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**THE CENTRAL AMERICAN Isthmus: ECONOMIC CRISIS  
AND DEVELOPMENT PLANNING \*/**

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## FOREWORD

One of the regions that has been hardest hit by the economic crisis affecting Latin America over the past few years is the Central American Isthmus. Its six small agricultural exporting countries depend more than others on the ups and downs of the international economy. These circumstances are moreover accompanied by certain negative internal factors, prominent among which are the social and political tensions affecting most of the countries in question and Central America as a whole.

The origins, scope and consequences of the economic crisis have been explored -at least in general- by the ECLAC Secretariat,<sup>1/</sup> A detailed examination has not however been made of the considerable number of secondary effects caused by the crisis in many aspects of national endeavour. One of these, which is briefly analysed in the present document, refers to the consequences of the crisis in the formulation and execution of economic policies as well as in action taken by the public sector in general and in the sphere of planning in particular.

According to consultations and inquiries made by the ECLAC Office in Mexico among the planning agencies in the Central American Isthmus, the multiplicity of direct and indirect consequences of the economic crisis appear to have had a debilitating effect on those agencies precisely at a time when their role has been more necessary considering the imperative need to raise the efficiency of production and government expenditure, apply selective austerity policies, put forward creative proposals to assist the countries in adapting to the new international conditions and lastly to reduce the economic and social cost of the crisis and attain the desired recovery and growth.

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<sup>1/</sup> See, in particular, CEPAL, La Crisis en Centroamérica: Orígenes, alcances y consecuencias (E/CEPAL/MEX/1983/R.3/Rev.1), September 1983.

Planning experiences in the sub-region reveal a heterogeneous panorama as a whole and in each component country at different times. In the institutional sphere, some organisms hold ministerial rank while others operate as technical secretariats. In conceptual terms some governments have assigned high priority to the role of the State in directing the development process and have given full political support to their respective planning agencies, whereas others have adopted a somewhat passive attitude, entrusting them with comparatively routine duties. In terms of technical quality some organisms have acquired a certain level of excellence -which has enhanced their ability to influence economic policy decisions- while others suffer from a weakness of resources. All in all, however, the effects of the economic crisis have brought about some sufficiently universal consequences in the planning systems to enable some lessons of broad scope to be derived from the developing situation.

The present document, after dealing in the first chapter with some considerations of a general character, presents in the second a brief review of the main characteristics of the economic crisis. The third chapter examines on the one hand the institutional position of the planning organisms in the sub-region -including the most recently-introduced legal amendments- and on the other their functional and characteristic features in "normal" times, such as prior to the crisis. The fourth chapter analyses some of the direct and indirect consequences of the economic crisis in the performance of the planning agencies and, finally, the fifth chapter summarizes these general findings and puts forward some conclusions and recommendations.

This report has been drawn up at the request of the Latin American Institute for Economic and Social Planning (ILPES) and

forms part of the documentation prepared for the V Conference of Ministers and Heads of Planning of Latin America and the Caribbean. The attention of some readers may be drawn to the emphasis given in the text to the fact that the planning agencies in the Region have been losing some ground in recent times. This is not, however, the purpose of the present note. The desired aim is rather to provoke discussion in the context of the Conference with a view to bringing to the notice of participating organisms points of view that may assist them to regain the space of responsibility which is not only their rightful due but which is at the present time more than ever necessary considering the difficult task of stimulating the economies on perhaps different but more equitable lines than hitherto.

## I. GENERAL CONSIDERATIONS

Which are the criteria that should be applied in assessing the degree of efficiency of a planning system? To what extent does the prevailing economic situation affect the application of those criteria?

An answer to these questions will not prove easy and will be influenced by a high degree of subjectivity. On the other hand, due to variations between one country and another as well as within each at differing times, generalizations will not be admissible in endeavouring to qualify the experiences of a group of countries such as those of the Central American Isthmus.

For the purpose of this analysis some general characteristics have been established which in one form or another condition the degree of efficacy of a planning system,<sup>2/</sup> this, being understood, in the context of a mixed State/private economy, as a regulatory instrument of economic policy and a definer of public action.<sup>3/</sup>

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2/ These systems include the formal planning agencies and sectional units, budget offices and other government departments linked with planning.

3/ For a more comprehensive definition of the concept of planning, see: Latin American and Caribbean Institute for Economic and Social Planning, La planificación y la política económica en América Latina y el Caribe, 1980-1982, Cuaderno del ILPES No. 30, Santiago, Chile, 1984, pages 12 and 13, which among other aspects describes planning as a procedure used by the State to define the conjunction of objectives deliberately sought in connection with the process of development over a given period of time. Added is the statement that planning has been associated with the established organization of a combination of procedures relating to the adoption of government decisions with regard to the design and execution of economic and social policies in order to achieve legally-planned objectives. It is further suggested that, in a broad sense, planning has been instituted as a rational and co-ordinated process in the adoption of decisions which in most instances call for reforms in the institutional organization of the State and tend to establish planning and co-ordination agencies and units at different levels.

The characteristics in question are as follows:

a) The conceptual (or ideological) orientation of the government of which the planning system forms part, and that of the planning organism itself, especially in terms of its functions and attributes. In principle, the greater the importance attached to the role of the State as a decisive factor in development, the greater will be the predisposition to favour guidance by the public sector of the activities of other economic agents.<sup>4/</sup> At the same time, in the conceptual framework of the government of which it forms part -and notwithstanding the field of responsibilities formally assigned to it by law- the planning organism may have its own views concerning its duties in the constellation of institutions comprising the public sector.

b) The degree of political support received by the planning system, its hierarchical situation within the public sector, and its formal attitudes and relations with the rest of the public administration as well as with private enterprise and the international community. Is it of the nature of a "super-ministry" able to "impose" co-ordination on other ministries?, or is its position that of a ministry of equal status with others? or, on the other hand, that of a secretarial office of inferior status to that of other cabinet departments? Does it maintain relations with groups or entities outside the public sector and, if so, of what kind? Is it in touch with international organism and, if so, which? Answers to these question will serve to assess the efficacy of the planning system;

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<sup>4/</sup> This does not imply that the planning system should "impose" its directives on other sectors within or outside the government. Experience in the Region has in fact suggested that the more successful systems are those that are able to harmonize interests and points of view in support of attainment of the desired aims.

c) A final characteristic in this context is the technical proficiency of the officials employed in the system, and even the personal qualifications of its director or senior members. Aspects of this kind may have a decisive effect on the ability of the system to influence government decisions. The capacity to reconcile urgent short-term aims and thereby effectively direct the process is, for instance, a task calling for a combination of technical qualities and political backing.

Thus, in examining the effect of problems arising from the crisis in the role of economic planning, an attempt will be made in the first place to determine the characteristics of the planning systems in operation in the Region in the second half of the 1970s (a period of comparative "normalcy") and subsequently analyse the nature of those characteristics immediately prior to the crisis.

As will be seen, the result has not necessarily been similar in all instances since the crisis has affected the various countries in different ways -although its effects will have been negative in almost all cases. For example, although the vulnerability of the economies will no doubt be seen to have grown and the effects of the already long-drawn-out recessive period to have contracted the scope for manoeuvre in the application of economic policy (thereby implying a weakening of planning possibilities), the demands of the crisis itself -greater efficiency, austerity and selectivity- have heightened the need for orderly and programmed public action.

Following the same train of thought, despite the existence of a certain criterion in the field of external financial co-operation, and especially among certain bilateral sources, in favour of leaving the allocation of resources free to respond to market forces, and in general, of reducing the incidence of government activity in the economy, the need for more cautious financial

programming (and in many cases that of rephasing the existing public debt) involves new responsibilities which in some countries have been entrusted to the planning system.

The present review explores the characteristics of the planning systems of the six countries of the Central American Isthmus applying the several yardsticks already described. An attempt is also made to determine the manner in which the problems deriving from the crisis have affected those characteristics and hence the role of planning.

With differences of degree the crisis has manifested itself primarily in growing internal and external financial imbalances. International monetary reserves having become exhausted, as well as the possibility of obtaining a larger net flow of external resources, the countries have attempted to correct those setbacks by restricting imports and government expenditure, with consequent adverse effects in the general level of economic activity and of employment.

Since 1981 the typical panorama throughout the Region reveals -with some variations- important current-account and balance of payments deficits combined with acute shortages of foreign exchange and even greater difficulties in serving the accumulated foreign debt; deficits in government finances; a severe drop in savings and public and private investment; descending levels of economic activity; growing open and concealed unemployment, and a contraction in real wages not so much as the result of intense inflationary pressures -since, with the exception of Nicaragua, and of Costa Rica in 1981 and 1982, price variations in the Central American region have been comparatively moderate- but of contraction or a virtual stagnation of nominal wages. In the political and social fields the crisis has generated profound transformations in some countries and aggravated secular tensions in others. It has also given rise to new international pressures. All these factors have

provoked a marked and unaccustomed turbulence in all respects in each and every country of the sub-region.

The above-mentioned developments, while not reducing the importance of planning -the contrary in fact having been the case- have posed fresh demands which the Region's planning systems have found themselves unable to satisfy. The present document refers specifically, though briefly, to the subject as to how those systems have reacted in the face of the crisis and have influenced its evolution. Among the effects of these developments on economic planning, the following deserve particular mention:

a) The principal task of the planning systems in the Central American Isthmus -namely that of co-ordinating attitudes within the governments and between them and other economic aspects- has become considerably more complex due to the new tensions and disagreements typical of a period of generalized recession. The crisis has in this sense had a "dispersing" effect on one of the inherent activities of planning systems.

b) The most noticeable manifestation of the crisis has occurred in the financial sphere, above all in public finances and in the management of external imbalances. Priority attention in terms of economic policy has thus been diverted towards the financial areas (as distinct from the productive sectors) and towards short-term rather than medium or long-term economic policy. The planning systems which have concerned themselves with these matters (the management of the cyclical situation) or have attempted to reconcile the short-term with longer-term prospects are those that have managed to maintain or even improve their relative status; others have tended to lose their relative significance vis-à-vis other government sector -finance ministries and central banks- traditionally linked with financial, foreign exchange and credit policies.

c) A notably unusual feature in this respect is to be found in the programming of public expenditure, and especially in that of public investment. In most of the regional countries the formulation and subsequent evaluation of execution of public investment plans represent outstanding activities in the work of the planning organism. As a result of the considerable reduction of programmes of this kind a pronounced inconsistency has been generated between the aims of formal development plans and events as foreseen in annual budgets; the relative importance of public investment programming tending in any case to diminish. The planning systems most involved in this type of activity and less able to adapt rapidly to the changing circumstances have been those tending to lose their effectiveness in the context of their respective economic cabinets.

d) Another typical aspect of the phenomenon described has been the appearance of a task barely considered before the onset of the crisis consisting of a much more rigorous control of policies in the sphere of external indebtedness and in the rephasing of debt maturities, a task to which a high degree of priority has been assigned in economic policy. It is significant that concerns of this nature have not been entrusted to any of the official planning systems in the Central American sub-region although in some cases (Nicaragua and Panama) they are now taking part.

e) Another fundamental characteristic of the crisis is noticeable in the uncertainty surrounding any forecasting exercise. Factors outside the control of the governments of the Central American Isthmus but which nevertheless have a decidedly direct effect on the possible evolution of their economies, are so numerous -most being of foreign origin and some of a non-economic character- that those organisms which continue to formulate plans based on forecasts leading to quantitative goals whose fulfilment

is encouraged, are running the risk of becoming increasingly disconnected with local realities.

f) The dynamics arising from the crisis -i.e., rapidly changing internal and external variables- have as a rule restrained the planning systems from adapting to new circumstances as rapidly as desired, and only on few occasions have they been able to take advance action such as alerting their governments or proposing appropriate counter measures. The systems that have shown greater flexibility and pragmatism in adapting to changing conditions are those that have performed most effectively.

g) The economic crisis has been profound and long-lasting. In the case of Central America it has also coincided with a political crisis. Patterns valid for the entire post-war period have been destroyed, their place being taken by confusion and bewilderment. The planning systems have not been immune from such trends and have perhaps been more affected than other executive agencies in their respective governments. Another of their traditional attributes has after all been that of proposing orientations and guidelines for the future. The very fact of having to admit a degree of confusion has in many cases deprived them of legitimate participation; and

h) Finally, the force of circumstances has imposed on governments and planning organisms the need to readjust their priorities. Conventional and traditional objectives of all development processes -growth, improvement of income distribution, reduction of external vulnerability- have given way to more modest aims -e.g. the avoidance of deterioration- in the light of implausible realities and evidence that the crisis has been acting in a diametrically opposite direction from that of formerly envisaged attainments. Here again the planning systems that have managed more effectively to balance their long-term objectives with

current recessive realities have been those acquiring a stronger position in the conduct of economic policy.

