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PLANNING IN LATIN AMERICA

by

Secretariat of the Economic Commission for Latin America  
Santiago, Chile

The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.



I. PAST HISTORY AND PRESENT STATUS OF PLANNING  
ACTIVITIES IN LATIN AMERICA

1. Past history

The need for a development planning policy has only recently been recognized in Latin America as the result of a combination of internal and external factors.

During the forties, the need to enlarge the economic infrastructure, particularly the transport network and power supply, and adapt it to new development conditions, as well as to encourage relatively large-scale projects in key industries led to the preparation and implementation of some partial programmes dependent mainly on public investment.

Subsequently, particularly towards the end of the fifties, it became increasingly apparent that the Latin American economies lacked the necessary dynamism to maintain moderately satisfactory rates of growth, to remedy critical imbalances in their foreign trade and external financing, to contain inflationary pressures, to provide sufficient productive employment for a rapidly increasing labour force, and to improve living conditions and at the same time fulfil rising expectations created by a knowledge of the tremendous possibilities brought about by technological advances. Economic policy thus came to hinge on development in its most comprehensive sense as an economic and social concept encompassing both internal and external limitations. Furthermore ECLA, whose objectives are to analyse the development problems of Latin America, suggest technical norms for a development programme and methods of projecting future needs, helped to instil that more comprehensive outlook, while its work was focussed more on analysis than on planning, the increasing use of projections as a method of anticipating certain problems and analysing policy alternatives, helped to lay the groundwork and provide a methodological tool for the preparations of plans.

Bolivia, Chile and Colombia were the first Latin American countries in this decade to formulate national development plans and to establish the necessary machinery, largely with the help of international technical assistance. However, it was not until the Punta del Este Conference in 1961,

that the Latin American Governments recognized that planning should be the fundamental instrument for mobilizing national resources bringing about necessary structural changes, enhancing efficiency and productivity and securing more international financial co-operation.

Since then, virtually all the Latin American countries have prepared plans of different kinds and scope. At the same time, the plans have been analyzed and assessed by regional organs which have helped to sustain planning efforts by bringing them into line with the volume and orientation of foreign financial assistance.

A valuable fund of experience has thus been built up, but its true significance may be hard to appreciate because planning is a relatively recent phenomenon and because it began in very special circumstances. Until fairly recently, no experience had been obtained in this field, apart from some preliminary experiments and certain sectoral programmes, and the very idea of planning was resisted. There was no background data on which to draw for planning purposes, and no methodology that had already proved its worth in the particular circumstances of Latin America. Nor was there a flexible administrative structure which could be adapted to functions and methods other than those enshrined by custom and tradition. Nonetheless, this period was marked by the preparation of the technical bases for planning and the training of cadres on an ever-increasing scale. All the countries now have the necessary machinery for the preparation and orientation of plans (offices and general plans); the criteria used in the allocation of resources are becoming more rational, especially in the public sector, last but not least, planning has become a widely accepted idea.

An account will be given below of some of the main features of these developments, which certainly denote a period of great progress. Further improvements upon the progress already achieved will, however, meet with a number of obstacles and limitations that have been emerging, and this suggests the need for a second stage in which more workable systems of planning would be set up, participation in the preparation of the plans would be broadened and the institutional reforms required for really

effective planning would be carried out.<sup>1/</sup> The second part of this paper will review these shortcomings and obstacles, and pinpoint in greater detail the internal and external factors that are hampering the execution of the plans. Lastly, it will draw a few general conclusions which may help to overcome some of the problems discussed.

## 2. Planning organs

Recognition of the need for planning was immediately followed by the establishment of planning offices in the countries where they still did not exist. By now, they are to be found in every Latin American country, and in one case - that of Uruguay - the existence of the planning office has been formally acknowledged in the Constitution.

As planning is a new function of Government, the first task to be undertaken was the establishment of special planning organs. The nucleus was formed by the central planning offices, which evolved in different ways depending on the extent to which they were accepted as part of the traditional structure of government. Generally speaking, they were established in such a way as to become directly responsible to the Office of the President of the Republic. In some cases, an intermediate advisory body acts in liaison capacity between the planning office and the President and his Cabinet, in which the major decisions are discussed and weighed.

Table 1 lists the different policy-making and technical offices to be found in Latin America, and indicates their structure. The situation is less homogenous as regards the sectoral and regional offices since some countries have none, while others are still organizing them (see table 1).

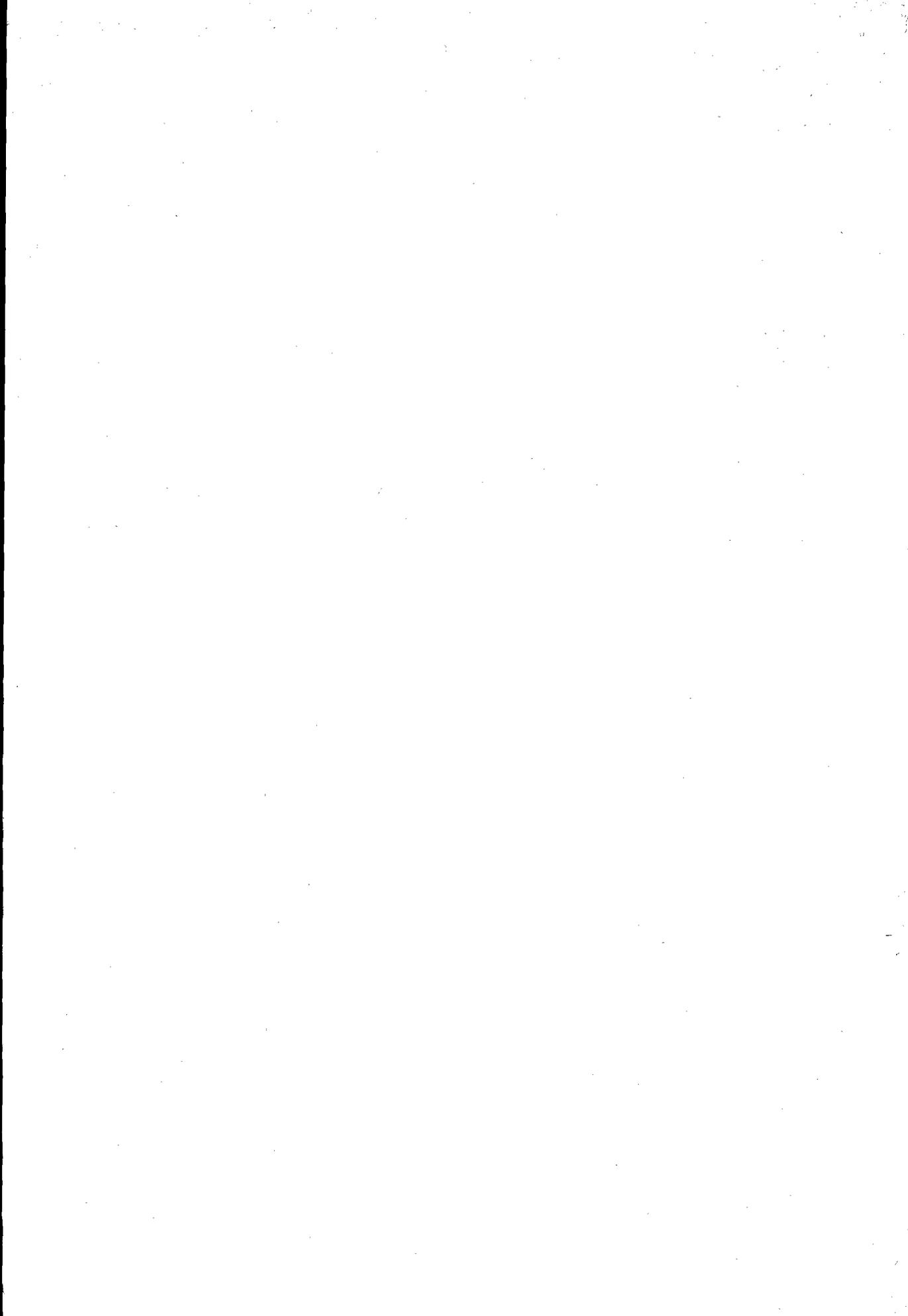
As a rule, the planning bodies act in an advisory capacity to the top-level political authorities. They often have other duties, such as helping to prepare the annual national budget estimates, advise on the external financing of particular investment projects, and co-ordinate foreign technical assistance.

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<sup>1/</sup> This analysis deals with the features common to the whole region, so that certain comments may not be applicable to specific countries. In particular, they do not refer to Cuba because the data available on the Cuban experience is inadequate.







### 3. The plans prepared

In the majority of cases, the planning offices prepared "general medium and long-term development plans", for periods ranging from four to ten years. It was not long before nearly all the Latin American countries had such plans. The plan usually consists of a diagnosis, a set of projections and overall and sectoral targets, a statement of the particular social goals, a broad assessment of changes required and fields for the application of economic policy, some indications concerning research and utilization of specific natural resources, public investment targets and estimates of external financing requirements. More recently, shorter-term plans have been drawn up, often on a biennial basis.

Table 2 lists the plans that have been prepared in the different Latin American countries. Most of the long-term plans have also indicated at least in the form general statements of principle, the goals to be achieved in land reform, tax matters, education, administration, and national integration through infrastructural works (particularly roads and the opening up of new areas for agricultural settlement). In some cases, a salient feature of the plan is a large-scale project to which particular importance is attached.<sup>2/</sup> On the other hand, specific objectives for income redistribution and measures or policies for unemployment and underemployment are seldom stated.

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<sup>2/</sup> This applies, for instance, to big hydroelectric and irrigation works (Mantaro in Peru, Chocón-Cerros Colorados in Argentina), industrial complexes (Guayana in Venezuela) and roads (Carretera Marginal de la Selva) that predated the plan, but were fitted into the general framework so that their significance could be assessed more accurately in relation to the rest of the economy and for the purpose of securing external financing. Some of those projects are now being implemented while others are still bogged down because the final plan has not been adopted and financing is lacking.

Table 2

ESTIMATED GROWTH RATES OF THE PRODUCT, IMPORTS, CONSUMPTION, INVESTMENT AND EXPORTS IN THE PERIOD PRIOR TO THE PLAN AND DURING THE PLAN, AND ACTUAL RATES

Country	Gross domestic product			Im-ports	Con-sump-tion	In-vest-ment	Ex-ports	
	Total	Agricul-ture	Mining					Indus-try
<b>Argentina</b>								
Pre-plan (1957-69)	0.5	-0.2	17.1	0.0	-0.5	-0.8	2.6	5.4
Plan (1965-69)	5.8	4.4	7.7	7.6	4.7	5.6	5.7	2.1
Actual rates (1965-66)	3.2	2.2	7.5	7.2	-8.8	2.5	-1.8	5.0
<b>Bolivia</b>								
Pre-plan (1950-58)	-0.2	0.3	-5.7	-2.4	4.4	0.9	...	0.0
Plan (1963-64)	6.2	4.8	10.2	6.5	16.2	5.2	27.7	9.7
Plan (1965-66)	5.5	3.0	11.8	7.7	7.6	4.0	10.5	12.0
Actual rates (1963-66)	5.9	3.0	7.6	6.3	9.7	6.5	9.8	4.3
<b>Chile</b>								
Pre-plan (1950-59)	3.2	0.0	0.3	7.1	4.7	3.8	1.3	1.7
Plan (1960-65)	4.8	3.7	7.3	5.0	6.6	3.9	12.0	5.5
Actual rates (1960-65)	4.1	2.0	3.8	6.2	7.0	3.7	10.1	4.6
<b>Colombia</b>								
Pre-plan (1950-59)	4.6	3.4	5.7	6.5 <sup>a/</sup>	1.2	4.1	2.6	5.4
Plan (1959-64)	5.7	4.1	7.4	8.6	7.2	4.4	12.9	4.2
Actual rates (1959-64)	4.7	2.2	2.6	6.1	10.3	6.0	5.4	2.3
<b>Ecuador</b>								
Pre-plan (1950-61)	5.6	5.0	6.3	5.1	6.2	5.1	7.4 <sup>a/</sup>	7.3
Plan (1962-75)								
Hypothesis I	6.4	4.7	7.2	8.6	4.2	5.4	10.3	4.9
Hypothesis II	6.5	4.7	8.0	8.5	5.1	5.7	10.1	4.9
Actual rates (1964-65)	3.3	1.0	2.1	4.5	5.4	5.1	2.3	-2.3
<b>Mexico</b>								
Pre-plan (1958-61)	5.3	3.0 <sup>b/</sup>	1.1 <sup>b/</sup>	6.8 <sup>b/</sup>	-0.2	4.3	5.2 <sup>a/</sup>	6.1
Plan (1962-65)	5.4	4.5	2.6	6.9	8.8	5.5	8.6	4.8
Actual rates (1962-65)	7.3	4.4	4.7	10.1	9.3	7.0	12.4	5.4
<b>Panama</b>								
Pre-plan (1961-63)	8.7	2.4	22.5	17.3	15.2	7.9	11.8	16.6
Plan (1963-70)	5.5	...	...	...	5.3	5.0	6.4	6.2
Actual rates (1963-65)	6.5	7.6	2.7	6.2	4.6	5.3	3.9	8.6
<b>Paraguay</b>								
Pre-plan (1950-64)	3.2	3.9	25.0	6.9	7.6	3.0	5.4	6.3
Plan (1965-66)								
Hypothesis I	4.7	4.9	2.8	8.5	23.0	4.2	22.0	14.0
Hypothesis II	5.8	...	...	...	29.0	5.4	32.0	14.0
Actual rates (1965-66)	3.9	3.4	0.0	1.9	10.6	5.2	1.7	7.8
<b>Uruguay</b>								
Pre-plan (1961-64)	0.9	2.0	d/	0.5	-4.7	-0.1	-4.2	5.0
Plan (1965-67)	4.4	2.2	d/	6.0	9.1	1.7 <sup>a/</sup>	14.5	8.2
Actual rates (1965-66)	1.8	4.9	d/	0.1	-7.7	-0.6	-0.5	7.0
<b>Venezuela</b>								
Pre-plan (1959-62)	2.8	7.7	3.9	5.1	-10.4	-0.6	-4.6	5.4
Plan (1963-66)	7.6	7.9	4.3	12.0	2.2	...	...	4.6
Actual rates (1963-66)	6.0	6.9	1.7	9.0	1.7	6.2	8.8	1.7

Source: Development plans and ECLA, on the basis of official statistics. <sup>a/</sup> Government consumption.  
<sup>a/</sup> Gross fixed investment. <sup>d/</sup> Included in the industrial sector.  
<sup>b/</sup> 1950-58.

