, the framework of the external relations of the Region in the coming years. Moreover, the modalities of debt renegotiation and the adjustment programmes already adopted have conditioned the more immediate options of reactivation and, in some cases, have limited the alternatives of development which should be undertaken in the near future.

10. There are numerous indications that the recovery of the South is affected by the reactivation of the North, particularly in the short run, and that, in the North, the internal dynamics of the North American economy plays a vital role. It is generally agreed that the recent reactivation in the United States (1983 and 1984) will not spread with the necessary speed either to Europe or Latin America and the Caribbean. This trend runs counter to a rapid expansion of the exports of the Region or an improvement in its terms of trade. Thus there is little prospect that the Region will be able to generate a significant export surplus without having to depress still further the already low level of imports. On the financial plane, the fiscal and monetary policies of the United States will also play a decisive role. In this respect, there is still no certainty of a sufficient reversal of the high interest rates and expectations persist of a scarcity of "new" credits (that is, not committed in the "roll-over" of the external

debt). Even more than in the past, reactivation and development depend on specific national policies, coherent and deliberate.

11. In several cases, the arrangements adopted for renegotiating the debt have meant the postponement for a short period of the bulk of the expired maturities, which only defers the basic problem. Furthermore, the adjustment programmes adopted have tended to sacrifice the levels of investment and with this the necessary expansion of productive capacity (the coefficient of investment as a percentage of the product fell from 23.9% in 1980 to 16.7% in 1983 for the Region as a whole).1/ Moreover, they have seriously affected the levels of basic consumption, giving rise to a mass of urgent needs with the resulting social pressures. These, in their turn, have been aggravated by unemployment (open unemployment in the Region rose from 6.9% in 1980 to 10.8% in 1984).2/

12. In these circumstances, many member governments find themselves compelled to redefine their short-run macroeconomic policy, seeking reactivation at the productive level without generating or accentuating inflationary pressures, where these exist. At regional level the simple average rate of consumer price increases rose from 66% in 1983 to the record figure of 145% in 1984; the rate weighted by the population rose during the period from 130% to 175%.3/

1/ When this document was completed the figure for 1984 was still not available.

2/ Sample of twelve countries, including all the largest. (PREALC: "Después de la Crisis: Lecciones y Perspectivas", ILO, Santiago, Chile, October 1984, p. 17).

3/ ECLAC; "Balance Preliminar de la Economía Latinoamericana a 1984", CEPAL, Santiago, Chile, January 1985.

It is fitting, therefore, to discuss the main problems and alternatives involved in the design and application of macroeconomic programmes, enriched by an interchange of the most recent national experiences. Naturally, such a discussion might in some cases call for the consideration of alternative development models less dependent on exports and on imported supplies, in order to lessen the external conditioners.

a) Programmes of productive reactivation and servicing of the external debt

13. A crucial element nowadays is the close relationship between the external debt and the gross domestic product; hence the payment of a high annual interest rate means that the same percentage of the product has to be earmarked for this purpose. But, as is well known, the interest rate prevailing in the international capital market is higher than the foreseeable growth rate of the economy: hence its servicing may imply a further compression of domestic consumption and investment. Various predictions as to the trends of the international economy indicate that Latin America and the Caribbean will not be able to grow at the rates of the 1960s and 1970s, which were close on an annual average of 6%. Nor will it be possible in most cases to generate the export surplus needed to pay in full the interest of the external debt. In other words, without a long-term response to the debt problem, the reactivation of production will continue to be obstructed by the external constraint. The alternatives for removing or reducing this constraint certainly constitute a central topic for the debate.

b) Adjustment between export promotion and import substitution

14. The reduction of this external constraint involves critical decisions on the allocation of resources. Some research is obviously needed on the sectors that should have priority in incentives to produce the scarce foreign exchange through exports (traditional or new), or through import-substitution activities. The countries certainly differ as to the limit they should impose on their substitution effort to avoid falling into gross inefficiencies in resource allocation in the long run. These are pertinent areas of inquiry, even where notable results were obtained from the export effort of the Region, since it did not always achieve a like success in the balance of payments owing to the instability of export prices. In several cases this frustration was aggravated by the excessive supply of exports or by the protectionist practices of the industrialized countries. In several countries the need has again arisen to seek new economic import substitutions and a new strengthening of regional co-operation. The advances in regional relations achieved at Quito and Cartagena point in this latter direction.