Some cases have occurred of planning systems deliberately ignoring the crisis and taking refuge in the theory that at least one government department should maintain a medium and long-term view in order to ensure a minimum degree of coherence between stabilization or adjustment programmes and the demands of long-term economic development. Some efforts -mostly limited in character- to explore optional development strategies have received priority attention on the part of these systems, but often at the cost of exclusion from the central concerns of those entrusted with formulating economic policy.

A brief examination will be made in the following chapters of the manner in which each of the above-described effects of the crisis has impinged on the planning systems of the Central American Isthmus in the period 1980-1984 and their effect on some of the central characteristics of those systems.

## II. SUMMARY OF THE MAIN CHARACTERISTICS OF THE ECONOMIC CRISIS

Although the characteristics and scope of the profound and prolonged economic crisis faced by the countries of the Central American Isthmus have been somewhat different in each, they have followed the same general pattern, thereby enabling some across-the-board conclusions to be reached.<sup>5/</sup>

During the relatively long period between 1950 and 1970 the six economies of the Central American Isthmus achieved sustained and comparatively dynamic rates of economic expansion together with significant transformations in their respective productive structures. The average annual increment exceeded 5% -Costa Rica and Nicaragua surpassing this average with Honduras recording a slightly lower level, while Panama exceeded an average of 6%. (See Table 1 and Figure 1.)

In the same period the relative participation of secondary and tertiary activities rose considerably at the expense of a reduction in the primary category which nevertheless rose at a higher rate than demographic growth. A perceptible urbanization process took place in all the countries concerned as well as a growing relative importance of the middle-income strata together with a wider differentiation between extreme income levels.

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5/ For further details on this topic see: ECLA, Istmo Centroamericano: El carácter de la crisis económica actual, los desafíos que plantea y la cooperación internacional que demanda (E/CEPAL/CCE/402/Rev.1), August 1981; La crisis en Centroamérica ... op. cit., and Acumulación y financiamiento externo en Centroamérica, 1950-1983 (E/CEPAL/MEX/1984/R.4), September 1984.

Table 1

THE CENTRAL AMERICAN Isthmus: RHYTHM OF GROWTH OF THE  
GROSS DOMESTIC PRODUCT a/  
(Percentages)

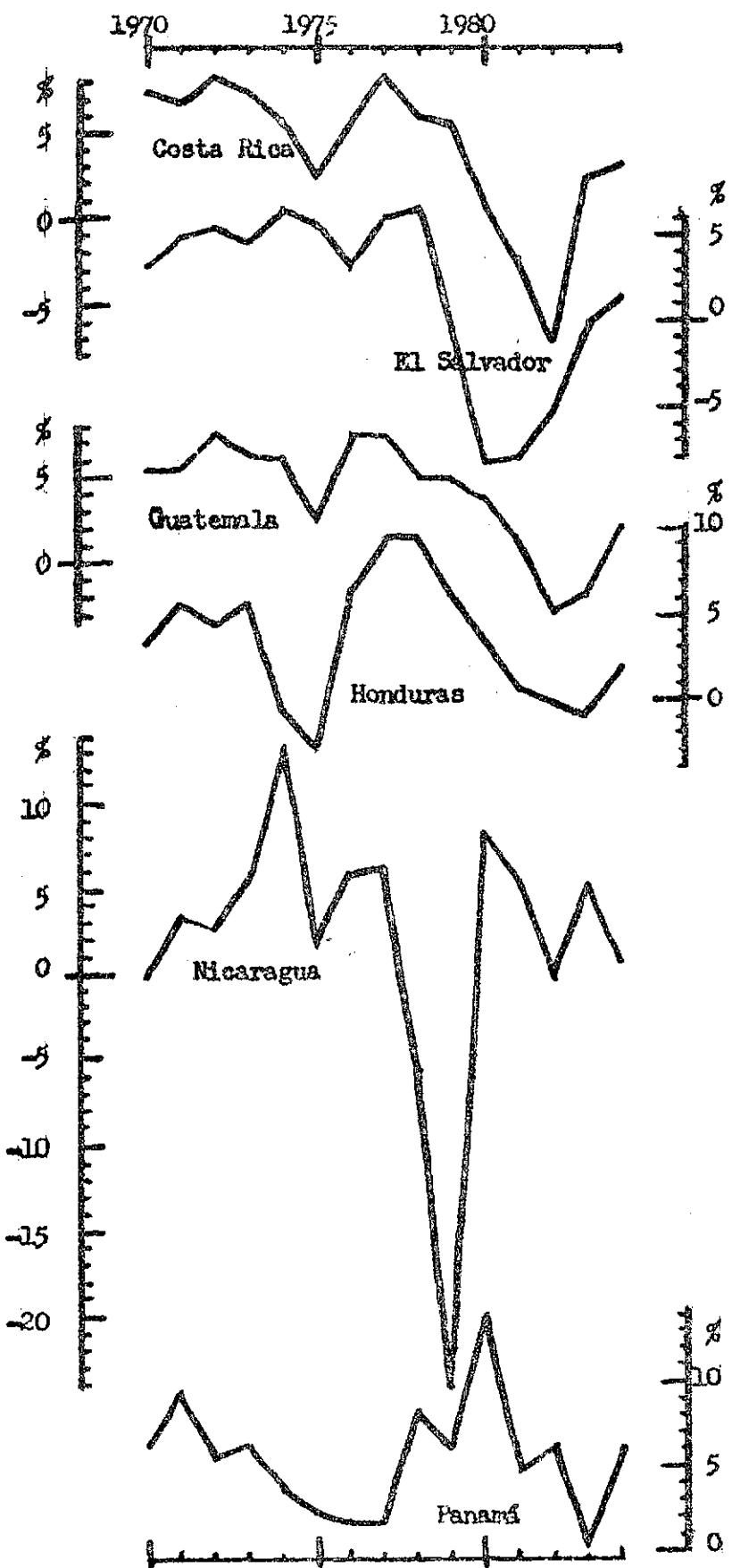
	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panamá
<u>Annual average rates</u>						
1950-1960	6.4	4.8	3.7	2.8	5.4	4.8
1960-1970	5.9	5.5	5.2	5.0	6.5	7.8
1970-1978	6.3	5.4	6.0	4.7	3.9	4.9
1978-1983	-0.4	-4.6	0.8	1.7	-2.0	6.1
<u>Annual rates</u>						
1970	7.2	3.4	5.5	3.5	-0.2	6.5
1971	6.8	4.9	5.5	5.8	3.4	9.6
1972	8.2	5.4	7.5	4.4	2.8	5.5
1973	7.5	4.7	6.6	5.8	5.3	6.2
1974	5.4	6.7	6.1	-0.3	13.5	3.8
1975	2.2	5.8	2.4	-3.1	1.5	2.3
1976	5.5	3.1	7.6	6.5	5.8	1.9
1977	8.5	6.1	7.4	9.6	6.1	1.9
1978	6.2	6.8	4.9	9.3	-5.9	8.4
1979	5.3	-1.2	4.7	6.0	-24.5	6.1
1980	0.9	-8.1	3.8	3.3	8.3	14.0
1981	-2.3	-7.9	1.1	0.6	5.4	4.6
1982	-7.1	-5.2	-3.3	-0.2	-0.6	6.2
1983	2.3	-0.1	-2.0	-1.1	5.2	0.1
1984 b/	3.0	1.5	0.0	2.0	0.5	0.0

Source: ECLAC, based on official figures

a/ At constant 1970 prices.

b/ Preliminary figures.

Figure 1  
 THE CENTRAL AMERICAN Isthmus: GROWTH RATES OF  
 GROSS DOMESTIC PRODUCT  
 (Percentages)



Source: ECLA, on the basis of official data.

Three key factors contributed to this result. In the first place, the main stimulus in the expansion process came from the exporting sector which recorded a rapid rate of growth and diversification. In the second place the process of import-substitutive industrialization was strongly encouraged -in the Central American countries- by the effects of integration and, in the case of Panama, by expansion of the internal market. Finally, the third contributory impulse stemmed from capitalization efforts and public investment in particular.

Despite the foregoing, the sub-region showed a marked tendency during this period to maintain latent financial imbalances in items of the external sector and fiscal deficits. Although such maladjustments were more moderate in the case of other economic variables, their persistence and tendency to grow evidenced a structural weakness which kept the economies of the Isthmus in a state of precarious equilibrium.

Moreover, the economies of the Isthmus in that period revealed themselves insufficiently able to attenuate accumulated lags in terms of satisfying basic needs and, despite an important expansion of government social services, deficiencies in the fields of health, education, employment and the general welfare of large social groups persisted, and in some cases became more acute.<sup>6/</sup>

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<sup>6/</sup> In this aspect, as in others, growing differences were to be observed between the component countries. For an analysis in this connection see ECLA, Satisfacción de las necesidades básicas de la población del Istmo Centroamericano (E/CEPAL/MEX/1983/L.32), November 1983, and Notas sobre la evolución del desarrollo social del Istmo Centroamericano hasta 1980 (E/CEPAL/MEX/1982/L.26/Rev.1/Corr.1), September 1982.

Between 1970 and 1978 the sub-regional economies continued to record a satisfactory, though lower, average rate of growth in the context of increasing financial instability. The first signs of weakness in growth-stimulating factors became perceptible, and external developments began at that time to influence events more severely, especially in the form of imbalances in the balance of payments and public finances as well as internal price systems. To make matters worse, several national disasters occurred,<sup>7/</sup> provoking considerable human and economic losses. Finally, new phenomena of external origin, including a considerable rise in hydrocarbon prices as well as inflationary tensions at the international level. These factors coincided with a marked instability of prices receivable for the region's main export products and caused a significant and prolonged deterioration in the countries' terms of trade. (See Table 2.)

However, with the exception of Panama, the traditional export sector continued to gain ground, and public investment rose in the six countries -especially in Panama- as the result of incurring considerable expenditure in order to substitute petroleum imports

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7/ See ECLA, Report on the damages of the earthquake in the city of Managua and its adverse effects on the Nicaraguan economy (E/CN.12/AC.64/2/Rev.1), 13 January 1973; Informe sobre los daños y repercusiones del Huracán Fiffí en la economía hondureña (C/CEPAL/AC.67/2/Rev.1), October 1974; Daños causados por el terremoto de Guatemala y sus repercusiones sobre el desarrollo económico y social del país (CEPAL/MEX/74/Guat.1), February 1976; Nicaragua: Repercusiones económicas de los acontecimientos políticos recientes (E/CEPAL/G.1091/Rev.1), December 1979; Guatemala: Repercusiones de los fenómenos meteorológicos ocurridos en 1982 sobre la situación económica del país (E/CEPAL/MEX/1982/L.31), 24 November 1982, and Repercusiones de los fenómenos meteorológicos de 1982 sobre el desarrollo económico y social en Nicaragua (E/CEPAL/MEX/1983/L.1), 5 January 1983.

Table 2

THE CENTRAL AMERICAN Isthmus: SOME ECONOMIC INDICATORS  
(Percentages)

	1978	1979	1980	1981	1982	1983	1984a/
<u>Fiscal deficit/gross domestic product b/</u>							
Costa Rica	6.0	8.0	9.1	4.2	3.2	4.8	...
El Salvador	1.7	1.0	5.5	7.4	8.1	9.6	...
Guatemala	2.3	3.7	5.7	8.4	6.0	4.3	...
Honduras	8.2	6.4	10.2	9.9	14.3	12.5	...
Nicaragua	11.7	7.5	8.4	11.6	13.6	20.1	...
Panama	9.7	15.8	10.6	11.1	18.3	9.6	...
<u>Public investment/gross domestic product c/</u>							
Costa Rica	7.5	8.9	9.1	7.0	5.2	5.7	...
El Salvador	7.1	6.5	5.5	6.0	5.7	6.6	...
Guatemala	4.1	4.2	5.1	6.8	5.6	3.8	...
Honduras	10.5	8.7	8.9	8.0	7.3	7.4	...
Nicaragua	5.7	3.0	8.6	12.0	9.2	10.1	...
Panama	11.7	6.7	8.3	7.4	9.4	7.7	...
<u>Service of external public debt/ exports of goods and services</u>							
Costa Rica	18.1	17.9	21.0	26.5	26.3	55.2	...
El Salvador	9.9	9.4	11.4	13.4	23.2	24.9	...
Guatemala	3.9	4.4	5.5	7.1	9.5	22.9	...
Honduras	9.5	13.5	11.7	15.2	18.9	16.2	...
Nicaragua	14.3	8.6	11.9	31.4	43.7	20.0d/	...
Panama	60.2	34.2	31.0	30.7	38.3	26.3	...
<u>Rates of growth of consumer prices e/</u>							
Costa Rica	6.0	9.2	18.1	37.0	90.1	32.6	14.0
El Salvador	13.3	15.9	17.4	14.8	11.7	13.2	15.0
Guatemala	7.9	11.5	10.7	11.4	0.2	4.7	4.0
Honduras	5.7	12.1	18.1	9.4	9.4	8.9	6.5
Nicaragua	4.6	48.2	35.3	23.9	24.8	31.1	33.5
Panama	4.2	7.9	13.8	7.3	4.2	2.1	...