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As an integral part of the overall plan or to supplement it various countries have prepared public investment plans for two or three year periods which, in relation to the general macro-economic framework, specify the sectoral investment targets of Government agencies (the central government, autonomous agencies and, in some cases, State-owned enterprises), on the basis of draft or final projects. This is the kind of plan that has been most effective in bringing the planning offices into closer contact with the budgetary organs and in modernizing and streamlining government budgets. These plans have also proposed criteria for the allocation of resources to projects already under way, projects to supplement them or new projects, and have had to tackle the problem of distributing resources between productive investment, direct development expenditure, the expansion of current expenditure and investment expenditure in the different social services.

Thus overall long-term plans have made a major contribution to the establishment of general development policy. Supplemented by medium-term plans, they have served to rationalize public sector activities. However, the countries of the region have not made an analysis in depth of specific short-term economic policy programmes which help to ensure that immediate action is compatible with the long-term objectives.

The small number of annual operational plans, except for public investment schemes can be explained by various factors, including methodological shortcomings and inadequate descriptions of individual projects and failure to establish short-term economic policies.

Experience with regard to regional plans has been varied, and the guiding principles observed in their formulation have not always been uniform. In some cases, for example, an attempt has been made to distribute some public investment targets of the overall plan among the various regions responsible for sectoral targets. In other cases, the policy has been to formulate a general programme, more or less unrelated to the overall plan, for an especially backward region or for a region with a very favourable combination of natural resources.

4. Implementation of plans

Apart from the difficulty of assessing the various plans in terms of the actual expansion of economic activity, such an assessment may be meaningless in some instances, and in others may overlook or underestimate the contributions of planning.

A case in point is afforded by the overall growth targets for the product and its major components. Table 3 presents, in relation to ten Latin American countries, the growth rates of the total product and of the agricultural, mining and industrial sectors, as well as of the aggregate components of demand (imports, consumption, investment and exports); in each case, the rates envisaged in the various plans are recorded, together with those attained previously and those reached during the early years of the plan's operation.

Although such figures would seem to constitute a factual basis for evaluation, it would be hazardous to draw final conclusions from them, other than the very general observation that as a rule there is a relatively wide gap between the targets of the plans and actual economic trends. The extent to which the plans were politically supported, their intrinsic nature, the evolution of exogenous variables mainly relating to foreign trade and financing, and many fortuitous factors would require detailed consideration of each specific case, although many have features in common, such as those discussed in the relevant sections of this note.

Much the same is true of the general lines of development policy followed in the plans. In most instances, they represent principles or proposals worked out before the plans were officially sanctioned and incorporated in them as decisions thus strengthening them and directly or indirectly helping to bring them into operation. Thus, although the progress achieved in certain fields may not be directly attributable to the content of specific plans, it is unrelated to all that the planning process involves. For example, since 1961 - when planning first became a widespread practice - agrarian reform laws have been passed by fourteen of the Latin American countries, and most of them are adopting tax legislation and improving tax administration with increasingly favourable effects on the income of the public sector.

Table 3

MAIN ACHIEVEMENTS OF NATIONAL PLANNING IN LATIN AMERICA

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Argentina:	National Development Plan, 1965-69. National economic budget, 1966.
Bolivia:	Economic and Social Development Plan, 1962-71. Sectoral plans, 1963-64. Performance budgeting since 1961. Two year economic and social development plans, 1963-64 and 1965-66.
Brazil:	Target plan (1957-60). Three-Year Economic and Social Development Plan, 1963-65. Government Programme of Economic Action, July 1964-March 1967. Ten-Year Plan, 1967-76 (in preparation).
Chile:	Sectoral short-term plans (power, steel, petroleum, etc.). National Development Programme, 1961-70. Five-Year Development Plan (in preparation).
Colombia:	Performance budgeting since 1961. General Economic and Social Development Plan, 1962-70. Four-year public investment plans, (1961-64, 1962-65).
Costa Rica:	Performance budgeting since 1964. Economic and Social Development Plan, 1965-68.
Cuba:	Plan for the National Economy (annual, beginning 1962).
Dominican Republic:	Performance budgeting since 1964. Bases for national development (1966). Two-year development plan (in preparation).
Ecuador:	Bases and directives for the programming of Ecuador's economic development. Short-term development plan. Performance budgeting since 1963. General Economic and Social Development Plan, 1964-73.
El Salvador:	Two-Year Public Investment Programme, 1964-65. Performance budgeting since 1964. Economic and Social Development Plan (1965-69). Annual public investment plans since 1966.

Table 3 (conclusion).

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Guatemala:	Performance budgeting since 1964. Economic and Social Development Plan (1965-69).
Haiti:	Short-term plan (two-year investment plan). Emergency programmes (1966).
Honduras:	National Public Investment Plan, 1963-64. Preliminary version of the Four-Year Economic and Social Development Plan, 1962-65. Performance budgeting since 1964. Economic and Social Development Plan (1965-69).
Mexico:	Sectoral plans. Short-term plan, 1962-64. Development Plan, 1967-70 (in preparation).
Nicaragua:	Performance budgeting since 1964. National Economic and Social Development Plan, 1965-69.
Panama:	Economic and Social Development Programme, 1963-70. Performance budgeting since 1966.
Paraguay:	Performance budgeting since 1963. Two-year plans (1965-66 and 1967-68).
Peru:	Public investment programme, 1964-65 and 1966. Performance budgeting since 1963. Economic and Social Development Plan (1967-70).
Uruguay:	Economic Survey of Uruguay (1963). National Economic and Social Development Plan (1965-74).
Venezuela:	Four-Year Plan, 1960-64. Performance budgeting since 1963. Annual plan of operation (1964). National Plan, 1962, 1963-66 and 1965-68.

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From another standpoint, the preparation of plans has compelled more thorough study of each country's economic situation and investigation of the causes of its under-development. The planning effort has been reflected in substantial improvements in the basic statistical data available, has encouraged surveys of natural resources, created greater awareness of internal and external financing problems and helped to identify the essential features of a Latin American development strategy. Although all this has not produced immediate and tangible results, it implies a substantial though gradual change in the approach to problems. As the process has been gradual, this change of attitude has sometimes escaped notice, but when analysed, it reveals a considerable difference between the approach to development problems adopted by Governments and the public today, and the situation a few years ago. It has been rightly contended that the existence of a plan is less important than the fact that it has been worked out.

One of the most direct and immediate results of development plans is the effort to rationalize the public sector, shown both in general policy and in the formulation of public investment plans, the use of programme and performance budget techniques and the evaluation of projects.

The general principles set forth in the plans have served to elucidate the development process and to weld into a whole the many and various piece-meal measures involved in Government action. This does not mean that the decisions adopted have been strictly in line with the plans, but it does imply the existence of a yardstick to measure the deviations caused by unfavourable conditions and the extent to which favourable circumstances have been exploited. Furthermore, familiarity with the plans and public discussion of them at the national level, together with their evaluation by international technical agencies, have made for the inclusion of decisions requiring structural reforms.

The rationalization of public expenditure has been especially noteworthy in the countries where public investment plans have been drawn up, since sectoral budgets have had to be fitted into an overall concept encompassing a breakdown of investment to be made by State agencies

and projects and preliminary projects for a two-year or three-year period. Although in most cases the quantitative targets established may not have been attained, this is probably the type of plan that has operated most effectively in Latin America, among other reasons because it relates to one of the special provinces of the public sector, on which it is binding.

The adoption of programme and performance budgeting has gradually superseded the traditional process and has resulted in the increasingly rational allocation of public expenditure and investment. The efficient operation of this system calls for conditions that have not yet been fully established (skilled personnel, reliable statistical data, identification of executive units, integration of the accounting systems of the public sector, costing and evaluation, channels of communication between the central and sectoral budget offices, etc.). Nevertheless, in the countries where it is applied, budgeting and planning are better co-ordinated at the budget programming stage, and budgets are presented in a more rational form. At the same time, the processes of execution and evaluation of the budget are being brought into line with the new system, and some countries already have adequate machinery for accounting, costing and evaluation of results.

Where public sector projects are incorporated in an overall strategy, the process of evaluating them has necessarily involved assessing their relative importance, establishing a satisfactory order of priorities, considering the compatibility of projects and groups of projects and taking into account their direct and indirect effects on the economy as a whole. It has thus been possible to prevent, in part at least, situations such as have recently arisen in some countries, in which the haphazard launching of projects has led to disproportionately heavy external borrowing or serious distortions of the structure of production.

5. External technical co-operation

External technical co-operation has without a doubt exerted a marked influence on planning efforts in Latin America, directly in some cases and indirectly in others. It has been responsible for much of the headway made in overcoming limitations to planning. This influence has operated mainly with respect to methodology, training of cadres, the actual formulation of plans, and the promotion of specific projects.

Technical assistance in the field of planning methods was particularly important because the region was lacking in experience, statistical and technical data were not abundant, and the economic and social characteristics of Latin America did not make it easy to transplant methods used in other parts of the world. Consequently planning helped to develop an appreciation of the efforts of international agencies to secure a fuller and deeper understanding of the Latin American economies and their development problems, as well as the usefulness of their work in programming and projection techniques, programme and performance budgeting, and preparation and evaluation of projects.

This applies to some of ECLA's general studies,<sup>3/</sup> and to its subsequent analyses of overall programming techniques,<sup>4/</sup> its specific

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<sup>3/</sup> See, for example, "The economic development of Latin America and its principal problems", Economic Bulletin for Latin America, Vol. VII, N° 1; Economic Survey of Latin America 1949; and Problemas teóricos y prácticos del crecimiento económico, United Nations Publications, Sales N° 1952.II.G.1 (issued in English in mimeographed version only, under the title Theoretical and practical problems of economic growth (E/CN.12/221)).

<sup>4/</sup> See the provisional study on the technique of economic development programming, revised and reissued in July 1955 under the following title: Analyses and projections of economic development: I. An introduction to the techniques of programming, United Nations Publications, Sales N°: 1955.II.G.2.

studies on the development of a number of countries,<sup>5/</sup> and its discussion of programme and performance budgeting and project preparation and evaluation techniques.<sup>6/</sup> The Commission also helped to relieve the serious shortage of specialists in these subjects, by initiating training courses on development planning in 1952. These and other activities were considerably strengthened by the establishment of the Latin American Institute for Economic and Social Planning in July 1962. Its objectives were to strengthen the training programme, help Governments to initiate the planning process and carry out studies on basic development problems and planning techniques.

The special impact of its training efforts has been reflected in the fact that only very recently have subjects specifically relating to planning and development been included in the regular curricula of Latin American universities. The first planning efforts were supported only by small groups of technical experts trained under special programmes designed and implemented by international agencies. While such programmes could not take the place of previous academic training, they have fulfilled a useful function by laying down general guidelines and providing the methodological tools required to cope with immediate responsibilities. Moreover, they have helped to bring together specialists

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<sup>5/</sup> Analyses and projections of economic development; II. El desarrollo económico del Brasil, United Nations Publications Sales Nº: 56.II.G.2; III. El desarrollo económico de Colombia, United Nations Publications, Sales Nº: 57.II.G.3; IV. El Desarrollo económico de Bolivia, United Nations Publications Sales Nº: 58.II.G.2; El desarrollo económico de la Argentina, Vols. I, II and III, United Nations Publications Sales Nº: 59.II.G.3; VI. The industrial development of Peru, United Nations Publications, Sales Nº: 59.II.G.2; VII. El desarrollo económico de Panamá, United Nations Publications Sales Nº: 60.II.G.3; VIII. El desarrollo económico de El Salvador, United Nations Publications, Sales Nº: 60.II.G.2; IX. El desarrollo económico de Nicaragua (in the press); XI. El desarrollo económico de Honduras, United Nations Publications, Sales Nº: 61.II.G.8.

<sup>6/</sup> The fiscal budget as an instrument in the programming of economic development (E/CN.12/521); Algunas consideraciones sobre las relaciones entre la programación del desarrollo y el presupuesto fiscal (E/CN.12/BRW.2/L.5); La experiencia de algunos países de América del Sur en materia de reforma presupuestaria (E/CN.12/BRW.2/L.10); Manual of economic development projects, United Nations Publications, Sales Nº: 58.II.G.5.

with different technical backgrounds and experience (economists, engineers, sociologists, educators, doctors, administrators) for planning purposes on the basis of a minimum of common training and language, and to fit them for the team work that planning entails.