c) Recovery of capacity for domestic saving

15. Despite the diversity of options open to the member countries, almost all of them need to raise the level of domestic saving, both public and private. In view of the fiscal crisis and the vulnerability of the domestic capital markets in the Region it is desirable to exchange experiences on the solutions that have been tried. This interchange includes topics such as the following: tax reforms which increase public saving and do not discourage private investment; institutional reforms that might be promoted to remedy or strengthen the domestic capital markets and measures of control exercised over the flow of capital abroad. Consideration

of realistic proposals on these subjects is even more necessary in those countries where the reactivation of production is pursued on the basis of a greater local effort.

d) Reduction of internal disequilibrium

16. This task of reactivating production in the economies cannot be dissociated from the effort to reduce the market internal disequilibria on the financial front. In this respect, several crucial questions arise that will need to be faced. One of the most decisive is how to reduce the existing inflationary pressures without affecting the reactivation of production and the generation of employment and, in association with this, how to prevent the export effort, in its creation of foreign exchange, from having an adverse effect on the internal imbalance. Another key question is how to combine policies of compression of demand with policies that regulated equitably incomes and cost pressures or, in broader terms, how to achieve social pacts and truces in the redistributive conflict in order to attain the objectives of stability and reactivation. Generally speaking, it seems that we can no longer postpone the task of combining stabilization with productive reactivation and only from this standpoint adjust more selectively the "monetary compression".

e) The external relationship in alternative strategies

17. The external crisis and the repercussions of the adjustment policies adopted on the countries of the Region have brought back a classic theme into the debate on development: the discussion of alternative strategies and of the role of the State in their implementation. This discussion is equally valid where in the recent

past there were experiments of a neoliberal nature and where State action was excessively interventionist; on all sides there is a revival of the debate on the substantive context of such strategies and on the limits desirable for State action. Usually there are three main elements in this discussion: first, the choice of the type of external relationship desired (paragraphs 18 to 22); second, the most appropriate form of macroeconomic intervention and governmental planning (paragraphs 29 to 32) and, third, the aspects of distribution and social development (see in particular Part Two of this document). Each of these gives rise to several questions.

18. It is years now since the industrial restructuring in the North began to necessitate a review of the insertion strategies of the South, within the framework of the world economy. As a result of the international crisis and the adjustment processes, the countries of the periphery will have to define - now with more urgency - the policies of external relationship which are more likely to ensure a sustained rate of growth in the medium and long term. In principle, a distinction may be made between three broad lines of options among those available to market economies in the Region.

19. The first might be described as "the quest for an open integration with the North". This would be based on the expectation that the benefits obtained (access to a large external market; facilities for international credit and technological transfer) could be capitalized internally, thus ensuring the sustained growth of production and employment and a general improvement in social well-being. Obviously, in this option the cyclical movements of the Centre would be more readily transmitted to the Periphery, although not always with the same dynamism or with the same significance.

20. A second option, opposed to this, would be based on an "alternative of more autonomous development, with minimal ties with the North and greater integration within the South". The historical analysis of the economy of the Region shows that this alternative depends on the advances made in the regional integration schemes in the direction recently indicated in Quito and Cartagena. There are implications that might compensate for the possible costs of overdiversification in the countries that adopted it.

21. A third alternative might be conceived as "options of selective integration". In view of the polynucleation of the North and the desire to take advantage of its internal differences in productivity and technological development, this would call for a diversified and selective control over the productive branches and the countries marked out for integration. In addition, this alternative would need to be complemented with schemes of subregional and regional integration and co-operation.

22. Any option - within or outside of the possibilities outlined here - will require an explicit co-ordination of economic policies and their relative stability over time. Success will depend, in each case, on a better balance in the conception of the different instrumental economic policies, on a more precise and meticulous co-ordination of the different measures possible and, consequently, on greater efficacy in certain planning operations. All the options assume to some extent the formulation of a political development project which, in each situation, will depend for its legitimacy on the degree of rapprochement achieved between the State and the society.

f) Employment generation: a predominant concern

23. Whatever the lines of strategy selected, the problem of employment will be an outstanding feature in practically every case. The analyses available on the implications of the crisis for social development and on the coherence of social policies over time show that the situation has greatly deteriorated in a large part of the Region. What is required in these cases is a radical reassessment of the concepts which have hitherto inspired these policies, if a process of acute social regression is to be avoided. The outlook on the social front is that we may not only be facing stagnation for an indefinite period but also a drastic deterioration in the quality of life for widespread sectors of the population. The reassessment of employment policies calls for discussion and decision on various issues; among these a crucial question is once again concerned with the development strategies for overcoming the crisis.