Table 2 (Conclusion)

	1978	1979	1980	1981	1982	1983	1984a/
<u>Growth rate of terms of foreign trade (goods and services)</u>							
Costa Rica	-15.5	-1.3	-2.5	-23.1	-9.2	-5.0	2.0
El Salvador	-22.4	-4.9	-12.2	-11.2	2.7	-0.2	0.4
Guatemala	-5.2	-14.0	-15.0	-12.1	-6.3	-0.1	-0.6
Honduras	-0.6	7.5	2.0	-9.8	-	-	-0.8
Nicaragua	-11.9	-1.8	-3.0	-5.0	-9.3	-10.8	6.5
Panama	-3.4	-6.7	-4.9	1.2	-3.4	0.2	-8.4

Source: ECLA, on the basis of official figures.

a/ Preliminary figures.

b/ At current prices.

c/ Based on figures at constant 1970 prices.

d/ Excluding payments delayed in this year.

e/ Based on annual averages.

by hydroelectric energy, and in some cases, to repair the damages caused by the natural disasters already referred to.

The chief counter-effect of these continuing outlays of public funds was a rapid increment of external indebtedness (with differences of degree in each country), especially that contracted with private sources, taking advantage of the large availability of funds in the international banking system.

Between 1977 and 1978 an important change took place in the five primarily affected Central American economies. From that time onwards they experienced a notable deceleration until reaching virtual stagnation in 1980. Panama recorded a modest recovery from 1977 onwards (following a recession between 1974 and 1977) due to a revival of private investment and exports of services following the signing of the Torrijos-Carter agreement. This offered new prospects of development with the commencement of a progressive reversion of the Canal area to national control.

Subsequently, as from 1981, the economies of the Central American Isthmus recorded fully and in generalized form the effects of the economic crisis characterized, among other aspects, by an abrupt contraction of productive activity (stagnation in the case of Panama) higher unemployment levels, acceleration in the growth of internal prices, important and growing imbalances in government finances and in the balance of payments, deterioration of real income affecting a large proportion of the population, internal difficulties in the supply of imported inputs (due to lack of foreign currency), financial deficiencies in certain productive enterprises, and disarray in the foreign-exchange and monetary markets (except in the case of Panama).

The effects of the crisis have been different in intensity and scope in the various countries. El Salvador began to experience a contraction of the national product as from 1979 due mainly to disturbances arising from the social and political conflict (which

still continues); Costa Rica has also been severely affected since the beginning of this period while Guatemala and Honduras, which were in a better relative international liquidity position, managed to delay the effects of contraction; the evolution of Nicaragua -after the spectacular fall in national production which occurred in 1979- has been strongly influenced by efforts to revive and reorganize the economy. Performance in the case of Panama has been poor (stagnation over a two-year period) but without the severe repercussions experienced in the other countries of the Region in view of the notably peculiar characteristics of the Panamanian economy.

In the case of the five most affected Central American countries there is reason to believe that the roots of the recessive situation and disarticulation of the productive system are to be found in the superimposition of the effects of the international economic crisis on internal factors, which have tended to magnify them. In this connection it is argued that the drop in production began prior to the impact of international recession and that the imbalances in real terms and in the financial area have been aggravated to levels higher than in other Latin American economies. It would, moreover, apparently be more difficult to revert these circumstances.

This situation is attributed to the fact that past expansionary factors -the external sector, industrialization and increasing investment- have shown a simultaneous recessive trend in which they have reinforced one another affected by various adverse elements, prominent among which are the structural imbalances which have been building up and the aggravation of political and social tensions.

In addition, due to the slow response of tax earnings -and in an attempt to employ public expenditure as a means of compensating the recessive trends- the fiscal deficit became a serious hindrance in the context of economic policy, despite the fact that the adjustment policies initially applied envisaged a drop in government expenditure, especially in investment.

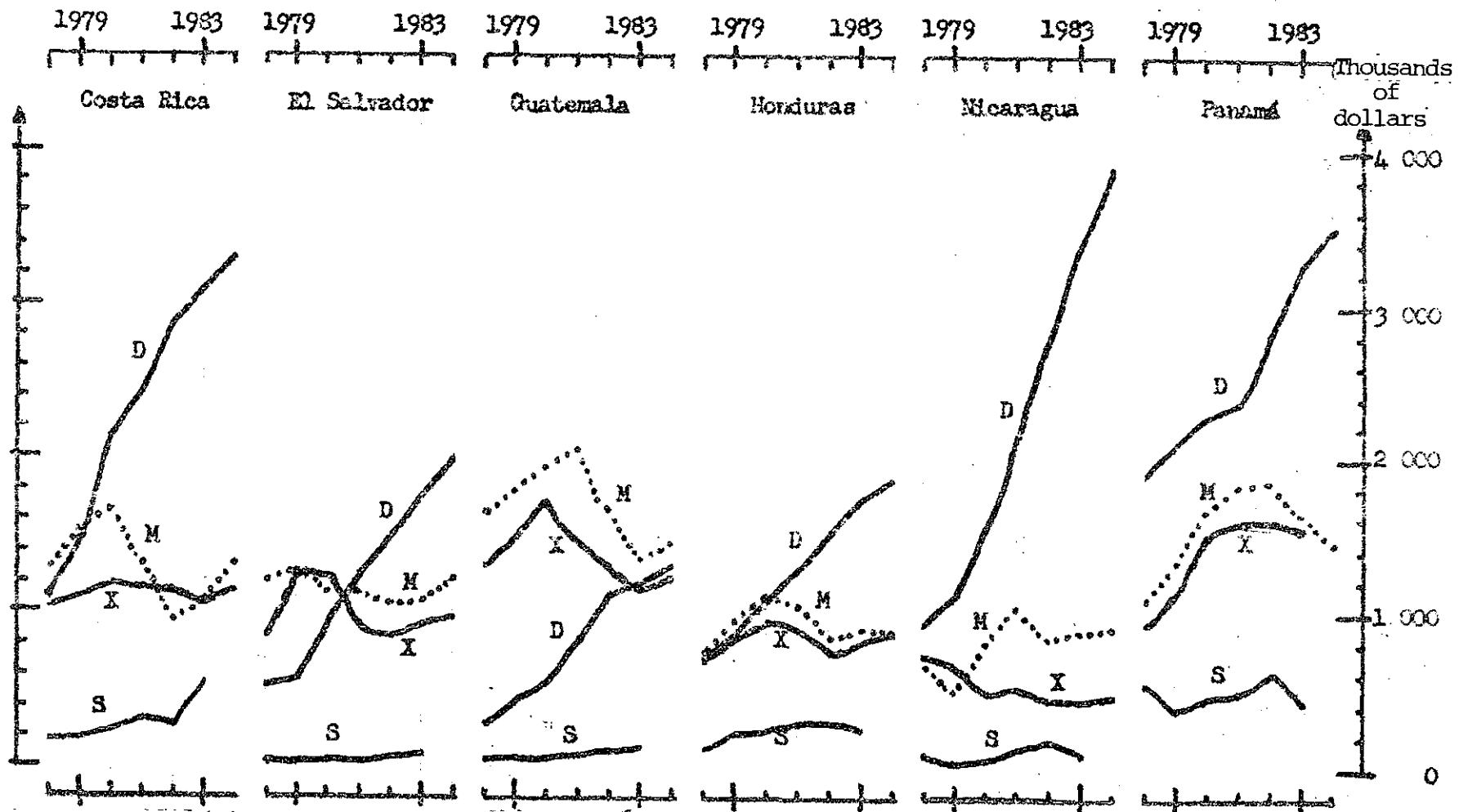
To the above must be added that, as a consequence of growing external indebtedness previously undertaken and increasingly contracted with private sources (see Figure 2), the servicing costs of the foreign debt began significantly to affect the government budget and balance of payments until becoming one of the most severe obstacles in economic policy, especially during the two-year period, 1983-1984, when the international banks showed themselves less ready to continue supplying fresh resources to the sub-region.

Finally, non-economic factors continued to have an adverse effect, especially on the rhythm of productive activity, savings levels, and even on intra-regional trade. In addition, a considerable flight of capital, partly as the result of political and social tensions in the Region, further weakened the balance of payments and adversely affected investment and production.

To sum up, since the beginning of the present decade the countries of the Isthmus, especially those in the Central American sub-region, have suffered a severe setback. Real income per inhabitant has diminished to the same level as in the early 1970s (at the beginning of the 1960s in the case of Nicaragua and El Salvador), open and concealed unemployment has notably increased, the economies find themselves severely hampered by an acute shortage of foreign currency due to a spectacular drop in terms of trade, a contraction of export volumes, an unexpectedly high increase in factor payments and the abrupt interruption of fresh external financing as from 1982. The external imbalance has been accompanied by that of government finances and a significant deterioration in savings and investment, both public and private. This economic panorama has been common to all the countries concerned and has been additionally magnified by deterioration in the volume of reciprocal trade, thereby throwing light on the importance of the traditional economic inter-dependence that has existed -and continues to exist- between the five Central American countries.

Figure 2

THE CENTRAL AMERICAN Isthmus: SOME FOREIGN TRADE AND INDEBTEDNESS INDICATORS  
(In millions of dollars)



Source: ECLA, based on official data.

D: Balance of external public debt.

S: Servicing cost of the external public debt.

X: Exports of goods and services.

M: Imports of goods and services.

### III. INSTITUTIONAL ORGANIZATION AND THE OPERATING CHARACTERISTICS OF PLANNING SYSTEMS

With a view to outlining the institutional framework of planning in the Central American Isthmus, its main characteristics and recent evolution, the present chapter deals in the first place with some general considerations regarding the origin and characteristics of the sub-region's central economic planning agencies, ending with a summary of the principal institutional changes introduced in recent years (1982-1984). Secondly, a brief analysis is made of operational aspects of planning in the period prior to the economic crisis.

#### 1. Institutional particulars

##### a) General aspects

The origins of the practice of economic planning in the Central American Isthmus, strongly influenced by the concepts disseminated at the time by ECLA, date back in most of the component countries to the 1950s, and only in two instances was the process instituted in the early years of the subsequent decade.<sup>8/</sup> Since then planning has acquired ever greater significance in the light of the role assigned to it by official financial organisms, especially in the context of the Alliance for Progress.

During the early post-war period interest arose among international institutions in the promotion of balanced and sustained growth in the world's poorer economies. This concern found expression in the organization of multilateral institutions

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<sup>8/</sup> Nicaragua (1952), Guatemala (1954), Honduras (1955), Panama (1959), El Salvador (1962) and Costa Rica (1963).

and mechanisms devoted to financial and technical co-operation which confirmed the need for the various countries to draw up global development proposals and put forward consistent investment projects appropriate to the situation in each. Some of the new institutions carried out a number of studies and investigations in the sub-region and prepared the first diagnoses and global investment programmes which established the bases for future planning activities.

The first institutional bodies were of the nature of technical offices dependent on a ministry (generally of the economy) or reporting directly to the office of the president but without being accorded ministerial rank. Since then important institutional changes have been introduced up to the point where they now constitute agencies at ministerial level in most of the countries here considered. Exceptionally, in the cases of Guatemala and Honduras, the central organism consists of a technical secretariat depending administratively on the Ministry for the Economy in the first instance and on the Presidency in the second, with the senior official holding ministerial status.