The co-operation of ECLA, and later of the Institute has also been extended to cover the provision of advisory services for the purpose of organizing and establishing planning machinery and formulating plans. Several countries have obtained the co-operation of "advisory groups", set up by these international agencies most often with the participation of the Inter-American Development Bank and the OAS Secretariat, or with occasional advisory services in specific fields.<sup>7/</sup> Later, such services were also offered by official agencies or foreign foundations under bilateral co-operation programmes.

In addition to these direct forms of external technical co-operation there are a number of different ways in which planning has been enlarged in scope and made more effective. The panel of experts established under the agreements contained in the Punta del Este Charter, whose function is to evaluate plans and make recommendations on external financial assistance, was instrumental in improving plans and strengthening national planning systems. The Inter-American Committee on the Alliance for Progress was subsequently established as a committee of the Inter-American Economic and Social Council to make an annual review of the economic situation and the implementation of plans in each country and to estimate the amount of external financing required. Its establishment was another milestone in the progress of planning in Latin America. The significant contribution of the Inter-American Development Bank to the development of the region took the form, inter alia, of financing regional programmes, national planning organs and international and regional agencies engaged in planning. The expansion of the activities of international financial institutions (IBRD, United States Government agencies and others) has also stimulated the preparation of investment projects and helped to improve their quality.

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<sup>7/</sup> Advisory groups were set up in Colombia (May 1959); Bolivia (April 1960); Haiti (end of 1961); Uruguay (March 1962); Paraguay (end of 1962); Peru (February 1963); and Central America (early in 1962).

## II. OBSTACLES TO THE IMPLEMENTATION OF PLANS

Although planning in Latin America has made a number of important advances in certain aspects, it still has serious weaknesses and improvement of planning and implementation of plans is still being hampered. Recently, the planning process has been experiencing a period of stagnation, and in some cases can be seen to have lost ground. The impetus to prepare the overall plans has spent itself, and the same fervour has not been applied to the tasks of translating overall planning policy into specific economic Policy Programmes and short-term operational plans and establishing efficient instruments for the periodic review and up-dating of plans and the evaluation of their implementation.

It is in such tasks that the various limitations and obstacles are most apparent. Some of them stem from internal factors, ranging from the most general, including the political stability amount of political support that planning efforts actually enjoy, to factors more directly related to the actual operation of planning machinery. In evaluating these latter factors, particular account should be taken of the relatively short period of time that has elapsed since planning was initiated, and of the fact that in other countries efficient planning was the fruit of many years' sustained effort. Moreover, a number of other usually serious problems, arising from external factors, mainly related to instability and the limited development of foreign trade and inadequate conditions of external financing are impeding the attainment of planning targets in Latin America.

It is more pertinent, therefore, to point to the obstacles now hampering planning in Latin America and to possible ways of overcoming them, than to draw up a balance sheet of progress made and existing limitations.

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## A. INTERNAL PROBLEMS

### 1. The functions of planning

Although the need for planning as an instrument for a coherent development policy has been generally accepted by Government, there has been no effective unity of aims as regards planning aims and basic priorities. From the beginning, a number of different attitudes emerged. In some instances there was a tendency to regard planning primarily as an instrument for mobilizing external financial resources and as an additional requirement for international financial co-operation, thus emphasizing the urgency for some kind of plan and tending to highlight those aspects of the plan most directly related to foreign aid. In others, planning was seen from a professional and theoretical point of view as an instrument for shaping the structural changes essential to Latin America's development and an expression of an action programme by the various economic sectors aimed at achieving economic and social gains which planning itself would help to formulate. Sometimes, planning was identified as a means of attaining the limited goal of more rational administration. In one way or another all these points of view were incorporated in the plans drawn up, but substantive aims of economic and social policy often were not reflected in specific decisions.

The problem is particularly important since the structural changes essential to the development of Latin America confront the planners with a task that is different and more difficult than planning in developed economies, where the changes required are usually less drastic and where there is a wider consensus on more issues.

Moreover, those different outlooks have given rise to a destructive and sterile controversy concerning the planning most suitable for Latin America based on much confused thinking. It has been argued that "overall" or "macro-economic" planning should be abandoned and that efforts should be concentrated on building up a sufficient number of well-planned specific projects. On the other hand, where stress has been laid on planning as an instrument for formulating basic long-term policy, immediate problems have sometimes been neglected or deferred for future study. Instead of attempting to co-ordinate efforts to define long-term policy, which are indispensable to effect the wide-ranging changes essential to Latin American development, with the machinery designed to

implement that policy by immediate action, there has been a tendency to reject or underestimate one aspect and concentrate exclusively on the other.<sup>8/</sup>

2. Political support for planning

The need for planning the economic and social changes essential to the development process raises the problem of the political viability of Latin American plans and the amount of effective support required by the planning effort. The plans generally encounter resistance from sectors which feel threatened by specific measures or are exerting pressure for a larger share of national income. At the same time, they often encounter resistance from the traditional government administration, which is reluctant to institute changes and jealously guards its policy-making power against any possible transfer of power which may imply reorganization of the administrative structure to facilitate the establishment of the policy-making machinery which planning requires.

Thus, plans inevitably suffer from serious obstacles during the implementation stage which cannot be overcome unless the governments provide ample and sustained support, a support which is not always forthcoming in Latin American experience.

Moreover, apart from substantive reasons, the difficulties of successful planning arise to some extent from the manner in which the plan takes shape. In some cases, there was little or no communication between the technical planning officials and the government departments during the preparatory stages.

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<sup>8/</sup> These and other problems touched upon in this note were the subject of detailed study at a seminar organized by the Latin American Institute for Economic and Social Planning and held in June 1965. In this connexion, see Discusiones sobre Planificación, Textos del INSTITUTO, Editorial Siglo XXI (Mexico, 1966).

### 3. Participation of the private sector

The problem of political support is even greater where the private sector is concerned. Resistance from some parts of the private sector is inevitable whenever plans incorporate decisions to institute changes affecting specific situations or interests, but there seems to be a wide margin of potential support which has not been mobilized because of deficiencies in the planning process itself.

In general, there is a lack of communication between planning organs and the private sector. Rarely is any attempt made, during preparation of the plan, to consult representative national opinion groups (parliament, political parties, trade unions, employers' associations, universities, etc.) or the sectors directly concerned (entrepreneurs, importers, exporters, consumer associations, etc.).

This phenomenon, like others, arises partly because planning is not expressed in terms of specific economic policy measures which might induce the private sector to follow particular guide lines. The private sector regards the plan as an overall review of the economic situation providing valuable information on the intentions of the public sector, but the plan does not guide its activity by providing incentives or disincentives in the form of credit, trade or tax policy measures, for example.

### 4. Operation of planning machinery

The varying degrees of political support for planning, the poor definition of its functions and its relationship with the decision-making centres, and the limited participation of the private sectors, are not calculated to promote the more efficient operation of the planning machinery. On the other hand its operational flaws and weaknesses make yet more remote the possibilities of forging closer links between the planning offices and the permanent decisions of the government authorities and other interested sectors.

The opposition which is bound to arise from the traditional policy-making organs, both among the political authorities and in the national administration as a whole, would seem to necessitate some sort of "strategy" for introducing planning machinery, which would obviate such friction as far as possible so that planning could be progressively built into the administrative structure and procedures.

In this respect, planning in Latin America has manifested serious shortcomings. Isolated as they usually are from the traditional channels of administration and decision-making, the planning offices have often been saddled with the responsibility of preparing a development plan with a minimum of guidance from the political authorities or none at all. As a rule, contracts have continued to be sporadic and inadequate throughout the formulation stage, and the planning agencies have not been punctual in presenting the technical alternatives together with a justification and evaluation of implications, which would have required decisions at the political level. In the circumstances, the plan which has been drawn up has not been discussed in sufficient detail by the various government policy-making and executive organs, and therefore creates resistance in the Ministries and decentralized agencies.

There have also been instances of an over-concentration of resources and activities in the central planning agency. While such a concentration was essential at the time, the result was that a high proportion of the planning experts - who are in any case few and far between - were grouped in this central office, and since the Ministries and autonomous agencies have done very little in the way of planning, that office has tended to assume direct responsibility for the preparation of sectoral plans and projects.

While there would seem to be every justification for making the central planning office a division of the Office of the President of the Republic since the support of the Chief of State and his Cabinet is a sine qua non for the satisfactory operation of the central agency, this has not automatically guaranteed the institution the stability and backing it needs, or the maintenance of easy channels of communication. In some instances, a change of Government has halted planning processes that were making good headway, and in others it has pumped new life into efforts that seemed to be petering out. An attempt has been made to maintain communication through development councils or boards consisting of Ministers, high-level officials and technical experts. However these organs have not always served their purpose. In other instances they have done useful work in co-ordinating development policy with the work of other departments of the national administration, but this co-ordination is apt

to peter out at the operational level for lack of proper direction and supervision. The absence of efficient sectoral and inter-sectoral co-ordination machinery means that the co-ordination achieved at the core of the system weakens or disappears altogether at the lower levels as a result of organizational and procedural deficiencies.

The direct link between the head of the central planning office and the President of the Republic which exists in some countries seems to impart greater flexibility to the central planning agency by forestalling the difficulties inherent in the operation of pluripersonal bodies, which in Latin America have, as a rule, proved to be slow-moving and lacking in dynamism. It is observable, however, that when the technical director of the planning office does not have ministerial rank or a voice in the Cabinet, he finds himself at a definite disadvantage, and the central planning agency cannot discharge its functions efficiently, especially that of co-ordinating the public sector for purposes of implementing the plan. At the same time, the technical director in charge of the central agency is exposed to political pressures, and is often replaced when the government changes, since he is held responsible, whereas that responsibility would otherwise be assumed by the planning council or board.

The sectoral planning agencies are generally weak and faced with organizational and procedural problems. However, this is far from the rule in the various Ministries and decentralized agencies. They are often regarded merely as operational instruments for compiling statistical data: they are assigned routine duties which relegate programming activities to a secondary status, or they are used as agencies for the study of the most widely varying questions. They do not get the political support they need to carry out their functions, and are usually cut off from the central planning agencies, the operational agencies of the Ministry concerned, and the decentralized and autonomous agencies in their sector.

Similarly, regional planning has had to cope with innumerable obstacles, not the least of which is the fact that political divisions and economic areas are not the same. Since the regions suitable as a basis for planning often comprise different political divisions, each with its own interests and provincial, state or local pressure groups, it is very difficult to reconcile opinions and advance towards common objectives.

Furthermore, some provincial or state governments are riddled with administrative weaknesses or are not sufficiently active in promoting economic and social development.

In the last analysis, those problems are simply so many corollaries of the general rule that planning organs have been superimposed on an administrative structure which has not been adapted to the demands of planned development policy.

In recent years, several countries have established central organization and methods offices, which have assumed responsibility for administrative reform. In many cases, these central offices have had no connexion with the agencies of the planning system, or with those in charge of staff and budget administration. Action taken to promote the reform has nothing whatever to do with national development activities. Thus, although general planning efforts have indirectly served to focus attention on administrative streamlining this task has usually been undertaken independently of economic development policies.

5. "Operability" of the plans

In addition to the problems arising from administrative organization and the position of planning machinery within the administration, other factors help to widen the gulf between the planning organs and the policy-makers.

The trouble is, in essence, that the plans formulated thus far cover only a part of the planning process; in other words, the planning effort has not yet been carried through to a conclusion, either from the standpoint of the plans drawn up or from that of the establishment and operation of effective machinery for the periodic revision of plans and for the supervision and evaluation of their practical application.

Many of the overall plans embody forecasts based on an improvement - sometimes substantial - in previous trends and on the anticipation of potential limiting factors. As a result, the overall plans leave a wide gap between macro-economic considerations and general principles and their implementation by means of specific policies (monetary, exchange, fiscal) and operational plans. At the other extreme, some plans for immediate action which have begun to operate merely enumerate partial proposals and certain specific projects often without evaluating them in broader perspective.

The lack of an effective "bridge" between the two dimensions of the planning effort has been detrimental to the two types of plan, in the first instance because it greatly detracts from their viability and in the second, because the plans fail to come to grips with the fundamental obstacles to development. This absence of an organic relationship between the long-term general plan and the corresponding specific plans in terms of the use of the various instruments of economic policy and mobilization and allocation of resources, is still one of the principal shortcomings of planning efforts in Latin America.

It is as much the result of poorly conceived development policy as it is of failure to design and implement effective short-term planning schemes.

(i) Definition of development policy

The lack of a clear definition of that policy is reflected in the fact that the growth targets of long-term plans are not usually expressed in terms of the employment, productivity and training of human resources. Despite the significance and magnitude of the under-employment problem in Latin America, most plans do not deal with it specifically and little attention is devoted to the occupational structure and educational pattern of the employed population. Similarly, due regard is not given to the supply and demand for labour, and the need to bring the economic expansion targets established in the plan into line with available manpower, and particularly skilled labour. The problem of sectoral differences in productivity and the assimilation of technology is hardly mentioned in the majority of the plans, and the relevant proposals are confined to the broadest generalizations, no attempt being made at analysis in depth.