24. In effect, the overcoming of unemployment and underemployment is linked with the recovery of the capacity for economic growth and hence this problem will still persist in the years to come. There will remain, therefore, the challenge to formulate plans and strategies for the medium and long term which will effectively give rise to productive job creation at levels compatible with the demographic dynamics of each country and the growth of the labour force. The policies of long-term investment and technological development come to be, from this standpoint, the focal point for the creation of employment and the establishment of more generous patterns of income distribution. This implies that the aim of productive job creation is linked with substantive definitions of the strategy in respect of industrialization, agricultural development, incorporation of spear-head technology and the fixing of new national priorities with regard to services.

Item II:

ECONOMIC AND SOCIAL POLICIES: THE ROLE OF THE STATE
IN THE TASKS OF THE FUTURE

25. This item could certainly touch on basic national definitions which would go beyond the limits of the present debate. The intention here is merely to exchange information on the most recent experiences of the Region, where various options have been tried, some more liberal and others more interventionist in relation to the functions performed by the national planning bodies. A sober dialogue on the results achieved can enrich the experience of the Region in the handling of macroeconomic policy and the planning of development.

g) Diversity of experiences and instrumental creativity

26. The recent history of planning in the Region reveals the most diverse experiences in the orientation and management of the economies of the Region. There are States which apply a centralized control in the economic field; there are numerous cases in which the State confines itself to the indirect regulation of the economy through the application of the classic macroeconomic policies (especially in the fiscal and monetary fields and that of foreign trade), determining a selected set of policy parameters; and in some other situations there are examples of more comprehensive intervention, including - for instance - the direct regulation of the external sector, the capital market or the financial institutions. In each case the Region has displayed a great capacity for conceiving and applying new instruments within the economic policies favoured by each country. The assembling, evaluation and interchange of these experiences is, in itself, a valuable resource for the national planning organizations.

27. As regards development promotion, there are cases in which a general framework of "rules of the game" was fixed, leaving resource allocation to the market. In other systems, more interventionist, it was a function of the State to make deliberate changes in the relative prices (by means of taxes, controls and subsidies) in order to induce a specific pattern of capital formation. In the recent history of the Region intermediate options have also been adopted, in which the State and private enterprise joined forces to stimulate growth. The diverse actual experiences are of particular interest to the planning authorities.

28. Respecting income distribution, the policies observed are also very varied. Sometimes the State took marginal action, guaranteeing a minimum level to the less privileged social sectors. In other cases, the State applied more integral income policies (combining instruments of taxation, wages and expenditure), in order to ensure a more equitable distribution of the available income. The present crisis increases the need for a sober discussion on this subject, from the viewpoint of the national planning bodies.

h) Planning and State intervention

29. As regards modes of planning, one must consider what difficulties and problems should be tackled and how each country is meeting the challenge. Here in particular the degrees of liberty prevailing in each country are not the same as might be theoretically postulated in market economies. The cultural tradition, the institutional background, the effective crystallizations of power within each society, and the organization of the government machine itself - all these closely condition the range of possibilities.

30. In some countries the mode adopted embraces the designing of a development plan accompanied by a set of instrumental policies and action programmes of an executive type. From another standpoint, a situational approach to planning is adopted, with an interactive analysis of problems and action strategies which give more importance to the possible reactions of the social agents (internal and external) at each point in time during the intervention process. In other systems reference to a "plan" is avoided and the different public policies (economic and social) are administered with less explicit medium- and long-term aims and, therefore, with more flexibility for tactical changes of objectives and more agility in adjusting instrumental policies. An appraisal of the situation of the countries of the Region makes it clear that there is no uniform "prescription" for them all. Nevertheless, consideration of these and other questions concerning the planning currently being applied can certainly give rise to fruitful debates in the interchange of experiences at the Fifth Conference.

31. Another topic connected with the foregoing relates to the size of the State, which falls outside the scope of the Agenda and is not a subject for this debate. In the last twenty years the size of the State in several countries of the Region has reached considerable proportions, particularly since the nationalization of mineral resources and hydrocarbons and the development of base and hydro-electric industry. In several countries where such processes have been consolidated a basic question is how to rationalize their operation and increase their efficiency.