In general, the economic planning system comprises:

- a) a senior collegiate organ of political decision of the nature of a Planning Council, in most instances composed of ministers and representatives of various social, political and economic sectors;
- b) a central technical organism which in most of the countries acts at ministerial level -with the already mentioned exception of Guatemala and Honduras- and includes global, sectoral and, in almost all cases, regional programming;
- c) sectoral planning units in other government agencies with a high degree of autonomy vis-à-vis the central organism, and
- d) co-ordination and directive committees at sectoral and regional level in all the countries except El Salvador, and others of a consultative character in Honduras, Nicaragua and Costa Rica.

With regard to the duties legally allocated to the planning agencies, differences have been observed between the countries according to the nature of the corresponding central organisms and its place in the administrative establishment. There is, however, a common pattern of responsibilities that may in general be summed up as follows: a) to carry out studies, research and technical analyses on partial or global aspects of economic and social affairs, b) to formulate and propose optional economic and social policies for the short, medium and long term; c) to draw up economic and social development plans and strategies for submission to and consideration by senior levels of decision; d) co-ordinate the implementation of plans, programmes and development projects; e) evaluate the execution of plans, policies, programmes and projects; f) co-ordinate and administer external technical co-operation; g) take part in the negotiation of and in some cases put forward opinions on external indebtedness; h) examine and propose administrative reforms; i) take part in some cases in the formulation of the public sector budget, and, in other instances, assume direct responsibilities for this task, and j) identify, assess and allocate priority and regional development projects.

In addition to the aforementioned duties, Panama includes the administration, control and execution of the government budget and the definition and administration of financial policy, primarily in monetary and credit matters. For its part, in El Salvador, the Minister for Economic Planning also acts as President of the Monetary Committee.

Numerous formal and institutional changes have been introduced in the system and in the planning offices of the sub-region since their institution up to the present time. It is judged that to attempt to list them would exceed the scope of this document, the

sole aim of which is to examine more meticulously the recently-achieved advances, and especially the changes that have taken place in the planning process as a result of the present economic crisis. It has consequently been preferred to record in greater detail -in this part of the study which refers to institutional aspects- the amendments introduced during the period 1982-1984.

b) Recent changes

i) Costa Rica. In September 1982, by means of Law N° 68-12 on the restructuring of the executive branch of government, the National Planning and Economic Policy Office was converted into a Ministry, as a consequence of which the central organ was raised in rank in an effort to strengthen the role of planning as a directive and co-ordinating instrument in the concerns of the public sector.

In January 1983 a decree was enacted whereby a Sectoral Planning and Directive Sub-system was established, mainly for the purposes of reinforcing and expediting the efforts of the national planning system; encouraging greater community participation in the search for solutions to the country's economic and social problems; ensuring the co-ordination of institutions, programmes and public activities through the institution of a sectoral planning system, and introducing a novel juridical mechanism to fortify action by the central government in respect of the decentralized entities.

The Sectoral Planning and Directive Sub-system set up in pursuit of these objectives comprised the following organisms: a senior level of decision composed of: a) a Government Council as the senior centre in the implementation of decisions; b) the Economic and Social Council composed of the President of the Republic, the two Vice-Presidents and the Ministers of the

Presidency and of Planning; c) two committees -economic and social-consisting of the ministers linked with the particular areas concerned; d) Sectoral National Councils presided over by the corresponding minister, and e) Consultative Sectoral Committees as centres of consultation and participation by private community organizations.

At the technical level Executive Planning Secretariats were set up as subordinate to the corresponding sectoral minister and responsible, among other duties, for carrying out sectoral planning; and, lastly, technical co-ordination committees.

In the regional sphere, various units were also established to adopt decisions, plan and consult.

From the foregoing it may be concluded that the decree in question combined, on the one hand, the decentralization of functions of the Ministry of Planning and Economic Policy towards the sectoral and institutional planning units, and from the central to the regional level on the other. It furthermore aimed to attain a more participative planning process.

ii) El Salvador. A Foreign Financing Secretariat was set up within the Planning Ministry with the duty of obtaining external financial resources and channeling them towards the executive institutions.

The internal organization of the Planning Ministry was restructured, combining under one management the tasks of global and sectoral planning. A high-level organism headed by the Minister of Planning was also established to act in an advisory capacity to the Presidency of the Republic in order to stimulate the implementation of the National Reactivation Plan (PREN).

iii) Guatemala. Prominent among recent institutional changes introduced in this country are the following:

An Inter-Institutional System for Reconstruction and Development was established in October 1983 comprising: the Inter-Institutional Co-ordinating Office (CIN), Departmental (Provincial) Inter-Institutional Co-ordinating Offices (CID), Municipal Co-ordination Units (CIM), and Local Development Committees (CDL).

The corresponding official document declares that "the purpose of the inter-institutional co-ordinating offices is to guide and direct the efforts of the public sector in formulating and executing planned and programmed activities aiming to achieve national reconstruction and development".<sup>9/</sup>

The Inter-Institutional Co-ordinating Office at the national level is headed by the Chief of Staff of National Defence and includes the State Undersecretaries, the Economic Planning Secretariat, and senior officials of decentralized institutions. The Executive Director of the National Reconstruction Committee (an organism established as a result of the severe earthquake of February 1976) acts as the co-ordinator of the Committee. At other institutional co-ordination levels, the presidency of the Committee is also exercised by local military authorities with the participation of other officials including economic planning representatives.

Other governmental co-ordination organisms established in consequence of the October 1983 decision have been as follows: the Economic, Social and Infrastructure Cabinets consisting of the ministers of State together with senior personnel of the decentralized institutions. The Economic Cabinet had been operating outside the formal institutional structure under the co-ordination of the Economic Planning Secretariat, but in accordance with the new legal provisions the technical secretariat was assigned firstly to the Central Bank and subsequently to the Finance Ministry.

iv) Honduras. The Ministry for Presidential Affairs ("Ministerio de la Presidencia") was established at the beginning

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9/ See: Ministerio de la Defensa Nacional, Acuerdo Gubernativo N° 772-83, October 1983.

of 1982 with duties including, among others, the co-ordination of government economic activities. As a result of this measure the Technical Secretariat of the Senior Economic Planning Council became dependent on that Ministry rather than on the Presidency of the Republic.

Various legal bills (projects of law) were also formulated in this period with the aim of strengthening the planning system but are still under consideration. Among these should be mentioned a new planning law which seeks to integrate more effectively the organisms engaged in the system and to establish a greater obligatory linkage between plans and budgets; a legal initiative tending to regulate the co-ordination of external economic co-operation; and another aiming to establish a national projects system.

Finally, after several years of inactivity, the Senior Economic Planning Council was set up for the purpose of discussing and approving the 1982-1986 National Development Plan.

v) Nicaragua. Since the change in political focus the Nicaraguan Government and administrative apparatus have introduced some important restructuring measures in terms of dimension and concept. The traditional planning system comprising a small technical office dependent on the Economics Ministry consequently underwent transformations in order to adapt it to the new duties undertaken by the State. According to an official statement in this respect "not only has the internal division of duties (of the State) been rationalized but a new directive concept of economic policy has also been instituted, based on the National Planning System and specifically on the Ministry of Planning."<sup>10/</sup> As a recently organized system, it has undergone few changes during the period under review.

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10/ See: Ministerio de Planificación, Programa de reactivación económica en beneficio del Pueblo 80. Managua, January 1980.

Prominent developments in the past three years have been: advances in the consolidation of the system in general and especially of the Programme Co-ordination Committees ("Comisiones Programáticas de Coordinación") which act as operational links between the Ministry of Planning, the senior level of political decision and executive institutions responsible for formulating policy proposals in 12 specific areas and submitting them to the senior level. Another prominent development has been the consolidation of national councils dealing with agricultural, industrial and commercial matters and operating as consultative organs at the service of the private, entrepreneurial and popular sectors. In the sectoral sphere progress has been made in strengthening the planning unit of the Ministry of Agricultural Development and Agrarian Reform.

vi) Panama. During the period under review (1982-1984) several significant changes have been introduced in the Panamanian planning system with a view to consolidating the experience achieved over the past ten years.

The National Investment Council was set up in August 1982 as part of the Ministry for the Presidency in order to promote national and foreign investments in the country.11/ Subsequently, by means of Resolution N° 67 dated February 1984, the Pre-investments Fund was attached to the Ministry of Economic Planning as an organ of the Senior Directorate of this Ministry.12/

By means of Decree N° 58 (December 1982) the Directorate of Public Credit was formed, its main duties being to formulate

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11/ See, Gaceta Oficial N° 1984 dated 6 July 1983.

12/ See, Ministerio de Planificación y Política Económica, Memoria 1984.

public credit plans (internal and external), participate in financing negotiations, and examine and recommend investment projects.

For the purpose of formulating, proposing and co-ordinating projects for the better employment of assets, installations and resources in the area being returned in the Canal Zone the Planning and Development Office of the Canal area was formed in place of the former National Canal Commission which had been operating independently from the programmes of the central planning organism.

This move introduced a significant strengthening of the planning system since its functions now include the use and development of the important resources reverting to Panamanian control.

Finally, a Co-ordinating Committee has been established, comprising the Ministries of the Presidency, Finance, Planning, the Office of the General Comptroller and the National Bank of Panama, with the aim of organizing and improving administrative affairs.

## 2. Characteristics of the planning systems prior to the economic crisis

The main initial examples of planning in the countries of the Isthmus were the first public investment plans, particularly those emphasizing infrastructural economic and social projects which incorporated only some aspects of economic, fiscal and administrative policy.

The second stage began shortly after the Meeting of Central American Presidents held in San José, Costa Rica in March 1963 at which activities to be undertaken were discussed in order to make use of opportunities under the "Alliance for Progress" programme. One of the resolutions adopted in the Presidential Declaration was to "formulate national economic and social development plans, co-ordinating them at the Central American level, and progressively

carry out regional programming for the various sectors of the economy".<sup>13/</sup> Although the regional spirit of the process did not find materialization in subsequent studies, the declaration represented strong support for the planning organisms of the sub-region, and national plans were in practice formulated applying similar methodological concepts and contents for a more or less homogeneous period (1965-1969).

Those plans attempted in general to establish the bases for more sustained growth than in the past. In most cases they represented a search for inward growth by expanding the internal Central American markets together with the diversification of extra-regional exports. Public investment programming was emphasized, with the addition of some guidelines of an indicative nature for private agents.

In the recent decade planning exercises have gradually incorporated new areas of attention, including a larger number of productive sectors and introducing the spatial dimension -regional and urbanization development- and other specific interests such as science and technology, the environment, employment, social welfare and food. This acquired the nature of an "all-embracing" approach -global and sectoral- in terms of endeavouring to embrace most economic and social areas at a time when the operation of economic planning was confined to certain aspects only. Moreover, the institutional set-up was encountering difficulties in influencing the fulfilment of objectives.

Formal expressions in the exercise of economic planning in the sub-region took the form in the first place of documents

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13/ See: Confederación Española de Cajas de Ahorros, La planificación económica y social en Centroamérica, Alberto Rull Sabater, Madrid, 1969, p. 260.

outlining strategies for long-term development involving broad economic and social objectives and general guidelines for their attainment.

In the second place medium-term plans were produced, generally covering a five-year period, containing objectives, goals, political measures and investment programmes at global and sectoral levels and including, more recently, a regional dimension. Finally, although not in a generalized manner, those medium-term aims were reflected in annual operating plans which reviewed the evolution of the economy and introduced amendments as justified by the changing situation.

In short, although such plans were in most cases implemented only partially, and despite their rigid and formal character, the planning process over the past two decades has been of significant assistance and contributed to some of the economic, social and institutional transformations that have taken place in the Isthmus.

Interpretative studies -diagnoses- of economic circumstances have in the first place been carried out which have provided a better view of the productive structures of the countries and their place in the international economy.

Secondly, the planning system has fulfilled an important role in the gradual change observed in the position of the various governments which have moved from traditional passive attitudes to a promotional and directive role in economic and social development.

In the third place, greater order and consistency have been attained in the programming and execution of public expenditure by applying budgeting-by-programme techniques and formulating operating plans. Contributions have also been made in the management, identification, formulation, evaluation and procurement of financing for investment projects.

Fourthly, among other aspects, the planning offices have promoted and collaborated in the institutional modernization of the governments. State-operated enterprises and decentralized entities supporting productive activities have been diversified and strengthened; the civil service (regulation of the administrative career system) has been established, and a process of inter-institutional co-ordination has been introduced.