Much the same may be said in connexion with the continuing high degree of income concentration in Latin America, which is another factor exerting a marked influence on the region's development. The plans often allude to this problem in the diagnosis, and even go so far as to list certain general palliatives (absorption of unemployment, increases in productivity, and/or price and wage, tax, public expenditure and education policies); but these statements of principle are not translated into

specific terms, nor is due allowance made for the effects of the targets established in the plan and in the proposals for attaining them on income distribution.

From another standpoint, although a broad and integrated view of development, in which economic and social factors are closely interrelated has been gaining wide acceptance in Latin America, there remains the specific practical problem of how to decide whether to allocate funds to particular "social services" (education, housing, and public health) or to apply them to enlarge the economic infrastructure and the immediately productive field of the economy. In the absence of objectives guidelines, decisions are influenced in the end by circumstantial factors, such as the power of the authorities responsible for the respective fields, or political considerations of the moment. Through force of circumstance rather than as a result of deliberate policy, social expenditure has been increasing proportionately in most Latin American countries, and this process has been encouraged by the direction taken by foreign aid over the last few years. How far this concentration of effort can be maintained is a matter of conjecture, unless a similar effort is made to broaden the economic base which must sustain it. Moreover, serious doubts are beginning to emerge as to the effectiveness of certain kinds of social action on behalf of particular social groups, when they are intended to relieve shortages which really reflect more deeply-rooted problems of economic and social marginality. All this places a very heavy burden on those responsible for planning, who have neither sufficient experience nor the necessary technical machinery for discharging their responsibilities, and are hampered by the failure of Government to adopt the political decisions to support them.

Finally, it should be pointed out that with the exception of Central America, most Latin American development plans have not explicitly incorporated the regional economic integration prospects in their plans as a variable affecting their development policies. Integration appears to be following its own course, along channels relatively far removed from planning efforts. Although there are several fundamental reasons for this phenomenon, it would seem reasonable to suppose that this separate development is also affected by the fact that economic integration would raise new problems and the technical planners do not have the necessary methodological instruments to cope with them.

(ii) Short-term planning schemes

The second problem arises from the fact that countries have not yet succeeded in developing and activating the essential technical machinery required to complete the various stages of planning so that general economic policy can be translated into effective and immediate action.

Despite considerable progress in improving procedures for allocating public sector resources by means of medium-term public investment plans and the use of programme and performance budgeting techniques for the annual Government budget, there are still acute problems. No comparable progress has been made, for example, in working out annual operational plans, economic policy or in standardizing annual economic budgets, etc.

For example, in the application of public investment plans, there is a marked disparity between targets and financial estimates, either because the tax reforms on which they are based are not carried out to the extent or in the time anticipated owing to delays in international financing or special problems of financing local cost, or because any unexpected shortage of financial resources in the public sector affects investment much more than current expenditure. The operational capacity of the public administration to undertake new or increased activities is often overestimated because there are no proper criteria or machinery for evaluating it objectively, although there has been some significant progress in that respect. On the other hand, there is a general tendency to underestimate the volume of projects under way and, consequently, to underestimate the lack of flexibility in the allocation of resources because priority, save in exceptional circumstances, must be given to partially executed projects.

The programme and performance budget has been adopted as the model for annual public sector budgets in most countries of the region, and Uruguay's new political Constitution expressly stipulates that the Executive must present a breakdown of the national budget by programmes. On the other hand, similar progress has not been made in the preparation of annual plans of operation, an exercise regularly carried out only by Venezuela. The formulation of experimental numerical models for the analysis of economic policy is being tried out chiefly in Venezuela and Chile. As regards national economic budgets, the only practical experiments thus far have been conducted in Argentina, where such a budget was drawn up and comprised a series of quantitative estimates of the probable behaviour of the chief macro-economic variables - including private investment - and of the compatibility of public expenditure with the situation and needs of the national economy.

The continuing wide disparity between the plans and the conduct of economic policy is usually most pronounced in countries suffering from acute and persistent inflationary pressures. Those countries are confronted not only with the practical problems associated with the level and system of prices, but with the substantive difficulty of reconciling the plan's objectives with the requirements of stabilization policies. Growing concern with this problem has led to the preparation of plans specifically designed for that purpose. However, most often two unrelated and frequently contradictory policies are superimposed on one another: the policy implicitly or explicitly related to development plans or based on them, and the policy intended primarily to stabilize prices.

(iii) Procedures for controlling the implementation of plans

The lack of progress in the formulation and implementation of operational plans is clearly demonstrated by the non-existence of machinery for controlling the implementation of plans, evaluating the problems which arise and insisting on the rectifications which are patently necessary.

Not only must administrative organs be established to assume those functions, but evaluation techniques must be developed which will be applicable to Latin American conditions.

6. Specific investment projects

Without discussing the spurious distinction made between plans and projects, which unfortunately continues to be the subject of some controversy, there is no doubt that the lack of sufficient specific investment projects has proved a serious obstacle to the effective implementation of Latin American development plans.

This subject was examined in detail at a recent seminar at which a number of suggestions were put forward, which might appropriately be summarized here.<sup>2/</sup>

One suggestion referred to the need for a very broad interpretation -- particularly under present-day conditions in the Latin American economies -- of the "project" concept, covering every unit of activity capable of implementing a development plan.

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<sup>2/</sup> The seminar in question was organized by the Latin American Institute for Economic and Social Planning and was held in Santiago, Chile, from 6-14 July 1965.

The persistent shortage of projects despite the progress achieved in certain immediate factors which are usually regarded as decisive, posits the existence of other root causes. It develops that the shortage of projects is merely another manifestation of the weakness of the decision-making and implementation machinery. The shortage of projects is no more acute than it was before in absolute terms; quite the reverse. What seems to be happening is that traditional policies of unplanned development in one way or another provided incentives for public and private enterprise which led to the formulation of specific projects, some of them of marked importance. There is still a continuous flow of investment decisions, some of which materialize in project form, but planning has imposed additional and much greater demands.

Firstly, projects are now required to meet specific investment objectives and targets stated in the plans and to fit into certain overall strategies. In so far as they are not clearly defined, these objectives and that policy do not provide sufficient incentives for suitable projects, nor do they in themselves represent strategic projects. The economic integration of Latin America illustrates this point: until the political decisions have been taken and political agreements concluded at the appropriate levels, no public or private initiatives in the form of specific projects can be launched.

Secondly, planning not only requires the initiation of a certain number of projects but also arranges them in the proper order of priority and determines the relationship between projects and groups of projects with due regard for their direct and indirect effects on the economy as a whole.

Viewed in this context, the problem of promoting, identifying, preparing, evaluating and executing projects is closely linked with the establishment of an effective planning system and with the necessary administrative reforms. Naturally, the difficulties of translating a development strategy rapidly into operational plans cannot be disregarded, any more than the difficulties connected with the shortage of trained personnel, experience and technological resources. When the first plans

are drawn up, a high proportion of investment capacity - particularly in the public sector - is tied up in projects in progress, which can only occasionally be replaced by other projects better adapted to the new plans. In other words, the maturation period of projects of a certain magnitude tends to be longer, as suggested by the experience of the Bank, which found that a large power of transport project may take from three to five or more years from the time it is decided to undertake the economic and engineering studies to the time they are completed and the financing of the project can be approved and implementation started.

#### 7. Availability of information

Improvement of the planning process in Latin America is being hampered by problems of the availability and quality of the basic information on which it is based. The information is mainly, but not exclusively, statistical data.

There are serious deficiencies in the quantity, quality and timeliness of data that are basic to planning. Moreover, full justice has not been done to the statistical function within the planning effort. In general, national statistical offices occupy a very subordinate role in public administration as a whole; their employees are frequently ill-paid and their staff unqualified. Very few have adequate financial resources or mechanical equipment for the efficient collection and elaboration of data. From another standpoint, there are gaps in the legislation making it compulsory to supply certain data and, above all, in the machinery for giving effect to that legislation. The various sectoral, regional and local statistical services are not sufficiently co-ordinated and national statistical programmes have not been drawn up.

Problems have also cropped up in relations with the users, one being under-estimation of the information requirements of the public administration and private sector. Moreover, proper facilities have not been set up to enable the offices providing the data to use them as a guide in decision-making. Relations with the planning offices in particular are usually characterized by sporadic demands for data made

when plans are already in course of preparation. These relations have never been systematized, let alone developed into a mechanism providing a permanent flow of up-to-date information that would facilitate the periodic revision and evaluation of plans.

The quality of the data is uneven, depending on the sector to which they refer. Foreign trade statistics are the most accurate, followed by population data, while data on domestic trade, services construction, road transport and unemployment are particularly poor. When censuses are used as a basis for the work, there is a lack of continuity, one of the results of this being the preparation of a new industrial directory every time an industrial census is taken instead of the up-dating of an earlier edition. Delays are a common feature of the data processing, but in some cases attempts have recently been made to overcome this problem by using sampling techniques. Another shortcoming is the lack of a systematic and continuous series of indicators for tracing short-term changes in the economy. Lastly, there is usually a long delay before the data are published.

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## B. EXTERNAL PROBLEMS

The limitations and obstacles cited undoubtedly detracted from the effectiveness of planning, and can only be overcome by decisions taken in the countries themselves and by the progressive improvement of planning machinery. It should be noted, however, that the implementation of Latin America's development plans has been hampered and is still being hampered by serious obstacles created by the evolution of trade and financial transactions with countries outside the region.

These obstacles are known as "exogenous" factors, not only because they are largely beyond the country's control or because they arise from new circumstances which could not have been predicted when the plans were being formulated, but in particular, because they alter the economic context in which the plans must be implemented.

A review of recent trends makes this situation quite clear. In the short space of time that has elapsed since planning activities first began to gain ground, several important factors have assumed considerable significance: the insufficient and unstable growth of exports, external debt commitments, the need to replenish gold and foreign exchange reserves, and - as a result of those factors - the irregular trend of imports and the urgency of a policy of import restriction.

### 1. Export trends

Exports expanded irregularly, as shown by the fact that the annual growth rates in terms of volume fluctuated between a high of 9.2 per cent in 1962 and a low of 2.2 per cent in 1964, while the figure for 1966 was 4 per cent. These averages for the region as a whole, reflect occasional violent fluctuations in certain countries resulting in sharp reductions in absolute terms.

Export trends in terms of current prices have been somewhat steadier. Nevertheless, thus far in the sixties, Latin America has lost a substantial proportion of its share in world trade. The sharpest drop was in its contribution to total United States imports - from about 21 per cent in the three-year period 1960-62 to less than 16 per cent in 1966 - but there

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was also marked reduction in its share of imports by the European Economic Community (from 6 to 5.5 per cent) and the European Free Trade Association (from 5.4 to 4.2 per cent). These decreases have not been offset by the substantial increase in intra-Latin American trade.

The recent trends were influenced by structural and institutional factors created by the preponderance of primary commodities in Latin American exports and their scant diversification, and by the limitations, obstacles and adverse conditions which continue to affect world trade. Although the problem may arise in part from the shortcomings of national export promotion policies, serious imbalances are expected to develop, judging from projections of the future value of exports on the basis of trends over the past fifteen years and compared with the potential demand for imports. In the circumstances, by 1975 the trade deficit might well range from 4,600 to 5,500 million dollars at 1960 prices. This huge deficit will be further inflated by the sums required to finance outflows in the form of amortization, interest and profits, with the result that it would become impossible to obtain new inflows of foreign capital.

## 2. External debt

The gross inflow of foreign capital has reached high levels and increased rapidly in the present decade, as shown by the fact that the public external debt for the whole region rose from 6,100 million dollars in 1960 to over 12,000 million dollars in 1966.

This is not reflected in an equally large net contribution to Latin American development financing. On the contrary, net external financing - defined here as the balance on current account - has fallen off considerably as a result of debt commitments: from 1,100 million dollars in 1961 it rose to its peak (1,230 million) in 1962, declined steeply to 500 million dollars in 1965 and recovered only partially in 1966 (950 million dollars). Variables which are strategic in the implementation of plans have not only shown a negative trend, but have fluctuated very widely.

The critical situation in some countries has prompted Governments to renegotiate the cumulative debt, consolidating and reconverting loans to mitigate the immediate effects on the balance of payments. However,

considerable progress has been made in extending the scope of external financing to other fields of economic activity and in obtaining more favourable terms, although the interest rates on some foreign loans have increased in the last two years.

In addition, loans are generally repayable over a very short period. A balance sheet of the position at 31 December 1964 shows that in accordance with the original repayment periods the debt was made up as follows: 18 per cent repayable in less than five years, 28 per cent in five to ten years and 54 per cent over more than ten years. But the repayment periods applicable at that time reflected a critical position: 47 per cent of the total debt had to be paid off in the next five years, 24 per cent in five to ten years, and 29 per cent over more than ten years.

### 3. Other factors

Other factors have further reduced the already feeble effect of the growth of exports on real import capacity: one was the need to build up international reserves to a reasonable level in the last few years. Latin America's gross gold and foreign exchange holdings in 1960 amounted to 3,000 million dollars, but dropped sharply to 2,200 million dollars in 1962; a subsequent recovery brought them up to 3,200 million dollars in 1965. In other words, 1,000 million dollars were used to build up reserves during those three years. Moreover, monetary liabilities, including balance-of-payments loans, were cut by 500 million dollars over the same period. In short, this meant a total reduction of 1,500 million dollars in the purchasing power of exports between 1962 and 1965.