32. There are questions of general interest which call for discussion. How, for instance, to insert the sector of State enterprises into macroeconomic planning and regulation. Or how then to utilize

as effective fiscal resources the surpluses generated in various cases by these enterprises (in mining, in energy, in the industrial sector, or even in infrastructure and services). And, in these circumstances, how to programme these resources in the macroeconomic field as a whole and not only in the sphere of each enterprise or specific branch of State activity. In brief, the countries have much to discuss when consideration of the role of the State is broadened to include semi-official activities and the numerous forms of association with private enterprise.

PART TWO

DECENTRALIZATION OF DECISIONS AND SOCIAL DEVELOPMENT

33. As was indicated in the Foreword (see paragraph 4), it has been proposed that, in addition to the two main items presented in the previous section, the Conference should debate two items closely associated with them. Although these are not always the direct responsibility of the National Planning Ministries and Agencies, they always acquire great importance when the subject of discussion is the co-ordination of public policies for reactivation or for the renewal of development.^{4/} These topics are: Centralization and Decentralization in Government Decision-Taking (paragraphs 34 to 39) and Impact of the Crisis on Employment, Income and Public Policies (paragraphs 40 to 46).

34. Two approaches may be identified in the discussion of the first of these topics. One concerns the patterns of social participation and consensus in planning and in the execution of government policies and programmes. The other relates to regional development and to the degree of territorial decentralization, including the aspect of politico-administrative division within each country.

i) Social consensus and participation

35. The first approach would certainly raise some problems which would go beyond the scope of the Agenda, since it might require

^{4/} It will be recalled that the Agenda proposed here follows that agreed at the Sixth Meeting of the Technical Sub-Committee (Mexico, November 1983) and ratified at the Seventh Meeting of the Technical Sub-Committee (Brasilia, December 1984).

a return to the question of the "role of the State" in a perspective even broader than that already presented. The functions of the State, both in short term reactivation and in medium- and long-term strategies, can sometimes raise again the issue of social consensus and participation, which is never devoid of difficulties both political and administrative. This applies whatever level of social participation is proposed: whether it be of a macroeconomic or macrosocial type or associated with the administration of specific sectors, particularly in the sphere of social policies and programmes.

36. The first level has to do with consensus between social classes and groups and between the main segments of the population which the State is seeking to assist, in order to legitimize their objectives and priorities in the field of economic growth, income distribution, consumption and saving, external relationship, etc. From this standpoint, one must decide on the most appropriate method of creating a constructive dialogue, especially in societies where there are persistent conflicts. It may be the constitution of highly formalized collegiate bodies, with official representatives of the organized groups; or, preferably, the promotion of more flexible and delimited bodies better able to contribute to the consensus sought. In some cases it would be necessary to indicate how the tasks of the organs of participation would be linked with the Legislature and other decision-taking entities; and, if a substantive participation were sought, how the different social segments would be objectively informed about the restrictions and alternatives facing the country. Various mechanisms of participation have been set up in the Region during recent years and it would be useful to know the result of such experiences and their prospects for the future.

37. At a second level, participation through specific social programmes also raises its queries. For example, is the aim to achieve the active participation of the users in the different stages of creation and implementation of the social policies? And again, what innovations would this introduce in the centralized administration of such services? There are indications that it may be necessary - as a first step - to organize some institutional decentralization of the services of education, health, housing, etc., in line with each politico-administrative division.

j) Territorial decentralization

38. Certain disparities in the territorial distribution of the population, of productive activity and employment and also of the basic social services and the actual decision-taking process continue to arise as problems for part of the Region. In these circumstances they persist as obstacles to a better distributed economic growth, an effect which is aggravated by the present crisis. It is natural, therefore, that in some countries there are noticeable pressures in favour of a greater degree of territorial decentralization of public administration and, in consequence, of the capacity for decision-taking. These pressures may originate either in a revival of local demands for greater autonomy, or in growing consciousness on the part of some governments of the difficulty of coping efficiently with highly centralized systems of administration. Territorial decentralization may call for new planning regions, or may rely on the existing politico-administrative divisions.