Finally, and perhaps most significantly, some of the systems have fulfilled a role of co-ordination and consultation within the public sector and between it and other economic agents. Conflicting interests have thus been harmonized and agreement reached in connection with national development projects and concerning the best manner in which to carry them out. In the process of this work, these systems have assumed the duties of technical advisory bodies to other public dependencies.

To sum up: allowing for important differences between the countries in question, the exercise of planning in Central America -at least up to the end of the 1970s- has on the whole been conducted formally (as for instance in the drawing up of medium-term plans), comprehensively, supposedly compulsory for the public sector, indicative for private interests, and in a comparatively non-participative manner. Despite these characteristics -of "technocratic enclaves" not always articulated with the process of political decision- some of the systems have succeeded in introducing more operative methods in their planning procedures, prominent among the latter being the provision of advisory services and the constant harmonization of varying interests. In other instances, the planning organisms have undertaken specific duties, such as the drawing up of the budget in Panama and the co-ordination of external technical co-operation in almost all the countries concerned.

#### IV. SOME EFFECTS OF THE CRISIS IN THE PLANNING SYSTEMS

##### 1. General considerations

Among many other consequences, the crisis faced by the countries of the Central American Isthmus has drawn the attention of the national economic authorities towards the short term, has underlined the significance of financial variables and aggravated disagreements concerning income distribution and conflicts between different sectors within and outside the public sector. Most of the planning systems seem not to have adapted their efforts to this abrupt change of circumstances and those that have continued their customary tasks following bygone patterns have found themselves rapidly overtaken by developments. For example, as recently as the first years of the present decade some attempts to draw up formal medium-term plans were made but proved virtually obsolete before reaching the printers.

Even the organizations which followed a more pragmatic style in their work found themselves faced by dilemmas and fresh conflicts. In the planning of public investment there have been less resources to programme and ever greater difficulties in drawing up budgets in view of uncertainties regarding the evolution of income. In so far as reconciling interests in connection with projects is concerned these organisms have found themselves faced by a greater number of conflicting viewpoints. These circumstances have confirmed once again that it is decidedly easier to programme in times of abundance than in conditions of austerity. Moreover, projects as such have frequently come to nought, leaving in their place only the concept of survival and avoidance of even greater deterioration.

The crisis has also contributed to the demise of development patterns, these being replaced by few, if any, options other than the neo-classical model which, with some variants, has found defenders in the national milieu and also abroad among official multilateral and bilateral finance agencies. The atmosphere of confusion and uncertainty which has followed, and still continues, in numerous countries has contributed to an apparent loss of credibility on the part of many planning systems. The following notes explore in greater detail the manner in which the economic crisis has affected those systems.

## 2. Plans in force in the period 1982-1984

In the sphere of formal activities, the countries were drawing up prior to this period more or less regular medium-term plans covering periods of from four to five years as part of a long-term strategy -generally for implementation during the 1970s- and supplemented (although not in all the sub-regional countries) by operating plans. This continuity was interrupted as from 1980. In the first place, documents formulating a development strategy for the present decade were not drawn up and, secondly, plans covered shorter periods and some even referred to years corresponding to other, medium-term, periods thus giving rise to temporary overlaps between one and another plan.

As already suggested, the preparation of formal plans is not the only activity -and in some cases not even the main concern- of planning systems. However, an analysis of what has been done in this connection in recent years enables two contrary trends to be observed; on the one hand that of continuing some type of formal testing exercise and on the other that of introducing changes of approach and scope in that exercise. This -among other reasons- has undoubtedly been due to the need deriving from the

economic crisis to adapt global, sectoral and regional plans to the emerging cyclical situation. In this respect four more or less clear modalities may be observed in the activities of the planning organisms of the Isthmus corresponding to the characteristics, severity and duration of the crisis, the institutional position of the organisms concerned, and their capacity to intervene in the definition of short-term economic policy.

In three of the countries -Guatemala, Honduras and Costa Rica- planning efforts (with some differences of style) have concentrated on adding to known development objectives (balanced, sustained and equitable growth) those aiming to correcting the more notorious financial imbalances (balance of payments, public finances and inflation), but without assigning priorities to the objectives nor referring to the possible contradictions liable to arise between them.

In the case of El Salvador, long-term goals -linked with the real area of the economy and consistent with the key objectives of economic and social development- and other aspects, have centred exclusively on overcoming cyclical problems, even without taking into account the most significant event taking place in the country, namely the prevailing social and political confrontation.

An event occurring in Panama has been the practical disappearance of expressions of formal planning due to a concentration in the central organism -whose responsibilities include the definition and co-ordination of fiscal, monetary and credit policies- of the tasks of developing and co-ordinating short-term economic policy with emphasis on the financial area; although a parallel important undertaking has been that of studying regional development and proposing measures in this sphere.

Finally, in Nicaragua, planning concerns have centred on the economic problem and consequent counter-measures, attention

to real objectives associated with the construction of an egalitarian and more participative society, and to policies related to recovery in the productive establishment. Since the end of 1983, however, greater consideration has been given to financial difficulties.

a) Costa Rica. The national development plan known as the Return to the Soil Plan ("Volvamos a la Tierra"), 1982-1986, establishes as a general objective "a review of the country's development strategy involving not only a change in models of production and consumption but taking into account the political, ethical and moral structures of society. A thorough revision of the productive system is intended. Of particular importance is a revision of the industrial ... and the allocation of a central role to the agricultura sector ...".<sup>14/</sup> Specific objectives in the political area include the strengthening of democracy and unrestricted adherence to cultural and ethical values. In the economic and social sphere they include the improvement of income distribution and wealth, economic growth, greater efficiency in the productive sectors, the strengthening of social and cultural processes to perfect democratic practices, reduction of regional differences, and increasing participation in development mangement and improvement in export capacity.

In its main aims the strategy endeavours to convert the agricultural sector into the king-pin of development, integrating it more closely with manufacturing industry in order to "transform the resources stemming from the primary national sector rather than obtain them from abroad"<sup>15/</sup> by increasing productivity and

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<sup>14/</sup> See: Ministerio de Planificación Nacional y Política Económica, Plan Nacional de Desarrollo Volvamos a la Tierra, 1982-1986, Diagnóstico y Estrategia Global, Tomo 1, San José, Costa Rica, 1982.

<sup>15/</sup> Ibid.

stimulating technological development adapted to prevailing conditions and the supply of national resources; important changes in historical patterns in connection with public investment resources; more co-ordination between the institutions of the agricultural sector and its component parts and with those responsible for export promotion.

The industries processing farm products and national raw materials and those engaged in the selective production of import substitutes are to merit the special support of the State, as well as those generating high levels of employment or turning out agricultural inputs. Industrial protection policies by means of taxation and customs dues will seek to ensure a degree of competitiveness to serve as a stimulus to increasing productivity.

The State, in its capacity as one of the principal agents of national development, will be guided by criteria of administrative efficiency and efficacy with a view to attaining planned objectives. For this purpose it is intended to evaluate the dimensions of the government and of the areas in which it should intervene. Its role in the redistribution of wealth and promotion of social justice is to be reinforced by "stimulating private initiative and incorporating the citizenry in productive activities as a basic resource in achieving a better distribution of wealth";<sup>16/</sup> attempts are also envisaged to balance public finances through direct and progressive taxation together with austerity in terms of expenditure; and public investment is to be directed towards the elimination of important restrictions in agricultural activity and the improvement of transportation.

In social terms the plan aims to re-examine educational and health systems in order to adapt them to current circumstances and

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16/ Ministerio de Planificación ..., op. cit.

to the new model of programmed development, while consolidating the attainments so far achieved in the fields of labour and social security.

Finally, to the foregoing aims -which are common to most plans- were added (with less analysis and without examining their degree of coherence) general outlines of economic and social policy in terms of economic stabilization, austerity in expenses and the rationalization of public administration, together with objectives relative to economic revival.

b) El Salvador. Various changes of government and consequently of political orientation have taken place in El Salvador since 1979. This fact has been reflected in the planning process, giving rise to the formulation of various plans of differing temporary scope and to some overlapping in the different periods envisaged. Thus, for example, the National "Welfare for All" Plan was formulated in 1977 for the period 1978-1982, and the National Emergency Plan was drawn up in 1979 re-formulating basic orientations in accordance with the economic and social objectives of the Proclamation of the Armed Forces, thereby introducing substantial modifications in the conceptual aims of the government and instituting various reforms including the nationalization of banks and foreign trade and the early stages of an agrarian reform process.

The Three-Year Plan -1981-1983- envisaged a new model of society and, in economic terms, proposed among other aspects the democratization of ownership of the means of production -mainly farming property- the conformation of a modern and technified agricultural industry, training of human resources, a greater use of fishery resources, and consideration of industry as the driving force in national progress.

The model set out to stimulate the joint participation of workers, producers, artisans and professional practitioners with

the aim of attaining higher levels of production, consumption and savings. The establishment of self-supporting associative organizations was also to be promoted, thereby converting the worker into an owner of means of production. It further declared that private enterprise would continue as an important agent in the process of development, but co-ordinating its interests with those of the community. In so far as the State is concerned, "it will act during the period as a stimulating element in development through the medium of important investments and the promotion and direction of the country's productive forces".<sup>17/</sup>

The plan additionally envisaged the active participation of the population at various levels and the attainment of a national concensus in relation to the plan as a prerequisite for attainment of the chosen objectives.

The following are among the main economic and social policies considered:

i) To promote an increase of productivity and in the supply of traditional export products, and a greater degree of diversification in agricultural and manufacturing industry in order to reduce external dependency.

ii) To utilize the indebtedness capacity of the country by procuring credit to supplement internal resources; carry out a selective import policy; promote external sales of traditional and non-traditional goods -especially agro-industrial products; and acknowledge the advisability of foreign investment as supplementary to that generated locally, mainly in the transfer of technology.

iii) The State was assigned a large share in investment and in the solution of social imbalances; it would contribute to income re-distribution and support productive activities by means of basic

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<sup>17/</sup> See, Ministerio de Planificación y Coordinación del Desarrollo Económico y Social, Plan Trienal 1980-1983, El Salvador.

infrastructural works. It would also strengthen fiscal income and make minimum use of deficit financing.

iv) In the social sphere the plan favours increasing community participation and development; the search for consensus in labour-employer relationships; the achievement of higher levels of employment; promotion of production of foodstuffs; the influencing of demographic trends and the geographical distribution of the population.

Despite the existence of this three-year plan the aggravation of the crisis has been evidenced by limitations in the external sector, public finances and the financial system, together with a contraction of public and private investment, leading to the formulation in 1983 of the National Economic Recovery Programme ("Programa de Reactivación Económica Nacional, 1983") which redirected economic policy and the objectives of the aforementioned plans, and proposed a combination of specific measures to overcome the crisis.

Prominent among these objectives were: to curb the drop in production and employment and reduce external strangulation and the fiscal deficit. At the same time, strategic guidelines concentrated on an adequate and pragmatic management of the reforms already instituted -in banking and in foreign and agrarian trade; State support to the private sector as an indispensable factor in the productive process; economic recovery based on the farming, industrial and building sectors, better use of installed capacity; the procurement of adequate external financing, encouragement of capital repatriation, and the setting in order of the monetary and credit system.

c) Guatemala. Three different situations were observable in the period 1982-1984. Two plans remained in force in 1983 -the 1980-1982 plan- which up-dated the preceding equivalent programme for the period 1979-1982, and an annual programme known as the

Short-Term Economic Policy Plan. In 1983, on the other hand, no type of plan was in hand, either for the medium or short term; and, finally, in 1984 the application began of a two-year document (1984-1985), of which the most important objectives and the strategy envisaged 18/ are summarized hereunder.

The fundamental objective is to achieve the greatest degree of satisfaction in the basic needs of the population -in other words to promote social participation. "This objective demands as a prerequisite a framework of security, democratic and participative, based on legal principles guaranteeing individual and collective freedom."19/

Among its general objectives are: to set in motion the recovery of economic activity; progressively improve income distribution; fortify external relations; reduce unemployment and underemployment; consolidate the process of national regularization, and achieve a greater degree of national integration.