The evolution of the terms of trade has had a similar effect. Although the trend has not been particularly unfavourable during the sixties, the losses due to the deterioration in the terms of trade since 1960 amount to roughly 1,000 million dollars for the region as a whole. Some countries have suffered more than others, Venezuela's losses amounting to 1,800 million dollars and Brazil's 500 million during the same period.

4. Import trends

The above factors described account for the irregular trend of imports, and in some cases have necessitated a policy of import restrictions. This weakened the possibility of increasing supplies that were urgently needed for the implementation of development policy and plans.

The value of imports of goods and services in 1960 was practically the same as the value of exports: about 8,600 million dollars. Not until 1964 did Latin America reach the 1957 level of imports (some 9,300 million dollars). It is even more significant that in recent years imports expanded more slowly than exports, the trade surplus being as high as 1,200 million dollars in 1966. In fact, exports amounted to about 12,000 million dollars, compared with 10,760 million dollars for imports of goods and services.

### III. CONCLUSIONS

Like every process, planning must be developed and improved. Thus far Latin America has gone through the first stage; it has established planning agencies, prepared a variety of plans, worked out consistent development policies with some success, allocated public resources more systematically, trained a large group of professionals in new techniques locally and accumulated a fund of valuable experience. At the same time, it has encountered limitations and obstacles including general lack of political support for planning, inadequate overall development strategies, absence of effective co-ordination between policy and operational machinery and other more specific drawbacks.

Measures to overcome those limitations and obstacles would represent a second stage of planning in Latin America, in which development plans would be better formulated and above all more efficiently carried out. Some conclusions from the foregoing analysis might usefully be analysed by national agencies and the competent foreign financial and technical co-operation organs.

#### 1. National planning machinery

(a) The planning systems thus far developed should be completed by renewed efforts in many areas and, in particular, by:

(i) establishing a closer relationship between overall guidelines and short-term operational machinery, preferably by drawing up annual plans of operation incorporating decisions to mobilize and allocate resources and implementing detailed economic policy;

(ii) supplementing the process of formulating and implementing plans by that of periodic evaluation of results and establishing appropriate organs for that purpose.

(b) Planning systems should be brought into line with long and short-term development priorities through action to co-ordinate national planning with:

(i) Latin America's economic integration aims;

(ii) through action to relate planning with the assimilation of new techniques, employment and training, income distribution and improvement of living conditions;

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(iii) through action to relate planning with anti-inflationary measures.

(c) Stronger co-ordination should be established between planning agencies and the political authorities, the national administration and the private sector by:

(i) Carefully reviewing the relations between planning offices and top-level national authorities;

(ii) Ensuring that administrative reform programmes allow for proper co-ordination between planning bodies and the general, sectoral or regional decision-making centres;

(iii) Establishing or improving existing channels of communication with the various representative bodies of the private sector (political parties, trade unions, entrepreneurs' associations, etc.).

(d) Further research should be carried out to discover the most effective technical means of implementing the various planning activities. The following questions should be urgently considered:

(i) Methods and techniques for preparing annual plans (including such instruments as the national economic budget);

(ii) Methods and techniques for evaluating and supervising the implementation of plans;

(iii) Methods and techniques formulating development policy with due regard for maximum utilization of human resources, the economic integration of Latin America, the redistribution of income and a reasonable allocation of resources between social and economic objectives.

(e) It is imperative to improve data-gathering and data-processing so that reliable statistics and other data will be readily available for the preparation of plans and the supervision of their execution. To that end:

(i) The offices which collect, tabulate and publish information should be given greater autonomy and provided with additional staff and technical resources;

(ii) Basic programmes of urgently needed information should be prepared for priority action in order to ensure a steady flow of up-to-date data;

(iii) Machinery should be devised and put into operation for providing information on progress achieved in implementing plans.

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2. External technical and financial co-operation <sup>10/</sup>

(a) Technical co-operation from international and other external sources in national planning activities should be encouraged. The need for such co-operation is greater than ever at the present stage, especially in the following areas:

(i) The study and dissemination of the methods and techniques referred to above;

(ii) The training of technical personnel in performing their present functions as well as those likely to become more important in the near future (annual plans, evaluation and supervision, etc.);

(iii) The exchange of experience between planning agencies in the various countries of the region.

(b) The provision of technical information and specific projections concerning the following questions should be systematically co-ordinated:

(i) The economic growth of the various Latin American countries;

(ii) World market prospects, by groups of products and by specific products;

(iii) Estimates of the developing countries' external financing resources and needs.

(c) External financing has exerted a profound influence on national planning activities. It is therefore essential to continue the progress already achieved in the following ways:

(i) By financing programmes of concerted action in many different fields, and, in particular, by replacing the old system of project financing by a new system which will ensure the overall financing of development plans and supplementary and compensatory financing needs on suitable terms.

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<sup>10/</sup> The following conclusions contain no reference to foreign trade despite its importance in the execution of Latin America's development plans, in order to avoid raising issues of world economic policy.

(ii) By extending amortization periods and lowering interest rates on foreign loans;

(iii) By allocating resources more flexibly, so that they are not made contingent upon the imported content of investments and can cover local costs;

(iv) By more flexible use of external financing with a view to eliminating the conditions attached;

(v) By financial support for national and international planning agencies.

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FIRST ATTEMPTS AT PLANNING IN LATIN AMERICA: NOTES

ON AN EXPERIMENT

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the organization with which he is associated.



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/I. ORIGINS



## I. ORIGINS AND SPREAD OF PLANNING THEORY AND MACHINERY IN LATIN AMERICA

Even before the Second World War, various countries wishing to take organized steps to deal with the effects of the great depression, began sectoral planning, especially of their economic infra-structure. In some cases, especially in Mexico and Chile, this continued into the post-war period, leading to the setting up of sectoral planning systems, which are now fully integrated into the institutional framework and have provided the basis for a systematic policy in those sectors. Only from the mid-1950's, however, has there been a general desire in Latin America to regulate development policy by means of overall plans establishing priorities and interrelations between the different sectors and policies on the basis of an overall view of the economy. There were some earlier attempts to prepare general plans, but in practice they amounted to no more than the general outlines of a political programme and did not constitute a first step towards serious planning.

It was the growing awareness of the need to speed up development created by a penurious period of weak export markets, especially from 1955 onwards, which made the idea of planning popular and later led to its adoption as the basic means of action in the Punta del Este Charter.

In this development, the United Nations Economic Commission for Latin America has played an essential role. From its first studies,<sup>1/</sup> in which the deterioration of the terms of trade and other structural problems already appear as the fundamental obstacles to development, ECLA advocated the adoption of a long-term development policy, which presupposed planning.

In 1955, it came out openly in favour of this policy, with the publication of its Analyses and Projections of Economic Development:  
I. An Introduction to the Technique of Programming.<sup>2/</sup> Even before the,

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<sup>1/</sup> Economic Survey of Latin America, 1949, prepared by the secretariat of the Economic Commission for Latin America, United Nations Publication, Sales N°: 1951.II.9.1.

<sup>2/</sup> United Nations, Publication, Sales N°: 1955.II.9.2.

in its country studies and in the advice given by its technical assistance missions, it had already begun systematically to promote the establishment of planning machinery and the preparation of general development plans. One of the first countries to follow its recommendations was Colombia, at the beginning of the 1950's. Later, through the combined effects of training courses in economic development and advisory groups on planning, it became the main factor behind the rapid spread of the idea of economic programming, a function which has been continued by the Latin American Institute for Economic and Social Planning.

The International Bank for Reconstruction and Development, having an interest in the efficient preparation and execution of projects, especially in the infra-structural aspect, and being also involved in overall studies of countries' development, likewise advocated the establishment of central organs for planning and co-ordination and the preparation of programmes, particularly for economic sectors, and more particularly for transport and electricity.

By 1960, after some years of adverse external conditions, a general decline in the rate of development and a tense political atmosphere, planning was accepted as an element in the development policy proposed as a means of overcoming these problems. In various countries central planning organs had been established and the preparation of plans was receiving attention and encouragement from some Governments. In some countries, professional teams, trained in techniques of planning and accustomed to think of them as the basic instrument of the new economic policy, had reached positions of influence. Planning was thus one of the central elements in the programme of action included in the so-called Punta del Este Charter signed in 1961, when the advent of the Kennedy Administration made possible a hemisphere-wide approach to Latin American development.

The Punta del Este charter sets forth a series of targets which in practice presuppose the preparation of programmes and, even more specifically, establishes formally that countries have an obligation to prepare economic and social development plans to guide their domestic development and serve as a starting point for multilateral co-operation. It also establishes a

procedure for the multilateral evaluation of plans by an independent body of experts, upon whose services the countries can call if they so desire. Despite the inevitable vagueness of the text on some essential points - for example, on what such evaluations mean with regard to external financing - the Punta del Este Charter introduced an innovation of international importance by laying the basis for a new kind of external co-operation based on a national system of planning.

The immediate consequence of the Punta del Este Charter and the Alliance for Progress programme based on it was the establishment of central planning bodies in almost all the countries of Latin America and the preparation of overall development plans in most of them. The first plan for evaluation was submitted by Colombia, which was followed in rapid succession by other countries. The exceptions were the bigger countries, Brazil and Argentina, which had resisted the idea of formal evaluation from the beginning. Nevertheless, the procedure of planning has made progress in those countries and Argentina finished preparing its plan in 1965. At present, evaluation of Uruguay's plan is about to begin and Venezuela's new plan is being analysed, since the period to which its first general plan applied has elapsed.

There can be no doubt, however, that the first flash of enthusiasm has already waned. The situation varies much from country to country, but in most the expectations that planning awakened seem to have given way to a certain scepticism. The preparation or revision of plans is behind hand in many countries and it is evident that less importance is attached to it. The central planning organs, which in the beginning were much affected by the shortage of trained personnel, but were roused to vigorous efforts by the importance of their responsibilities and the confidence placed in them by governments, have begun to encounter growing difficulties in their relations with other government departments and, in some cases, have lost their influence and resources. Changes of government in many countries have reflected this change in attitudes, although in some cases planning has been strengthened, more frequently it has been pushed into the background and the continuity of the work of the central planning organs has suffered. Their functions have altered and often the trained

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personnel who had gained experience during the initial efforts have been replaced. This means that planning has reached a crisis, and the purpose of this paper is to identify its causes and to indicate the change of course which seems essential in order to preserve a technical and political instrument of great value for development policy.

## II. RESULTS OF THE FIRST ATTEMPTS AT PLANNING

Confidence in planning was first shaken by the economic performance of Latin America in recent years. The rate growth in gross domestic product per capita over the period 1960-65, although higher than in the previous five years, was lower on the average than in 1950-55. The minimum target set by the Punta del Este Charter (2.5 per cent) was reached in 1964 and 1965. The results are due mainly to fluctuations in the land of activity in some of the bigger countries of the region (Argentina and Brazil), which have not yet overcome their tendency towards slow growth and instability. Some countries have achieved rapid growth in the last few years under the stimulus of favourable foreign markets, but others among the medium-sized and small countries have continued to grow slowly or irregularly and have found their economic problems becoming more acute and in some cases critical. Furthermore, even the rate for the region as a whole seems to have suffered a decline in 1966 and this trend is evident in about half the countries. In short, the period does not show any change worthy of note in development trends in Latin America.<sup>3/</sup>

If we confine ourselves to the most practical results of government action, which is what the public is most conscious of, i.e., investment, the comparison between what has been done and what was planned is in

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<sup>3/</sup> See The Future of Latin America's Development and the Alliance for Progress, CIES/847-OEA/Ser.H/X.8, Pan American Union, Washington, D.C., 1966, p. 7. See also Development and Stabilization Policies in Latin America: Some Problems by Roque Carranza, E/AC.54/L.4. For lack of comparable information, Cuba was not included. Similarly, the comments on planning in this paper do not apply to Cuba.

general not very encouraging. As far as investment is concerned, even allowing for the adverse effects of fluctuations in exports on the level of activity, what has been achieved does not accord in most cases with what was planned, either in quantity or in distribution. In some cases, the difference is such that it is obvious that the action taken was determined by priorities different from those adopted in planning, which shows that the plan was merely a document with only a remote bearing on government action. It is true that in most of the countries the structure of investment follows the lines recommended by the Punta del Este Charter and tends to give a greater share to so-called "social investment", but, considering the expectations aroused, it is perhaps in these programmes that achievements have fallen furthest short of the targets set. A striking example of this is housing programmes.

It is not very clear, either, what the situation is with regard to the decisive change of direction it was intended to give to development policy through the combination of so-called radical reforms in agriculture, taxation, administration and education. Progress has been made in taxation and education, and in some cases it has been considerable. On the other hand, very little has been done to transform the structure of agriculture or to carry out administrative reforms. On the whole, weighing credits and debits, it does not appear that the desire for change is leading to a transformation of national structures. The predominant impression among the public, therefore, is what economic policy has not changed either in tone or in substance. Progress has been made in some areas and a start has been made with reforms, but economic policy has neither the impetus nor the degree of disciplined co-ordination which seemed to be characteristic of planning.

The initiation of planning has not led, either, to substantial changes in methods of external co-operation and this may and has influenced the attitude of the ruling classes towards it. In the context of Latin American politics, the formal adoption of planning in many countries was a decision in which great weight was attached to the idea that as part of a programme of external co-operation within an inter-American context,

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planning was an essential tool if action was to be taken to protect countries or compensate them for the chronic instability of the external variables in the development process, essentially foreign trade, and if their resources were to be supplemented to the extent necessary to maintain a vigorous development policy. In practice, the progress made in public financing - the gross volume of loans has increased considerably - was not directly related to planning policy. In the great majority of cases, there was no perceptible change in methods of public financing and apart from exceptional cases the plans did not include procedures for overall financing. For the time being, it is not of interest to consider how far it would have been possible to tie financing with economic plans. We point the fact out merely in order to show that this was another expectation which has not been realized.