39. In the countries which have this problem it may be pertinent to inquire how to implement a scheme of decentralization which, while meeting regional interests, does not weaken the necessary coherence which - at national level - should be maintained with

the plan or the economic and social policies. In some cases it would be justifiable to formulate territorial (intra-national) plans and strategies, discussed and approved, with social participation at the corresponding levels. In others it may be necessary to strengthen the autonomous capacity for expenditure and budgeting of the regional governments. It may be important, in these cases, to determine which scheme of decentralized administration should be implanted and which functions of the administration should be decentralized; similarly, which organic linkages should be established between the different government bodies to ensure a real decentralization; and, further, what innovations should be introduced into the arrangements for the design of plans and policies. These and other issues may assist the interchange of experiences among the countries by pointing up new solutions in the quest for a more equitable development.

k) Social development, employment and informal sector

40. There has often been a tendency to consider economic development and social development as opposing aims; naturally, this should not become a norm of public policy. Particularly in times of crisis, it is often essential to put forward development strategies which, while dynamizing the process of capital formation, generate increasing opportunities for productive employment and at the same time attend to the social needs of majority sectors. Such strategies - in some cases - imply the strengthening of the domestic market as a nucleus for dynamizing development. Admittedly, a sustained increase in productivity and employment may launch the economy along a road of stable development, with effects which result in general well-being. Obviously the process can be halted by an external bottle-neck, so that it is essential to deal with the problem of the debt, as was indicated earlier.

41. Nonetheless, it is also reasonable to seek solutions of a temporary nature which will help to maintain basic income levels. From this standpoint, it may be necessary to devise specific policies for the informal sector, which has an important compensating role. In some cases this may call for the application of economic policy instruments basically directed to rural activities (agriculture, mining, rural infrastructure, etc.). In other cases it may be necessary to assist the urban informal sector, through policies which seek to rationalize and modernize their activities (by way of credits, training, systems of market information, etc.), at a low cost per employed person and resulting in considerable social benefit. At present there is a growing need to accumulate experience in this novel sphere of public policy, since there is no doubt that the Region must prepare itself to live, in the near future, with an increasing proportion of informal sectors.

1) Traditional welfare State versus compensatory policies

42. In view of the acute fiscal crisis existing in most of the countries it is becoming increasingly difficult for the State to maintain its traditional functions in respect of social development—the question may well arise as to what social development is possible in this severe recession. On the other hand, how will it be possible to achieve consensus among the different social groups on the question of a redefinition of the extension and specificity of State action?

43. In certain cases, a possible answer to these questions lies in the acceptance of the principle of the compensatory function of the State or "positive discrimination". In such circumstances it would mean dispensing with universalism as a criterion for the

allocation of public resources, since this has sometimes inevitably led to a regression in social expenditure. In a situation of scarcity like the present, the orientation of social policies basically to meet the needs of the most disadvantaged groups may seem to some countries the most equitable solution from a social standpoint, although it may create resistance among the middle-income groups traditionally benefited by these policies.

m) Sectoral conception versus synthetic conception of social development

44. The same scarcity of resources may sometimes make it necessary to abandon the traditional approach to social development based on programmed sectors (education, health, housing, nutrition, etc.) with a vigorous institutional deployment and overall coverage. Some governments may feel inclined to adopt a synthetic approach, selecting the "target populations" which are in greatest need of assistance, a procedure which may lead to concentration on situations of "extreme poverty" as defined by a set of welfare indicators. This option imposes on planning at least a threefold task: one, largely theoretical, to grasp the interrelations and causal factors behind each specific poverty situation; two, methodological, to convert the aims pursued into concrete and appropriate instruments; and, three, institutional, to achieve the necessary co-ordination of public measures which are not always fully articulated and sometimes have sectoral biases.

n) Attention to rural development

45. In some cases (see paragraph 41) it may be necessary for the State to pay more attention to rural development programmes and the strengthening of the peasant economy. This procedure may help

to retain, settle and raise the productivity and income of this sector, especially if complemented by more structural measures aimed at facilitating their access to natural resources, a better social infrastructure and a more adequate technology. Of course, in the last instance attention to the rural sector depends also on the global development strategy and - above all - on the role assigned within it to primary activities. In addition to improving the employment and income situation of the peasant population, a reinforcement of rural activity can have a considerable effect on food production and exportable agricultural surpluses, thus making a positive contribution to other key objectives of development strategies.

46. These aspects of employment and social development policies constitute some of the key items concerning which the countries could describe their experiences, thus collectively enriching this essential dimension of development. Although the impact of each problem differs from one member country to another, their discussion, and the conception and implementation of solutions always has an effect - direct or indirect - on the work of the national planning organizations.