The strategy contained in the plan expresses in the first place that production development should primarily rely on private enterprise. In this context it is suggested that the latter should be "the main protagonist in the process of change"; secondly, it establishes a substantial modification of the concepts ruling hitherto by proposing that economic growth should be based on a better employment of national resources and the internal market, but without overlooking the promotion of traditional and non-traditional exports. Thirdly, the public sector is assigned an active role in the promotion of economic and social development by rationalizing public expenditure and supporting private production. In the fourth place foreign investment should be regulated in order that

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18/ See, Jefatura de Estado, Consejo Nacional de Planificación Económica, Plan Nacional de Desarrollo 1984-1985, Secretaría Nacional, Guatemala.

19/ Ibid.

it act only as a supplement to national capital. In the last-mentioned sense the State should guide the process of technological transfer inherent in foreign investment.

With regard to the instruments and measures of economic policy, the plan emphasizes:

i) Intensification of the promotion of traditional and non-traditional exports; the strengthening of trade with other countries of the sub-region and of the capacity to negotiate with external interests, and the rationalization of imports and more profitable use of national inputs;

ii) the need to improve the efficiency and efficacy of action by the public sector through decentralization and deconcentration; seek regional equilibrium through the appropriate allocation of investment projects; increase the participation of the public sector in the distribution of surplus earnings by means of a progressive tax structure while applying a criterion of equity; redirect the fiscal deficit through greater efficiency in the tax and tariff system, making use of expenditure as an instrument of income redistribution, and

iii) the need to increase rural employment by supporting medium and small agricultural enterprises and the promotion of infrastructural construction making intensive use of manual labour; guarantee the application of minimum wages and see to the improvement of working conditions in general; regulate migratory flows in farm work and expand social security programmes.

Although the plan contains a broad range of policies and activities of a social nature and in connection with prices, science and technology, production and community participation in development, the measures here outlined are those of greatest relevance in this instance and enable the orientations of economic policy to be understood.

d) Honduras. The 1982-1986 National Development Plan has been in force during the period under review. This plan establishes the following medium-term objectives:<sup>20/</sup> to achieve a higher standard of living by satisfying the basic needs of the population; lower the levels of unemployment and under-employment; improve the level and distribution of income; diversify national production; make more rational use of natural resources; increase and diversify export capacity; achieve economic and financial stability (abatement of the external and public deficits), and promote balanced local development with prospects of national integration and linkage with the rest of the Central American region. To the development objectives traditionally considered, this plan adds that of achieving economic and financial stability, though without including an order of priorities for this endeavour.

For its part the strategy adopted allocates to the State the role of negotiator and promoter of development, and in some instances its direct participation in activities related to the conservation and use of national resources, the supply of basic public services, the construction of an economic infra-structure and of export facilities. Direct government investment is envisaged as being made in strategic areas for which the private areas possesses neither the necessary resources nor investment capacity.

An important role is allotted to the private sector in the search for new investment opportunities and it is considered that the invigoration of their activities would ensure favourable conditions of political and social stability.

With regard to the productive structure, priority is allocated to the production of goods for export and of foodstuffs for internal consumption with a view to achieving self-sufficiency in this latter respect. The national financial system would provide support for these purposes, and the execution of projects

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<sup>20/</sup> See, Secretaría Técnica del Consejo Superior de Planificación Económica, Estrategia para el desarrollo de Honduras, July 1982, Tegucigalpa, Honduras.

in support of production or of a directly productive character would be stepped up. Efforts would be made to optimize the use of installed capacity, especially in the farming and agro-industrial spheres.

With a view to increasing the supply of traditional and new export products and to diversifying foreign sales the government would make lines of credit available to the private sector, on an ad-hoc basis, support the promotion and marketing of products and make use of advantages stemming from preferential trade treaties.

In the matter of economic integration it is intended to promote measures to stimulate Central American trade and development.

In so far as the provision of social services is concerned the strategy envisages the association of these services with the agrarian reform programme and with support to the productive sectors together with the expansion of present coverage and quality improvements in this respect, the strengthening of different forms of social community organization and greater participation of women in the development process.

The plan attributes particular significance to local development (at the municipal level) as a spatial unit suited to the implementation of strategies, policies, programmes and investment projects.

Taxation policy would seek not only to increase fiscal income but also to influence the allocation of resources in a manner consistent with the envisaged objectives.

The public sector deficit would be held down to level compatible with non-inflationary internal financing availabilities, making careful use of external credit and raising the level of public sector savings.

e) Nicaragua. Although no medium-term public plans or development strategies have been drawn up in the past three years, the planning process in this country, as already mentioned, has acquired vigour based on the conceptual orientation of the new government specified in the programme of the National Reconstruction Government Junta. Through the medium of annual operating plans and other economic policy documents,<sup>21/</sup> main objectives, policy guidelines, reactivation, austerity and efficiency programmes have been defined.

Among main medium-term objectives are those of: modifying the mode of participation of the country in the international economy; attaining autonomy in the production and supply of basic consumer goods, and constructing a just and egalitarian society in the distribution of economic opportunities and compensations. Over a shorter period it is sought to: consolidate the process of internal transformations and strengthen the mixed economy; raise permanent employment levels and maintain the real purchasing value of wages; and, finally, attenuate the problems deriving from the scarcity of foreign currency, inflationary pressures and the public sector deficit.

The related strategy <sup>22/</sup> establishes the conformation of a mixed economy composed of a State area owned by the people ("Area de Propiedad del Pueblo"), a private area, and a mixed are supported by joint public and private investments. Thus, "... the State will support and protect the operations of national enterprises, especially small and medium ventures, vis-à-vis those of transnational interests."<sup>23/</sup>

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<sup>21/</sup> See, for example, documents prepared by the Planning Ministry: Programa de Reactivación en Beneficio del Pueblo 80, and Programa Económico de Austeridad y Eficiencia 81. Also that issued by the Gobierno de Reconstrucción Nacional de Nicaragua, Lineamientos de Política Económica 1983-1988, Managua, September 1983.

<sup>22/</sup> See, Junta de Gobierno de Reconstrucción Nacional de Nicaragua, Programa, Managua, July 1979.

<sup>23/</sup> Ibid.

In addition, the State reserves for itself the control of utilization and administration of certain natural resources (mines, forests, fishing, energy ...), as well as of the banking system and foreign trade. Foreign investment is regarded as fulfilling a "strictly supplementary" role to internal activity and would therefore be regulated in order to protect national interests.

The agrarian reform process -a fundamental element in the overall strategy- seeks to introduce a transformation to ensure access to farming land, credit, technical assistance and other means of production on the part of the rural population. Associations are especially promoted to work the land, the exploitation of small landholdings being avoided with a view to attaining appropriate productivity levels. Land leases and the use of irrigation are also subject to official regulation.

Encouragement, in a manner consistent with agrarian reform, is accorded to internal regional development with the aim of satisfying the specific needs of each district, special attention being given to the Atlantic coastal area.

In so far as production is concerned the first priority is assigned to agricultural output for internal consumption together with agro-industrial development, the use of labour-intensive working methods and the search for greater efficiency.

In the social sphere it is sought to furnish real possibilities for the improvement of living standards through policies aiming to eliminate unemployment, ensure entitlements to housing, health, social security, collective transportation, education and other goods and services. Finally, it is intended to carry out a thorough reform of public administration, with a view to rationalizing its functions, improving efficiency and instituting a planning system making feasible and ensuring the execution of the government's economic and social investment programme.

Among short-term aims, the following deserve mention: the regularization of public finances by encouraging savings and raising tax levels; the improvement of productivity in the public sector; a policy of greater selectivity in investments; the fight against inflation through appropriate management not only of public expenditure but also of price and wage policies, and the promotion of productive supplies.

With regard to the external sector, significant efforts are pledged with the aim of increasing and diversifying exports, rationalizing imports and mobilizing net external financing. It is intended that monetary and credit policies be less expansive and strongly directed to the financing of priority activities in national economic policy.

f) Panama. Although apparently less intensively than in the other countries of the Isthmus, the economic crisis has also adversely affected the Panamanian economy. This circumstance, coupled with changes of direction in government policy, has also been reflected in planning, albeit in a manner somewhat different from that in other sub-regional countries, due to the particular nature of the national economy and of the planning system itself. It should be borne in mind, as already mentioned, that within the Ministry of Planning and Economic Policy -which occupies a high position in the administrative organization of the State- budgeting work is carried out together with that concerning the financial area as such. Consequently, in the particular case of Panama, the more significant changes emanate from the ministry in question which also deals with accentuated tasks in the real and financial areas of the economy.

In regard to the formal expression of planning and strategies, these have been interrupted since 1980 and no official national, regional or sectoral plans or national development strategies have

been issued since that time. A series of studies conducted under the general title of Programme of Economic Studies for Panamanian Economic Revival are nevertheless being carried out and a document entitled Opciones estratégicas para el desarrollo regional, 1980-1990 has been prepared. Its aim is to establish the need to consider the financial restrictions to which the country is likely to be exposed during the rest of the present decade, for which purpose it would be necessary to seek a more balanced pattern of development in the various national regions. The document also postulates the advisability of channeling and guiding the spatial impact of the Torrijos-Carter treaty in the metropolitan area (Panama-Colon) and the relationship of the latter with the rest of the country. In this connection the need is emphasized to integrate the infrastructure and land and water resources of the Canal area returned to the territory and economy of the country as a whole.

Finally, no other official document is available containing a definition of short-term macro-economic or social policy. The Ministry of Planning and Economic Policy nevertheless sponsored a meeting in 1983 with representatives of private enterprise to examine the social and economic situation. As a result of that event some optional strategies were identified, at least for the 1983-1984 period. In short, it may be said that, in the case of Panama no medium or long-term, nor global or sectoral national plans have been produced in the past five years. Planning has however fulfilled a prominent role in the co-ordination and rationalization of economic policy in its definition as such, and especially in the financial sphere, these tasks having clearly dominated the wide spectrum of duties allocated to this government agency.

Finally, therefore, considering the combination of economic measures introduced in the course of the past five years, it may

be concluded, as in the rest of the Region, that planning has had a hand in dealing with a variety of challenges in Panama deriving from the financial limitations caused by the current crisis.

The field of action for planning has been diverted to deal with cyclical difficulties while those of the real economic area are still under discussion prior to instituting a new development strategy. The main activities of the central organism have thus concentrated on putting forward proposals to overcome financial imbalances, basically in this instance in the balance of payments and public finances. Some activities -mainly in the sphere of government expenditure- tending to moderate the effects of the crisis and protect the degree of welfare formerly attained have been implemented, especially in the provincial area.

3. Comments on the effects of the crisis on the planning systems

a) Financial imbalances, especially in the fields of public finances and the external sector

To the extent that fiscal and balance of payments imbalances have become more acute and inflationary pressures have grown, economic policy has gradually focussed on the attention of short-term problems associated with the financial area. Planning systems that have taken an active interest in these topics have obviously been those that have managed to maintain or even improve their standing. Others, on the other hand, which have remained relatively unconcerned with the study of economic policy under conditions of crisis have allowed their status to weaken and give way to other organisms traditionally integrated in financial policy.

Seen from another viewpoint, economic adjustment policies deriving from agreements reached with the International Monetary Fund in efforts to meet the crisis have sometimes been accompanied

by conceptual trends favouring the transfer to private interests of the role of protagonist in the field of development, implicitly bringing about an erosion in spheres traditionally entrusted to planning organisms, such as the programming of public investment. State action has thus concentrated primarily on the settlement of financial difficulties -frequently without the participation of the planning agencies- with consequent deferment of attention to development and transformation objectives.

Together with other effects which will be referred to here-under changing circumstances have hitherto been a prevalent feature of the immediate past and have been posing dilemmas as to how the planning systems might rationalize the situation through the application of concepts of wider scope. Faced with situations of this nature three types of response have been observable -with differences of degree- on the part of planning organisms:

i) Some planning offices have continued to concentrate their efforts on the medium term as traditionally linked with the real area of the economy and have become less involved in the formulation of short-term economic policy. Attention has however been given in formal plans to the objective of financial stabilization, but without allocating priorities to the various goals or considering possible contradictions arising between the latter;

ii) Other organisms have increasingly intervened in the definition of stabilization and adjustment policies, with varying degrees of success (as in El Salvador and Panama). With the result, however, that gradually less attention has been devoted to problems in the real area of the economy.

iii) Finally, in Nicaragua, planning offices have participated in the definition of short-term economic policy, influencing it in such a way that preference has been given to action consistent with longer-term guidelines in the real area of the economy. In this instance stability objectives have perhaps been excessively

subordinated to those in the real area of the economy with the result that the former have tended to deteriorate and have recently called for greater attention on the part of the authorities.

b) Regularization of public expenditure and especially that of capital investment

The subject of government expenditure, and in particular that part of it devoted to public investment has traditionally been one of the main instruments of programming in the concerns of government and at the same time the most important task undertaken by planning systems. It involves not only arranging hierarchically and identifying the amount of public expenditure to carry out particular objectives but the co-ordination of agreements between the public sector representatives concerned in connection with that hierarchical order, and the promotion of timely identification, preparation and execution of projects and programmes forming part of the consolidated investment plan.