As far as foreign trade is concerned, in the last three years, fortunately, market trends have been relatively favourable for some of Latin America's staple exports. But in the cases where there has been a decline, particularly tropical products, there has been no significant action by the international community, except on coffee.

In the light of this experience, some members of the ruling circles in Latin America have begun to regard planning as a nuisance and, as we shall see shortly, as a threat to their own interests, yielding no returns except unimportant consequences at the international level. Often there was a lack of real conviction when the principle of planning was adopted. The external forms of the planning system were accepted, without a full awareness of the discipline that planning implies or the transformation of political and administrative structures that it requires. Perhaps it was inevitable that in its initial stages planning should have been an element in a ritual which was supposed to gain respectability and foreign acceptance for national economic policy. The lack of foreign response deprived this ritual of any meaning for the ruling groups in question.

There is thus a tinge of scepticism in the attitude towards planning both of the ruling classes and of the public in general. A large part of the disappointment is due to the normal subsidence of expectations after the optimism of official declarations in the initial stages, among them

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the Punta del Este Charter itself. But behind the growing discouragement there is, as we have indicated, a more profound cause, which may be summarized as follows: the introduction of planning has not led to far-reaching changes in economic policy or in the traditional style of government.

For all its truth, this final opinion conceals many genuine achievements in planning, which may not be spectacular, but which contain in embryo the changes that must be made in the next period. In summary, these positive consequences are as follows:

1. The establishment of a more appropriate institutional basis for development policy

To a greater or lesser extent, almost all the countries have established some elements of a planning system. For the present, they are generally limited to policy-making machinery, basically the central planning organ, and improved procedures for relating policy to decisions, as in the case of the state budget. In addition, progress has been made in the preparation of projects and the creation of machinery to promote development. In some cases, particularly in Uruguay, planning has led to a relationship with the private sector which would not otherwise have existed. This has also occurred in other countries, although in a patchy way, it affects only some sectors. Without going into detail, it can be said that Latin America now has a more efficient and diversified institutional basis, better suited for the gradual introduction of improvements in economic policy and the establishment of the necessary co-ordination. The setting up of central planning organs has been the first step towards modernization and, even where those organs suffer because of their position in the hierarchy and the shortage of resources, they are generally focal points for innovation in the public sector. To a certain extent, moreover, as in Ecuador, they have served as an element of continuity in an economic policy which would otherwise have suffered from the frequent changes of Government. What has been done so far thus shows a positive balance, even if this is one of the aspects which receives less attention when the progress made in planning is evaluated. In

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antiquated structures such as those of many Latin American administrations, this change is important because of the momentum which such innovations can acquire.

## 2. Progress in ensuring the compatibility and co-ordination of economic policy

Concurrently with the development outlined above, there has been an improvement in the overall approach and in the co-ordination of economic policy. This is a difference of degree as compared with the past, but there are already some striking examples to be found in extremely complex situations. So far as production is concerned, through the influence of ECLA's methodology, the strategy of Latin American planning has tended to focus on the need to expand output in terms of inter-industrial relationships and complementary policies. The machinery is still very defective, but the will is there and its effect is noticeable in economic policy.

As regards the more subtle matter of the compatibility of financial and production policies, the liaison and co-ordination bodies are starting to concentrate on implementing the stabilization and development programme of some of the larger Latin American countries. In view of the extreme difficulty of carrying out stabilization in the social and political environment of those countries, the planners have had to adapt their tools very carefully in order to establish a proper relationship between gradual stabilization and the promotion of production on a larger scale. Whatever the final outcome of these efforts may be, the improvement in the quality of economic policy attributable to these programmes cannot be denied. The rationalization involved in planning has made it possible to carry out these extremely complicated activities. In other countries, however, especially the less developed, the link between monetary policy and production policy is still very tenuous.

Lastly, as in the case of investment programmes, there is also a growing awareness of the need for action to follow a more logical sequence. This naturally leads to a more realistic evaluation of the difficulties of development and to an appreciation of the less spectacular aspects of economic and social policy. This is reflected in the concern to undertake

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pre-investment studies and prepare projects. Much remains to be done in all these respects, but some headway has obviously been made which can be attributed to the initial planning efforts.

### 3. Training of technical personnel

The training of technical personnel is probably the most practical and lasting achievement of planning in the past year. It involves not only the training of experts in the various branches of planning but also the formation of working teams accustomed to a discipline which calls for extensive co-ordination and continuous co-operation. Apart from all the advantages deriving from the training of specialists, planning has provided the various countries with groups of young professionals imbued with common ideals and sharing common interests. This phenomenon is similar, although it appears on a vaster scale, to that which occurred in the staff training programmes of the Latin American Central Banks in the last two decades, under which many of the economists who now hold influential positions in government service received their training. An additional feature of planning is the fact that the technical cadres thus formed are for the first time versed in several disciplines. Moreover, and almost inevitable, their work has encouraged them to adopt a political approach and this is of great importance in view of the rapidly declining influence of the traditional ruling groups.

### III. REASONS FOR THE LIMITATIONS OBSERVED IN PLANNING IN LATIN AMERICA

Progress has also been made in the gradual consolidation of an institutional and technical basis which, in the future, may lead to a sound development policy. On the other hand, the assertion that up to the present the influence of planning has been superficial is still valid. Without disparaging the advances made and without overlooking the problems of transition, it may well be asked what obstacles prevent planning from striking deeper roots. The truth of the matter is that this initial preparatory period cannot continue much longer without detracting from the prestige of planning and it is in the general interest to ensure that this already noticeable trend is halted in time.

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A detailed analysis of the causes of this phenomenon is beyond the scope of this paper because it would involve a thorough consideration of the obstacles in the way of development policy. Nevertheless, certain salient features of the process of assimilating planning in many of the Latin American countries must be mentioned because they can be important for an understanding of the sources of this incipient crisis. Such a general treatment will not do justice to the conditions prevailing in some countries, but, subject to the relevant reservations, it does cover most cases. These features are as follows:

1. The persistence of interests and conditions opposed to development policy in the power structures and administrations

Latin America is a continent in a state of flux. To varying degrees the structure of traditional society still persists in the institutional life of each nation. In several countries the power of the old structures remains intact. To the extent that this occurs, planning is a foreign element and is therefore resisted. Two facts are worth mentioning:

(a) Opposition of the pressure groups benefiting from the status quo

Theoretically it may seem strange that planning should be regarded as an instrument of political change. To be practical, in the case of Latin America it is somewhat pointless to discuss the neutral role which planning should play as a technique. From its earliest beginnings, it was tied to an interpretation of under-development (and of development) with political implications. These implications justify the discipline which planning entails. It derives from an analysis of the economic and social structure which postulates a development policy based on structural change, one of whose consequences is the transfer of economic power to the modern entrepreneurial groups and the State. Some of the main elements of this policy - for example land reform, import substitution, more State control and intervention - directly affect the interests of certain pressure groups which wielded power in the old society. To the

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extent that they maintain their influence, and they do so to a greater or smaller degree in several Latin American countries, these groups will resist planning as the tool of that development policy.

(b) Inertia of the traditional forms of organization and government administration

Besides being a technique, planning is also an art of government in economic and social matters. In the first place, it implies a change in the attitude and working methods of the executives, even at the highest policy-making levels. The plan and its system of priorities combine with external restrictions to limit the executives freedom of decision. For the head of the executive this restriction may be merely formal, for it is one of his functions to organize the revision of the plan. But even in this case the restriction exists to the extent that the revision of a plan calls for a procedure in which the decision undergoes a series of tests for compatibility and the final adjustment may entail changes in matters which are far outside the apparent scope of the original decision. To sum up, a plan is a form of discipline calculated to counteract the working attitudes and habits of the executives of the traditional governments in Latin America. This discipline entails, both for political leaders and for civil servants, a severe limitation on the leeway for negotiation and influence available to them for strengthening their political positions.

There has been no lack of detailed references to the difficulties encountered in reorganizing a government in order to establish a planning system with its machinery of guidelines, decision and control. As stated earlier, the initial effort with its practical results was focused on setting up the policy making machinery: central and sectoral planning bodies. Their consolidation involves an arduous process of development from advisory services dealing with short-term problems and with a limited fund of information to a policy-making system embracing the main centres of authority and capable of programming their activities, which implies, inter alia, a substantial improvement in the quality and quantity of the information available. After the initial effort, many of these bodies have remained somewhat aloof from the administrative

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mainstream and this trend has had to be halted. Very often the rest of the administration continues to operate on the old patterns; decisions are taken without proper liaison with the policy-making machinery and there are practically never any systems for checking performance which are more efficient than traditional auditing.

Part of the problem derives from the great difficulty of introducing a practice which is different as regards the direction and content of the information provided. Although this may seem to be a secondary aspect, it is of decisive importance for building up the system of planning and facilitating rapid execution and the rapid provision of the information necessary to give impetus to the planning process. The history of programme budgeting illustrates the difficulty involved in introducing new administrative practices. In many countries the system of programme budgeting has been introduced, but the control machinery (accounting, checking, etc.) either does not exist or, in many cases, still follows the old patterns.

In a nutshell, from the point of view of the interests of certain pressure groups forming part of the ruling classes which wield the power in several countries and also from the angle of organization and administration, planning is still foreign to the institutional experience of many Latin American countries. Stress should be laid on the warning that this conclusion is not equally applicable to all countries; in some, the aforesaid opposition is on a much smaller scale and certain planning procedures have proved to be very effective (e.g. sectoral programming in Mexico). In others, as a result of political evolution and acquired experience, the contradictions have become less marked and the planning system is more firmly established (e.g. Venezuela).

2. Inconsistency between the planning procedures followed and certain basic requirements of development policy

The defects and mistakes of planning in Latin America have already been described in several publications.<sup>4/</sup> This is not the place to repeat these criticisms which are often made by Latin American planners themselves. These shortcomings are mostly attributable to obstacles created by the political and social environment in which planning has developed during this transitorial period and to the technical limitations (lack of information, shortage of trained staff) which are also very characteristic of the early stages. Some of these mistakes, however, are attributable to the inexperience not only of Latin American planners but also of planning in general. Actually there is very little experience available for formulating plans and planning systems which are suitable for under-developed economies which (a) for policy reasons, relegate a considerable part of the decision making to private enterprise and (b) are undergoing a period of growing social apprehension and tension which complicates the social objectives that planning is designed to further. In addition to this initial limitation, as regards the possibility of assimilating experience, there is also the wide variety of conditions prevailing in the region both in the matter of social and political evolution and in the degree of development and the nature of the factors limiting development in the various countries concerned.

This lack of experience is apparent in several of the shortcomings of Latin American planning. Some of the important ones are as follows:

(a) Adherence to more or less standard theoretical formulas or schemes which ignore or under-estimate the essential problems and conditions of each country.<sup>5/</sup> Perhaps the two most important consequences of this adherence to general formulas may be assumed up as follows:

4/ Reports from the Panel of Nine to the Inter-American Economic and Social Council, especially for 1964 (OEA/Ser. H/X.6/CIES.631 (mimeographed)), pages 31 to 46. See also IESP, "Discusiones sobre planificación", published by Siglo Veintiuno Editores, S.A., Mexico, 1966.

5/ "Since all the countries which have adopted development plans, have followed essentially the same methodology and pursued similar objectives within a common continental programme, a certain pattern may be observed in the successes and shortcomings of the planning process". "Notas sobre el proceso de planificación en América Latina", Panel of Nine (OEA/Ser.H/X.8-CIES/854) (mimeographed), page 21.

(1) Insufficient attention is paid to the existence of critical resources other than foreign capital and exchange. The schemes on which the plans are based follow a pattern, which is, moreover, common in planning, whereby fixed capital formation is regarded as the only or the main instrument for increasing the product. Latin America's planners have been taught by experience to consider the availability of external resources as another limiting factors, especially owing to their effect on capital formation, but virtually no attention has been paid to human resources, which are probably critical in many countries, or even the employment problem.

(ii) Very frequently the function of the price system is omitted from the more or less coherent scheme proposed as a guide for development policy. Given the conditions prevailing in Latin America, prices are the principal yardstick that planning can use in order to influence the private sector which, to a different degree in each country, controls the directly productive activities and, despite increasing State activity especially in the economic and social infrastructure, has a decisive role to play in investment.<sup>6/</sup>

(b) The failure - in some cases carried to an extreme - to identify accurately the instruments of development policy and to formulate precisely the elements necessary for identifying policy-making responsibilities. In spite of the emphasis on capital formation, one of the most frequent defects is to be found in financing policy. It follows from the preceding paragraph that the elements necessary for a price policy capable of influencing the private sector with a view to securing a better allocation of resources have also been lacking. The saying that the private entrepreneur must take part in the preparation of plans so that he can identify himself with them has become a cliché. But even if this is possible and advisable - and it is not in every case - it overlooks the most important fact: in the Latin American context the private entrepreneur's response will not usually be the result of a general adherence to the plan but of his observation

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<sup>6/</sup> It varies from approximately 58 per cent of total investment in Chile to 82 per cent in Peru. The average is approximately 65 per cent for seventeen countries.

of market trends through the price system. Planning in a mixed economy implies a deeper knowledge of the behaviour of the price system in the circumstances peculiar to each country and a more subtle use of the system than is necessary in other types of planning. If the defects of the market are very great and the entrepreneur is inefficient either because of structural conditions or because of technological backwardness, the difficulties are greater still. In these cases it is doubtful whether consulting the entrepreneur will provide many clues to the incentives and disincentives that should be applied to private enterprise in the absence of more specific forecasting of price trends and the adjustment of prices along the lines imposed by the real shortage of factors and goods in the economy.