As a result of the serious financial limitations that have been affecting the governments in recent years, and in view of inability in most cases to make use of effective tax reforms, trends have increasingly moved in the direction of more rigorous austerity policies in the disposal of public funds. This has brought about the need to accept sacrifices in the execution of programmes and projects included in development plans in the medium and long term and even, in some cases, of current operating plans. These projects have gradually been substituted in the scale of priorities by attention to operating costs -including (prominently in some countries) expenditure on security and defence and external and internal debt servicing. In these circumstances expenditure in real terms on infrastructural, development and social-service projects has had to be drastically curtailed.

As a result of such considerable contractions, important inconsistencies have arisen between programmed items included in final development plans and expenditure earmarked in annual budgets. The relative importance of public investment programming has in any case tended to lose weight.

A parallel circumstance is that financial programming capacity has in some cases become weaker in view of the uncertain panorama, thus making it difficult to make more or less reliable forecasts of tax proceeds and consequently of preparing expenditure budgets with some degree of certainty. The need for continuous budget revisions has been weakening the system of programme budgeting which, although not carried out directly by the official planning agencies in five of the six sub-regional countries have at least enabled close links to be maintained between plans and annual expenditure. In this manner public expenditure has in some countries tended to be dealt with separately from the official planning field. There have been many examples of partially executed programmes due to defective budget allocations, even in the case of already completed projects. All the foregoing aspects have reduced the influence of the planning organisms in the allocation of public funds. Costa Rica represents a significant exception in this respect, the planning organism having in this case proposed and managed to establish a more precise mechanism of control in the allocation, rationalization and use of expenditure by means of the National Integrated Budgetary Planning and Accounting System ("Sistema Integrado de Planificación Presupuestaria y Contabilidad Nacional") which has sought to achieve closer integration between the budget and fiscal accountancy departments.

c) More rigorous control of external debt policy

One of the effects of the crisis has been that of having to consider the policy of foreign indebtedness within the framework of global economic policy. This factor has posed a fresh challenge to planning since the greater the rigour required in the definition of debt policy, the greater shall be the participation of the planning organism as a "rationalizing element" at macro-economic level.

The participation of most of the planning offices in the sub-region in debt-rephasing negotiations and in the control and administration of the foreign debt has in practice been weak, with the exception of Panama and, to a lesser extent, Nicaragua. Countries that have undertaken intense debt renegotiation processes have in many instances failed to achieve improvements in terms of settlement over the medium and long term. This has especially been the case in Costa Rica and Nicaragua, since periods of grace and other contracted terms have ultimately proved less favourable in the light of the evolution of their economies and they have had to face more rigorous situations than formerly.

The lack of international liquidity has also been the cause of other prominent foreign parties progressively and increasingly influencing the definitions of internal economic policy, or at least persuading them in accordance with the weight of circumstances. This has been the case of some official financing sources and the international banking system. The new types of foreign relationship to which this has given rise have thus to some extent weakened state control and consequently the planning agencies -over the destination of external financing.

d) The panorama of uncertainty

In the case of economies so exposed to international market conditions as those of the Central American Isthmus, part of the

exercise of planning -namely that involving the calculation of future assumptions and forecasts- has always been subject to considerable uncertainty with regard to future variations in the movement of a number of variables.

The present crisis has provoked substantial changes in traditionally-applied concepts and parametres in a much more complex panorama than in the past. Traditional external dependency has become even more distorted by an accumulation of other factors, prominent among which have been the acute problem of external credit and uncertainties regarding the future international economic situation. To these difficulties have been added the unforeseeable outcome of the political and social tensions prevailing in the sub-region. This combination of factors has accentuated the panorama of uncertainty in the short and medium term.

Those organisms which have continued to base their procedures on forecasts leading to quantitative goals have hence found themselves increasingly out of step with realities. On the other hand those planning systems which have tested new approaches, specifically tailored to programming in times of crisis and uncertainty (i.e., so-called "situational" or "strategic" planning) have apparently managed to preserve, and in some instances strengthen, their presence in the various economic cabinets.

e) Capacity of the planning systems to adapt to new circumstances

Throughout the present notes, the magnitude of the changes which the countries of the Central American Isthmus have had to face has been stressed, in particular that of those changes originating outside their own fields of influence. In facing unaccustomed situations the governments and different social groups have often reacted slowly, considerably delaying their capacity to adapt. This situation has also been observed in the planning systems of most of the countries of the sub-region.

From what has been said throughout this report, it may be concluded that, although most of the planning organisms have taken at least partially into account the new internal and external realities faced by their respective countries -e.g. by incorporating adjustment programmes in their medium-term forecasts-they have continued to apply programming techniques and methods similar to those of the past. They have thereby deprived themselves of the possibility of drawing up formal documents containing forecasts considering perhaps shorter periods than those applied in plans drawn up in the 1970s.

In effect, most of the developments here mentioned -confusion provoked by the crisis, the uncertain panorama, marked emphasis on the financial aspects of development- form part of changing pattern of circumstances which has in general imposed new demands on governments, and on planning systems in particular. In the face of such a variety of unforeseen developments, the response should also have been different from that traditionally forthcoming, but this has not always been the case, or has only been partially so.

Deserving mention as a case involving notably different conditions is that of Nicaragua where criteria of economic policy have undergone an abrupt change as from July 1979 and where, to the new external circumstances, has been added another different combination of circumstances on the internal front. However, even in that country the exercise of planning, at least during the initial years of the new "National Reconstruction" Government, has been of a conventional character, but with a growing involvement of the official planning agency in the economic scene in both the short and medium term.

f) Conceptual polarization

Although the degree of state intervention in an economy or the degree of liberality, wherein the market operates, do not in

themselves determine the significance of planning in a particular contest, the crisis and growing presence in the Region of important international financing organisms has provoked a kind of conceptual polarization in connection with the long-standing dilemma of state control versus the virtues of the market mechanism in attaining an optimum allocation of resources.

Some planning agencies have endeavoured to avoid discussion in this connection and have carried out their activities in accordance with the demands of the moment. Others, however, have responded with defensive positions tending to reduce the relative importance of the government in the economy, thereby revivifying the controversy and polarizing positions in connection with topics such as the rightful role of the State in an economy and that which is the responsibility of the planning function.

Although the debate has so far proved relatively sterile, it has tended in one way or another to weaken some regional planning organisms: firstly, by having diverted their attention to defending themselves from attack by those social groups which accuse them of favouring state direction and control, and secondly because realism has proved stronger than theory, the economies not having evolved in conformity with preconceived prescriptions but rather in accordance with the force of circumstances. Thus, although various international organisms have insisted that the Central American economies should open up their markets to international trade, these economies have in fact been isolating themselves from those influences in the light of acute shortages of foreign currency and the fact that, despite efforts to stimulate private investment, this has fallen to less than half the level recorded in the 1970s. The renewed force of these contrasting views and the growing polarization of positions of a somewhat doctrinaire character have complicated the already blurred panorama within which state planning action has evolved.

g) The rearrangement of objectives

In view of the trends provoked by the crisis, the governments have had to re-examine their objectives. Past aims to attain sustained and significant growth within a concept of greater equity and less external dependence have been substituted by concerns to alternate the depressive situation or obviate its further adverse consequences.

Thus, under the imperative need to solve prevailing financial imbalances it has been necessary to modify the objectives of economic policy and consequently alter the planning approach. Efforts linked with medium-term objectives in the real area of the economy have in this way gradually acquired less weight compared with those that have had to be dealt with to overcome cyclical setbacks.

It should be pointed out however that -with differences of degree- most of the countries of the Region have concerned themselves with solving problems in the real area, especially in connection with foodstuffs and growing urban unemployment. The achievement of higher employment levels has been a primary objective of even greater importance than others in the priority category.

During the last two years some countries have put into practice programmes aiming to alleviate the effects of the crisis and of adjustment policies on public welfare. Thus, for example, a National Social Compensation Plan ("Plan Nacional de Compensación Social") was promoted in Costa Rica and top priority has been assigned in Honduras to national basic grain production and rural housing programmes. These initiatives, when not set in motion by the planning agencies have in any case been strongly supported by them.

In general terms however the rearrangement of economic objectives as a result of the crisis has exceeded the possibility of formulating global and coherent plans in most of the countries concerned.

## V. SUMMARY AND CONCLUSIONS

### 1. The planning systems in the Central American Isthmus and historical conditions

By the middle of the 1970s the planning systems had become well established and institutionalized in all the countries of the Central American Isthmus. Their creation had in part been due to ECLA, and their functional legitimacy was consolidated by some international financing organisms, particularly in the context of the Alliance for Progress project in the 1960s. Some of the systems have been more closely associated than others with the economic sections of their respective governments while not all have been decisively influencing the activities of the public sector in matters of development. A tendency to raise the hierarchical significance of the systems within official organizational structures has nevertheless been observable over the past twenty years together with a continuous expansion of those activities and responsibilities (the programming of public investment, identification and preparation of projects, following up economic evolution and participating in the process of drawing up budgets and expenditure programmes) and, in general, the acknowledgement of the international community -especially of those entities operating in the fields of technical and financial co-operation- and by local entities closely concerned with national priorities.

This has not of course meant that the exercise of planning has been free of difficulties, insufficiencies and severe restrictions. The process has in fact developed since its outset in an atmosphere of considerable economic and political limitations. With regard to the former, the Region's planners have often viewed their duties as somewhat technocratic and formal and have given

insufficient attention to their vital responsibility in the co-ordination of points of view among the various organized groups connected with the fulfilment of objectives and of development goals. In addition, the relatively non-participative political structure of most Central American communities -Costa Rica being an exception in this instance- has hindered and in some cases inhibited the possibilities of dialogue and the conclusion of agreements between different social groups concerning the operation of economic policy and medium-term plans. These circumstances have influenced planning methods which have often been carried out as a technical and sometimes isolated activity.

Its exercise has in many cases represented a normative and formal expression of the aspirations and points of view of technical specialists, the latter being manifest in the objectives, strategies, policies and instruments envisaged by them which in most instances have included criteria and considerations of a political nature, especially when stemming from the government in the exercise of their authority. In certain stages of its development (which has in general grown progressively weaker) the practice of planning has included a significant content involving the ratification of public action vis-à-vis the community and arranging the order of investments in line with internal financing availabilities.

Causing further difficulties has been the view held by some technical specialists and organized groups that the "Plan" is an expression of consensus already arrived at in the conduct of public administration rather than a starting point in the harmonization of interests. Formal plans have not always reflected an irrevocable determination on the part of the governments to carry them forward nor their capacity to see them through. The constant influence of national pressure groups and of interests

allien to the sub-region have similarly conditioned the adoption of decisions in economic and social policies and hampered possibilities of formulating and implementing strategies and projects.

In addition, the concept of development and approach to economic processes underlying the financing and co-operation policies of some bilateral and multinacional organisms have in many cases constituted ingredients that have also detracted from the autonomy of the planning system in the design and execution of development plans and strategies, although there have also been occasions when the system has been strenghtened as a result of being assigned a role in the procurement of external resources.

From an economic viewpoint, and given the high degree of liberality of the economies of the Isthmus, mention should perhaps be made -as one of the main conditioning factors in planning- of the scant control exercised by the Central American authorities on external demand, this being the main variable involved in the above context. This autonomous element of exposure to international economic conditions, frequently unstable in terms of price and volume, has introduced such a degree of uncertainty in the planning process that it has hindered the establishment of reliable goals and sometimes detracted from the merit of efforts made to quantify some guidelines such as in the medium term.

Finally, the technical capacity of the international organisms referred to has varied considerably in the course of time as well as between one country and another. Significant technical resources have in some cases been concentrated in a planning organism possessing the necessary motivation and leadership to influence the adoption of decisions. In other instances, the planning offices have shown intrinsic technical weaknesses. Although some have had adequate technical resources at their disposal, they have not always managed to establish appropriate systems of

communication between them -which have ultimately become converted into a kind of "technocratic enclave"- and the centres of decision in the governments concerned.

To sum up, planning in most of the Central American countries has seemingly been carried out at much more modest levels of action than those observed in the rest of Latin America.

By the end of the 1970s the characteristics of the practice of planning in the sub-region could be summed up as follows: while it was of an imperative nature for the public sector, it was regarded as indicative only by other economic agents; it was all-inclusive in character since it was endeavouring to plan the activities of all the sectors comprising the global economic scene although it failed to analyse sufficiently the particular realities of the sector producing goods and services; it was insufficiently participative; its political and economic viability was limited; it concentrated mainly on the real area of the economy and gave scant consideration to financial variables other than in fiscal respects which were in general also taken into account in annual operation plans. On the other hand the planning systems as a general rule were lacking in necessary constitutive elements such as systems of information, of reconciling different approaches, as well as of organic consultation and participation.

They nevertheless frequently fulfilled significant roles in the introduction of ideas more consistent with effective national interests; they generated research into certain Central American problems and circumstances, and put forward opinions and optional development proposals which to some extent influenced the evolution of the national communities involved, or at least aroused discussion in these respects within their respective governments.

## 2. Effects of the crisis on the planning process

The commencement of the crisis confronted the planning systems with fresh challenges and tensions. If doubts were already felt concerning the suitability of the type of formal planning being carried out in normal times, these were fully confirmed in the context of uncertainty and confusion to which the crisis gave rise. The absence of a medium-term outlook totally invalidated past prospective plans while very short-term demands distracted attention from transformation strategies towards those involving mere survival in an adverse and hostile international economic environment. The urgency to attend to serious and constantly worsening difficulties in the financial sector caused the importance of other national entities involved in those problems to grow (economic or finance ministries, central banks, etc.), and implicitly weakened those most directly concerned with productive activities and the real area of the economy, as well as between the latter and the planning agencies.

In addition, action by the public sector had diminished in the face of financial restrictions caused by the crisis. There was less expenditure to programme (especially in terms of capital investment), and in some countries the role of the public sector as the leading force in development tended to wane, at times due to the force of circumstances and at others on account of deliberate decisions connected with stabilization programmes.

Finally, the crisis has made it more difficult to reconcile or harmonize differing interests, even within the government structures themselves. How, for example, distribute the necessary reduction in public expenditure over the various official dependencies? Or, in the case of relationships with organized groups, how distribute the scant availability of foreign currency

or offer some selective alleviation to enterprises in the throes of insolvency? The effects of the crisis on possibilities of reconciling interests have undoubtedly been dispersive in character.

These difficulties have not lessened the potential importance of planning but have in fact enhanced it. They have nevertheless tended to weaken most of the planning systems in the Isthmus which have not managed to adapt with sufficiently agility to the new circumstances that in the period 1981-1982 quickly invaded the economic scene throughout the sub-region. In other words, events have appreciably exceeded action on the part of the planning systems -and in the application of economic policy in general- causing vacuums that have aggravated the generalized confusion and made it difficult to react in the face of the new and adverse factors obstructing economic activity.

The economic situation has thus become extremely unstable and economic forecasts technically difficult. To the usual inherent limitations in various countries affecting the drawing up of forecasts and medium-term forecasts 24/ have been added in recent years the contractions of the external sector due to growing protectionist measures which have given rise to doubts with regard to the stability of the international economy and have tended to reflect the considerable transformations taking place in the latter -a trend that has hitherto been of scant or no benefit to

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24/ Forecasts have customarily taken scant account of some economic or technical cycles as, for instance, in agriculture, and little consideration has been given to national execution capacity or international restrictions affecting credit disbursements. The same circumstance has applied to other factors such as the fortuitous effects of climatic changes.

outlying markets. The latter have in fact had to absorb a disproportionately large share of the cost of adjustment in their attempts to lessen the impact of the crisis.<sup>25/</sup>

The depth and persistence of the crisis have demanded prompt responses which not even the institutions traditionally linked with the management of short-term policy have been able to supply. The chronic external breach has consequently become an extremely critical problem. The financial manifestations of the crisis, in particular the shortages of foreign exchange, have made it essential to attach greater importance to external financing despite inducing the governments to receive credits without sufficient evaluation of the projects for which they were intended. The study of priorities has been increasingly concentrated on the need to procure foreign exchange, leaving as a secondary consideration the consistency of projects with long-term national objectives.

By contrast, the urgency to obtain foreign credit has tended to enhance the importance of bilateral and multilateral financing sources and at the same time increase their influence and possibilities of conditioning economic policy, in some cases not only in terms of the use and destination of resources but also of formulating economic and social policy measures, barely or in no way linked with the financing involved.

Under these conditions the Central American economies have become more vulnerable and their scope for manoeuvre in the execution of national economic policies has been adversely affected.

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25/ Concerning this aspect, see the studies of Keith Griffin, Notas sobre los problemas actuales de la economía mundial, and Robert Boyer, La crisis de la planeación y/o ¿La planeación como apoyo para salir de la crisis? Submitted at the international seminar on Planning in Times of Crisis held in Mexico City from 26 to 28 July 1984.

The search for and achievement of co-ordination and consensus in economic and social policies have thus been even more arduous than in the past.

The absence of guidelines and firm propositions observed in most of the countries under review has given rise to internal discussion and encouraged the generation of dispersed initiatives stemming from different social groups and, in many instances, the adoption of policies of adjustment and proposals not always consistent with national realities. Strategies of a liberalistic type have thus arisen spontaneously and acquired force aiming to establish greater linkages with external markets and thereby running counter to the need to formulate possible measures to stimulate internal markets.

This situation has in some cases led to planning losing to some extent its role of ratifying public sector activity in the eyes of the community due to an accentuation of criticism on the part of some entrepreneurial groups with regard to planning, and State intervention in the economy. It has also led to a loss of confidence and credibility among other sectors concerning the planning system and even given rise to scepticism within technical planning groups themselves.

The tendency to weaken the planning systems -specifically the national planning offices- has in some cases, accentuated by the crisis, induced other institutions to question some of the functions traditionally carried out by the former -for example the co-ordination of external financial and technical co-operation- and diluted their influence in other respects.

### 3. Reaction of the planning systems to the crisis

Faced by the crisis, the Region's planning systems have responded in different ways. Some have persevered in the traditional

exercise of duties and activities relating to medium and short-term planning, applying the same objectives and strategies as hitherto, but partially modifying goals and emphasizing priority areas linked with food supplies and the satisfaction of basic needs. In most of the countries (Costa Rica, Honduras, Nicaragua and El Salvador), albeit with differing emphasis and contents, urgent plans have been drawn up involving activities tending to attain these ends. To the traditional objectives of growth and income distribution have been added in some cases those of economic and financial stabilization, although without explicitly establishing priorities or considering their mutual consistency.

Other planning institutions have abandoned their traditional activities concerned with the formulation of medium-term mechanisms and guidelines and in some cases have embarked on a search for ways of facing the crisis. This has sometimes coincided with a high level of activity and relatively ample participation in the tasks of analysis, formulation of measures and adoption of decisions with regard to the principal manifestations of the crisis, i.e., unemployment of human resources and installed capacity, foreign-exchange restrictions and public sector deficits in both the central government and decentralized institutions.

Also deserving mention in this context have been the various partial reactions to the crisis adopted by the planning offices which to a certain extent have differed from those described above. In some countries administrative and legislative reform initiatives or others relating to changes in the relationship of those offices with the rest of the public sector have been promoted with a view to adjusting the system to the new demands of the crisis and endeavouring to consolidate or expand its duties and institutional role, particularly in the decision-making mechanisms. In other cases the attention of the national planning

office has been largely devoted to the development of regional and local planning (as in Guatemala, Honduras and Costa Rica) either through the medium of new institutional mechanisms and legal instruments or the formulation of integrated rural development projects. Participation by the communities concerned in the formulation and execution of national development plans and projects has frequently arisen in a parallel manner to the emphasis given to regional and local topics.

In the particular case of Nicaragua, planning has in recent years acquired greater significance in the light of the dramatic situation of conflict and economic and financial crisis prevailing in that country. In this respect the Ministry of Planning has directed its efforts to the development of new planning instruments and methods not previously resorted to in Central America: the use of manual labour balances, material inputs and financial resources, mechanisms designed to increase popular participation in national and regional terms and at sectoral and individual company levels, above all in the so-called "people's property area". The formulation of programmes by product, involving the various stages of primary production, industrial transformation and marketing is another of the mechanisms -in this case of an operational nature- introduced in the Nicaraguan planning system. Even in this case, however, the system has revealed insufficiencies, notwithstanding its hierarchical position in the institutional context and the undoubted political support accorded to it.

To sum up, therefore, virtually all the planning systems have shown some degree of acknowledgement that the methods and instruments used in the past -whose efficacy has even been questioned in less abnormal times- are inadequate in present circumstances. Attempts have been made to involve many of the systems in situational problems, but not always in seeking ways

of harmonizing the short-term with explicit or implicit long-term aims. It has also been recognized throughout the Region that traditional forms would mostly be unsatisfactory to meet present-day problems. This acknowledgment may prove to be the starting point for those systems to adapt their procedures to the radically different circumstances now facing the sub-region.

#### 4. Some lessons learned

The experiences described in the preceding pages demonstrate that the planning systems held in greatest esteem in their respective countries have achieved this situation thanks mainly to their collaboration with government departments responsible for adopting decisions in economic policy matters and especially to their efforts to harmonize interests within the public sector and between the latter and other sectors of the community. Thus, the ministries and organisms that take a hand in drawing up the national budget, financial programming, negotiations in connection with external indebtedness and the allocation of priorities in government expenditure continue to exert a leading role in their respective governments. From this it should not be concluded that these ministries should concentrate their activity on dealing with the prevailing cyclical situation. It should instead be inferred that they should not exclude short-term concerns from their numerous responsibilities but should rather reconcile them with long-term aims.

In the second place, the adjustment or stabilization policies themselves, whether adopted due to the force of circumstances or as the result of formal arrangements with the International Monetary Fund, far from isolating the planning organisms create possible lines of endeavour capable of enhancing their performance. Expense-paring policies demand a selective approach and the planning systems

are in an advantageous position to establish in this respect an order of priorities consistent with specific objectives. Shortages of foreign exchange also call for the establishment of priorities normally exceeding the field of responsibilities of the central banks. The imperative need to expand exports also demands definitions and priorities: in this connection it would be more sensible to elect a limited number of items likely to achieve rapid access to external markets than try to promote all export lines at the same time; even to support those selected items makes it necessary carefully to elect instruments and incentive policies. Export efforts demand efficiency on the part of the public sector as well as the business enterprises involved. All the foregoing concerns provide a field of action that should on no account be overlooked by the planning systems. There is therefore certainly no intrinsic contradiction between short-term economic policies and long-term planning nor between attributing greater relative importance to market developments and the need to foster a planning system. It will however in all cases be necessary to adapt programming to the new circumstances.

Thirdly, short-term pressures have been such that the advisability of examining medium and long-term options has been virtually ignored. This is a natural field of action for planning systems, not so much in order to devise sole solutions as to provoke discussion within each government and at the national level concerning optional ways of overcoming the crisis.26/ This work is at present all the more necessary in the light of the environment of confusion besetting the governments and economic agents in

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26/ This activity at the national level also applies to horizontal co-operation at the sub-regional level.

general and in order to respond to the pattern offered to the countries of the Central American Isthmus by important external entities. It would also assist in imparting a certain direction and consistency to every-day economic policy.

Finally, the planning organisms explicitly acknowledging the magnitude and scope of the changes that have taken place in the Region in recent years will be better able to respond to the new challenges. There is clearly little sense in formulating formal medium-term plans in the light of current uncertainties. The same lack of reality applies to any insistence on simultaneous fulfilment of the same development objectives as in the past. The exploration of new forms of planning (as, for example, the "strategic" and "situational" formulae being tested in one way or another in Mexico and Venezuela), the assignment of priority to efforts to promote and seek consensus in the economic sphere, the review of objectives in the light of changing circumstances, the examination of new courses of action to enable intervention in budget and financial programming, the abandonment of too all-embracing lines of endeavour and their replacement by more pragmatic and flexible approaches, are all tasks providing the possibility of reinforcing or, where appropriate, recovering the level of esteem formerly held by planning systems, and of assigning them a preponderant role in the general field of economic and social development.