To sum up, owing to methodological limitations or to the absence of proper emphasis, Latin American planning has lacked adequate elements for guiding action in the required direction and at the proper time. Some of the shortcomings are attributable to methodological problems which have not yet been solved, or at least not solved in a satisfactory manner so far as the practical application is concerned, e.g., in a dynamic context, the optimum allocation of resources from the point of view of well-being. In this connexion, what has happened in Latin America reflects a general lack of scientific knowledge and indicates the sectors in which priority should be given to research in the future. Even in those cases, however, the impossibility of arriving at a strict rationalization is no excuse for forgetting essential matters on which action should be taken. These matters can be tackled, with reasonable accuracy, by partial analyses supplemented by informed judgement and common sense. In other cases the shortcomings can be entirely remedied and are no more than the result of an insufficiently realistic evaluation of the specific requirements of development policy, e.g. inadequate treatment of the machinery of planning. The form a plan takes must be the most suitable for the characteristics and circumstances of the country concerned, having regard not only to the availability of information and the technical necessity of guaranteeing minimum consistency but also to the country's political and administrative structure, the nature of the obstacles in the way of development which the

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plan is intended to overcome and the actual requirements of its policy-making system at the governmental level and in the private sector. The pattern followed by the planning system and its machinery should also show the same capacity to adapt itself to reality.

3. The uncertainty associated with foreign trade and capital flows

This uncertainty is the cause - the decisive one in some cases - of the shortcomings of planning in Latin America and of the unexpected and often unforeseeable obstacles to the execution of the plans which have emerged as a result of the instability of the markets for most of Latin America's exports. Given the structure of the Latin American economies, relatively slight changes in markets may occasion radical changes in the premises of a plan. Often the shortcomings are not even attributable to technical mistakes in forecasting. The purchases or sales of a large country may upset a market. Primary commodity trade is by nature uncertain and the present market organization tends to make this uncertainty more acute.

It should be possible to achieve the minimum certainty that planning requires even in the present conditions of primary commodity trade, provided the countries can count on compensatory (or supplementary) external financing. This has not yet happened and the fluctuations in foreign trade forces the countries to revise their plans continuously, which is not only difficult because of the limited technical resources but also unfortunate because it deprives planning of one of its main values as a political instrument: the relative degree of permanence which a plan requires in order to stimulate the imagination and enlist the support of the people and to become what sociologists call a "national plan".

#### IV. TOWARDS MORE EFFECTIVE PLANNING

The foregoing analysis leads to the conclusion that improved effectiveness in the planning system in Latin America largely depends on events external to the techniques and organization of planning, namely, political developments in Latin America and the gains which the developing countries achieve from international co-operation to bring about a measure of stability in external assistance (through action in the field of trade and of external financial flows). From the technical planning standpoint, one important recommendation is that efforts should be made to adapt the characteristics and modalities of plans, and the planning system itself, to conditions in each country. The implications of this recommendation are considered below in rather more detail.

1. Flexibility in planning techniques with a view to their adaptation to conditions in each country

Taken to extremes, the effort, or "stress", implicit in any economic development policy would demand the use of the most refined techniques in planning the re-allocation of resources in the required directions. The more intensive the pursuit of development, the more stringent will be the requirements for precision in the planning process,<sup>2/</sup> the more coherent must be the plans, and the greater will be the co-ordination demanded by the planning system. Thus the technical "quality" or stringency of the plan increases in direct ratio to the difficulty of achieving the objectives which a society has set itself, the term "quality" being used as an expression of the extent to which the methods applied in preparing the plan make it possible to determine what allocation of resources will come closest to the optimum solution of the social welfare function and the degree to which the instruments employed can actually bring about such an allocation. In other words, any attempt at methodological refinement and at organization would be justified from this standpoint.

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<sup>2/</sup> "... considerable precision will be necessary in order not to delay development on the one hand, and to maintain some minimum acceptable consumption on the other hand." Timbergen, Central Planning (Yale University Press, New Haven and London, 1964), p. 69.

In the case of the great majority of the countries of Latin America, the prevailing political objectives, which leave a considerable area of decision-making to private initiative and a relatively high degree of independence to the consumer, cannot be used as an excuse for planning of lower "quality". There will be some differences in relation to countries with centrally planned economies - less need to go into detail in certain sectors, and therefore less need for co-ordination - but planning will also encounter greater difficulties, in so far as instruments of persuasion, rather than prescription will have to be chosen. This does not mean, however, that planning in mixed economies, as in others, should not be able to influence quantities and prices. In theory, the solution of the social welfare function would imply a range of opportunity costs, and that would set the pattern for exerting action through factor costs, through certain goods of strategic importance and through a number of other instruments, among which the foreign exchange rate and public revenues and expenditures are of decisive importance.

Planning in Latin America is still far from approaching these levels of "quality" and there are some powerful reasons which, in practice, justify some of the limitations in these initial years of the planning effort. Statistical data were and are deficient despite the progress which has been made, research into economic and social phenomena was non-existent and is still scanty, personnel with training and experience in planning were few in numbers and, as mentioned above, public administration, because of its structure, is unequal to the complexities of an intensive and wide-ranging development policy.

This compelled the planners in Latin America to opt, quite rightly, for less demanding modalities in the planning process. None of the causes mentioned above could be eliminated at short notice, and Governments were anxious to have some plans and to set up a planning system, with all the limitations which were only to be expected. Inevitably, the degree of "quality" or stringency which it was desired to impart to the planning had to be reduced, with a resulting sacrifice in the goals of the development effort. In these circumstances, however, the choice of the modalities which, despite their defects, could achieve the most results

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became a vital decision. This choice <sup>8/</sup> had to take into account the conditions in each country, from the standpoint not only of the limitations on the application of a strict methodology but also of the development problems peculiar to the country in question. As was seen in the preceding chapter, the choice made was not a happy one, in many cases, owing to lack of experience, and planning in Latin America tended to ignore certain aspects of decisive importance in establishing guidelines for the allocation of resources. Adherence to formulae which were assumed to be universally valid often led planners to concentrate their attention and their work unduly on aspects of little importance to the pattern of economic policy and to overlook the question how they could obtain the best results, in the conditions prevailing in each country, from a planning system which, for the time being, was inevitably defective.

As an experiment, it may be worthwhile to illustrate the problems raised by this decision, taking as an example only one of the elements of a planning system, namely, the preparation of economic plans, and especially the "master plan", which provides general guidelines. The same kind of account could be given, without any great difficulty, in the case of the other parts of the system and its machinery.

Within the framework set by the decisions of a society concerning the broad objectives and the limits imposed on the action, a development plan must perform three functions if it is intended to guide and promote a development policy:

(a) To lay down a strategy - in other words, to indicate the pattern of evolution which the economy should follow if it is to achieve the objectives of the action, bearing in mind the possibilities of expansion and the structural and functional relationships between its constituent parts;

(b) To specify, in terms suitable for decision-making, the means which are needed to achieve the desired evolution of the economy;

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<sup>8/</sup> In deciding on objectives, the head of the executive branch delimits the possible range of choice and, to some extent, participates in it. In practice, in many instances in Latin America, the prior decisions concerning objectives have been so broad that the planner, has nearly always had a decisive influence on the choice.

(c) To inform those responsible for the execution of the plan concerning the part they must play and the context in which they must play it, and to inform public opinion concerning the implications of the national commitment represented by the plan.

The development plan performs these functions through a set of plans which really relate to different levels of guidance and decision-making. There is usually a need for a "master plan" or "overall plan" and a series of "subordinate plans" <sup>9/</sup> which, ideally, should "detail" the master plan by giving specific form to parts of it in terms of time-limits (e.g., an annual plan of operation), of functional limits (plans by sectors of activity or by jurisdictions) or of both types of limit combined (e.g., the national budget).

It is not possible to discuss here in detail the criteria which should guide the choice of the set of plans best adapted to given circumstances, although this is obviously a very important aspect and one which has also been neglected in Latin American planning, as is pointed out in publications of the Latin American Institute for Economic and Social Planning. <sup>10/</sup>

It may be useful, however, to point out that the content and nature of the master plan is to some extent a result of the progress achieved by the planning at the other levels of guidance -- a fact which is often overlooked when recommendations of apparently universal validity are being made concerning what the plan should contain (e.g., identified projects). From this standpoint, the "general plan" or "master plan" should not contain more than is necessary in order for the next level of guidance (and decision-making) to be able to identify its responsibilities in terms of strategy

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<sup>9/</sup> The term "subordinate" is used purely for descriptive purposes; from the strictly methodological standpoint, the relationship between overall plans and partial plans is very often one of interdependence, and they can only be resolved simultaneously. See Timbergen, op. cit., p. 88.

<sup>10/</sup> Especially Discusiones sobre Planificación (op. cit.).

and instruments.<sup>11/</sup> If the planning system has developed to a satisfactory degree in the various governmental, or even private, agencies, the master plan may not go into "detail" concerning the instruments and may remain at a level where it aggregates the physical and financial planning which makes it possible to lay down in clear terms a strategy for long-term and short-term action, an allocation of resources by sectors or administrative jurisdictions, and criteria for the selection of means. Contrariwise, if the public administration, as is often the case in Latin America, has not yet been able to create guidance machinery at the subordinate levels, even though this is gradually being done, there is no alternative but to employ the most efficient machinery, usually the central planning office, in order to include the necessary operational content in the overall plan and in the subordinate plans for the preparation of which the central office is responsible, and this may result in a considerable amount of detail in such cases. The foregoing certainly does not run counter to the argument for decentralized planning, and it is simply the response to a temporary limitation which will be overcome, once the comprehensive planning system has been strengthened.

In Latin America, Mexico may be taken as an example of the first of these circumstances. With its tradition of continuity in government, it has a relatively efficient public administration and the ability to prepare sectoral programmes and overall policies. For this and other reasons which will be discussed later, an overall plan without a detailed description of means can suffice as an instrument for guidance and a basis for co-ordination. This is not so in the case of most of the countries in the region, whose initial plans were very ill-adapted to action because they did not contain enough operational matter to be administratively realistic. The emphasis on the preparation of very detailed annual plans of operation by the central planning office is an acknowledgement of this necessity.

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<sup>11/</sup> Except in those cases where, for public information reasons, it is desirable to give more details of the action (strategy and means). In order to meet this need, many Latin American countries have included a diagnosis of the economy - in some cases a very full one - in their development plans. This adjunct to the plan has quite rightly been used as a means of guiding public opinion to an understanding of the justification for the proposed action.

The foregoing refers to only one, and perhaps the most formal of the aspects, implicit in the choice of those planning modalities which can be most useful to a country in the light of the inevitable lack of knowledge and of the machinery for action. Of greater importance is the methodological problem of deciding, in view of the circumstances and limitations of a country, to what extent and what areas it is possible to sacrifice technical stringency with the least negative consequences for the effectiveness of the planned development policy.

Without presuming to do more than contribute a few ideas to the discussion of a matter which is of general concern among the planners who have been confronted with decisions of this kind, one might put forward two criteria that would help to rationalize it. They are the following:

- (a) The degree of structural interdependence of the economy;
- (b) The complexity of the social welfare function.

Generally speaking, it might be said that, the greater the structural interdependence in the economy and the greater the complexities involved in determining the social welfare function because of the number of the objectives and the possible degree of conflict between them, the greater the technical stringency which should be applied in the planning. These criteria might lead to the general conclusion that greater methodological stringency, and therefore greater precision, is necessary in the plans of the more advanced countries.

It is not in the area of general conclusions, however, that these criteria can be of use. They might be employed primarily in deciding, in the light of the conditions in a country and of the limitations on planning, in which aspects of the plan, maximum precision must be demanded and in which others greater latitude is possible with the least effect on the "quality" of the country's development policy. With respect to the former aspects, lack of data and institutional obstacles cannot be an excuse for less stringent planning, and it may be impossible to devise a development policy unless there is a prior improvement of the data and a reform of the machinery. In the case of the latter aspects, the errors which would be incorporated in the plan as a result of the failure to consider such

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matters with precision does not invalidate the proposed development policy, even where they may be some sacrifice of its effectiveness. This again is no excuse for indefinitely continuing a type of planning with such limitations, but until such time as the limitations can be overcome it is sufficient reason for meeting the needs for guidance in economic policy without making undue demands on the time and the efforts of the planners, the two resources in short supply in many countries which are urgently confronted with the task of beginning to rationalize their economic policies.

There follows below an explanation of the way in which the criteria mentioned above could be used as guidelines for decisions concerning the modalities of plans. Examples taken from Latin America will be used to illustrate the judgements involved in such a decision, but these examples are not intended to give a complete picture of planning in the countries concerned.

(a) Degree of interdependence in the economic structure

In terms of analysis of inter-industry relations, the criterion would be determined by the degree of mutual dependence between the various sectors of activity. Development means, in general,<sup>12/</sup> the evolution of the economic structure towards a growing interdependence, direct or indirect, between activities, and in this connexion the success of economic policy depends on the extent to which the system of allocating resources can meet the increasingly complex requirements of expanding production. Other things being equal, when external trade plays a major part, this tends to make the degree of structural independence relatively less. Even if this were to continue, however, development would in any event imply a change in the level and structure of demand which would tend to increase the relationships of interdependence in production.

It might therefore be stated, that, the higher the degree of development of the economy, the greater will be the need for precision in forecasting and the more finely broken down will be the pattern prescribed as a basis

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<sup>12/</sup> Wassily Leontief, "The Structure of Development", Scientific American, September 1963.

for the operational strategy, including where it is desired to reduce interference with the price system and with the independence of the consumer to a minimum. The opposite is also valid, however; in economies which are only beginning their development effort, which have simple structures and little interdependence between sectors, and where production is predominantly agricultural and external trade exerts a strong influence, there is less need for precision and breakdown by sectors in the formulation of development policy. If the economic structure shows what Leontief <sup>13/</sup> calls "blocks of interdependence" - in other words, sectors with relationships of mutual dependence - the need for precision will be greater with respect to them. The existence of any bottleneck shows that there is an interdependence of this kind and points to an area in which planning must refine its methods in order to determine present and future demands and the expansion of production needed in the corresponding "block".

In more general terms, the existence of critical resources, whether in the forms of factors of production or inputs, serves even in economies where there is little interdependence to delimit areas in which the planning must endeavour to achieve precision in forecasting. This is an obvious recommendation, but experience shows how often it has been overlooked in Latin America. The repeated omission from planning of human resources, and the deficiencies in programming financial flows, are two good examples of this disregard.

The relationship between the precision and breakdown of the plan and the degree of structural interdependence applies basically to the formulation of planning strategy and does not necessarily have anything to do with the extent to which the instrumental and operational part of the plan should be "detailed". For administrative reasons, especially in the less developed countries, it may be and usually is necessary to "detail" the plan, even when the strategy is presented in a very aggregated

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13/ Op. cit.

form. The opposite is usually true in the case of the more developed countries, where a breakdown of the strategy may not mean that the operational part is "detailed".

The manner in which the concept of interdependence may affect planning can be illustrated by contrasting the more industrialized countries of the region - usually those of larger economic scale - with those having simpler productive structures and a predominance of export agriculture. The contrast is over-simplified and the following comments must be taken merely as an indication of the path to be followed and not as a description of the plans that are appropriate to each of the countries mentioned.

Argentina, Mexico and Brazil are examples of the more industrialized countries. Relatively speaking, their future pattern of development must be planned with a fair amount of detail and must be broken down into sectors. They are justified in using multi-sectoral programming models based on a quantitative analysis of the relationships underlying economic interdependence. For Brazil and Argentina, whose import capacity is severely limited, a knowledge of such relationships is all the more necessary because of the greater likelihood of bottlenecks. Moreover, in view of their size and the consequent need for decentralization, detailed planning in these countries must be extended as far as possible to regions, even though, initially, regional development is restricted to poles of development and depressed areas. Strategy must occupy an preponderant position in plans and a broad horizon is necessary. The important task is to direct, influence and co-ordinate the basic lines of the operation rather than to describe it in detail.

In countries like Paraguay, most Central American countries, and Panama, quite a different type of planning is required. The impetus for economic growth originates and will continue to originate for some time in sectors that are fairly independent of other economic activities, for example, agriculture and stock-raising for export and import trade, depending on the case. Development policy aimed at diversification will

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tend to increase interdependence and the resulting developments must be taken into account in planning. However, within the framework of the plan, this policy may be formulated with a fair degree of certainty without the need for a detailed analysis of the initial economic structure. Generally speaking, the strategy may be sketched out in simpler terms in the less diversified economies where, on the whole data are more deficient. In extreme cases, quantitative projections may even be dispensed with during the initial stages of planning. It is not necessary to deep in mind a picture of inter-industrial relationships in order to identify and anticipate bottlenecks. When there is any doubt, simpler procedures may suffice for these purposes, for example, balance-sheets of materials for certain basic industries. The exception will be the strategy for the development of human resources which are "critical" and which therefore require more thorough and more extensive planning as the basis for long-term programmes. In view of administrative deficiencies, it is very important, on the other hand, to ascertain exactly the means available and to divide the general plan into successive stages, with areas of responsibility clearly defined; the preparation of operational programmes for one or two years is useful in these cases in order to strengthen and facilitate execution and control. This does not mean that it is necessary to go into detail in preparing all or nearly all of the plan: the decision about where and how to engage in detailed planning must depend on economic principles and common sense.

In the intermediate cases, for example, Colombia, Peru and Venezuela, it is advisable to follow a planning methodology which is stricter than in the examples previously quoted. However, even if it were possible, it is not essential to aim at a high and uniform degree of precision. This will be necessary mainly in areas or "blocks" of interdependence and in the relationships which affect critical resources. In Colombia and Peru domestic saving is probably the critical resource, although all three of the countries mentioned are confronted with acute financing problems, especially in the public sector. Without losing sight of the

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more permanent development objectives, both the long-term and short-term strategy must give preference to structural changes and to measures aimed at mobilizing and transferring savings, a requirement which restricts the sector where planning must be employed with greater precision. The plan would have to tackle in detail the problem of financing. It would have to include short-term models reconciling physical and financial aspects, highly detailed projection of the public sector, and strictly accurate data for all that relates to the utilization of the critical resource. In these cases there is no need to worry unduly about the coherence of the operation by elaborating detailed tables of inter-industrial relationships or other methodological factors which are of minor significance for development policy and which have very little impact on the critical problem. It is much more important to ascertain whether the satisfaction of the demand for financial resources in the public and private sectors is reasonably compatible with stability and development.

(b) The complexity of the social welfare function

If the social preferences which the development policy must aim at satisfying are expressed in objectives which are mutually supporting - for example, an increase in production and the strengthening of an entrepreneurial class - no great technical precision will be needed in the formulation of plans to satisfy such preferences. If, on the contrary, the short-term or long-term objectives are mutually contradictory or simply are not complementary or convergent - for example, if they do not accelerate the development of the economy as a whole and at the same time improve the depressed areas of a country with restrictions on internal migration - the framing of a development policy which will provide an alternative solution, even it is not the best, will require comparatively greater technical precision. In particular, the forecasts underlying the various operations must be worked out into considerable accuracy and detail. The complexity of the social welfare function increases the degree of interdependence

of the planning instruments and requires the formulation of a strategy which will pinpoint the functions and interactions of those instruments.

Although it may be said in general that in the rich countries the variety of social preferences is greater than in the less developed, it must not be forgotten that the less developed countries are more likely to encounter opposition or conflict among the objectives, at least in the execution of short-term programmes and in the employment of resources in shortest supply. In Latin America there are countries in which rapid social change, combined with subsequent manifestations of economic stagnation, have given rise to extremely complex social preferences in the sense in which this term has been used in the study.

In general, a market change in the people's expectations has taken place throughout the region since the Second World War and in recent years, with the advent of the Alliance for Progress, has become even more pronounced. Even though these changes are not fully revealed in the political directives given to planners, politicians cannot be completely ignore them nor planners, through their own inclination, forget them.

There are, of course, degrees of complexity and it is impossible to generalize about the planning method that is appropriate in each case. In order to bring out the influence of this factor, it suffices to refer to the extremely complex characteristics of the stabilization and development policies in which a number of Latin American countries are now engaged. One of the most difficult technical problems facing planners is to ensure that the elimination of intense inflationary processes does not prejudice the expansion of production and the share of wage-earners in the national income, at least over the short-term. All these countries suffering from inflation are also faced with a chronic shortage of external resources which constitutes a further obstacle to stabilization. The political and institutional climate of these countries makes the application of drastic conventional solutions very difficult.

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In such situations it is of vital importance to formulate a short-term and long-term strategy which makes clear the timeliness and scope of the different stages of the programme, i.e., of the different sequential relationships. It will be necessary to clarify the relationships between the components of global demand and supply in the main sectors of activity and to determine the conditions for reconciling the actual statistics, including those for employment, with the financial flows in the economy. In short, the planners must prepare a guide, as far as possible in quantitative terms, for achieving a delicate balance between a series of policies covering economic activities which range from agricultural expansion and the promotion of exports to the establishment of an incomes policy. In these cases, strategy constitutes nearly the whole of the plan and may require the use of complicated projection models, including those based on numerical experimentation. Even when it is essential to identify the instruments employed, it is not so important to plan detailed measures except in the case of the production policy for certain backward sectors such as agriculture. One of the reasons for this is that in the struggle against inflation action must follow events very closely and the methods employed must be constantly revised. It is more useful to have a solid framework of structural and behavioural relationships as the basis for the constant control and modification of the planning instruments and of the strategy, if necessary.

These examples have not been quoted in order to advocate a methodology for planning in Latin America. The groups of countries have been chosen merely to facilitate the exposition and there are certain aspects whose relationships with planning have not been examined, for example, the structural problem of employment and the distribution of income. Actually, the purpose of these comments is exactly the opposite: to stress the importance of flexibility in the use of planning techniques to meet the demands of the situation. Hence, the need to avoid stereotyped procedures.

## 2. External co-operation and planning

The effect of the Charter of Punta del Este on the dissemination of planning throughout Latin America has already been dealt with. In spite of the doubts of the ruling classes, the link established by the Charter between planning and external co-operation was one of the causes of the almost unanimous acceptance of at least formal aspects of planning.

In practice, however, the role assigned to planning in the Charter of Punta del Este did not have an important influence in the field of external co-operation. For various reasons which will shortly be examined, only occasional efforts were made to adopt financing methods which approximate to the global financing postulated in the Punta del Este Charter. Chile and Colombia were among the first countries to draw up plans for evaluation. The nature of so-called programme financing which some countries have adopted is different. Instead of being used to further the implementation of development plans, it has been a method of solving emerging balance-of-payment problems such as those which have confronted Brazil, Chile, Argentina and Colombia, generally speaking, undertakings have been made in conjunction with short-term financial stabilization programmes.

Loans for projects have continued to be the basic means of financing development. The resources available for public financing have thus increased and the absorptive capacity of the countries concerned has gradually improved. As a result, the gross flows of official loans have substantially increased. However, in view of the high servicing costs for external debts, the net flows for the region as a whole have barely increased during recent years. In some of the major countries of the region and in Uruguay, which has serious problems of short-term indebtedness, the capacity to import has not developed at the rate necessary for the initiation of a planned development policy. The basic limiting factor has continued to be the shortage of external resources.

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In the last three years, the relatively favourable trends in the trade of certain of Latin America's basic exports have prevented this limitation from becoming worse in the major countries of the region and have stimulated the growth of other countries, in some cases, very significantly. However, nearly all the exports of tropical primary commodities from the region, which are vital for some countries (coffee, cocoa, bananas, sugar etc.), continue to be subject to unfavourable market trends and some to great uncertainty. Furthermore, future prospects indicate the possibility of a decline in the present markets for many products and a weakening in the expansion of exports.

If no action is taken to arrest this weakening and to offset as far as possible the uncertainty of external markets, the difficulties of carrying out a planned development policy will be even greater than in the past. There is not much hope of achieving a systematic and coherent advance towards development in economies that are condemned to undergo one crisis after another. This is not the place to expatiate upon the action to be taken to avoid these difficulties either within the countries themselves or in the sphere of external co-operation. It may be said that in Latin America the subject of international trade, on the basis of the experience acquired, is emerging more and more clearly as the key problem of development. The next meeting of UNCTAD will reveal what can be expected in this field.

In view of the problems which various Latin American countries have encountered in their short-term external indebtedness and the generally rising costs of external financing, including that from public sources, we must consider more carefully how far capital flows may really be used to transfer temporarily from the external sector the physical resources that cannot be generated by exports. The trends in the net flows of capital indicate that this possibility is very limited and must be used very prudently, at least until the conditions of external financing are considerably "softened". This type of financing is not a substitute for increased trade. Its utilization imposes a certain degree of restriction on the development policy and it must therefore be treated in planning as a "critical" resource in the sense in which that term is used in the remainder of this study.

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In spite of these reservations, so long as the problems of international trade persist, external financing may, among its other objectives, constitute an important instrument for sustaining a planned development policy and hence planning itself. An effective and timely system of compensatory or supplementary financing would diminish the uncertainty of maintaining the planned levels of external resources required for development and would offset the decline in prices arising from unforeseen fluctuations in external markets. The adoption of a system of financing plans or a system of global financing would have even greater consequences for planning. Because of the restrictions involved and the problems to which its application has given rise in Latin America, the subject will have to be dealt with in somewhat greater detail.<sup>14/</sup>

It must be assumed that in principle there is no opposition on the part of international financing institutions to these methods of financing since they have already been used to finance development plans in India, Pakistan and other countries generally through the establishment of financing consortia. It is possible that in these cases the favourable attitude of the financing institutions and of the countries participating in the consortia is partly attributable to the scale of financing necessary. This factor is less important for the great majority of Latin American countries whose economies are much smaller.

In any case, this should not be an insuperable obstacle and it should not be difficult to find a way of organizing a flexible system of financing without trying to adopt the same methods as those used in India and Pakistan, which would not be useful for small countries. Both the World Bank and the International Development Bank have already organized advisory groups in Latin America and a body of experience already exists on this subject. Furthermore the Charter of Punta del Este

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<sup>14/</sup> See "La Planificación y el Financiamiento externo" - Nómina de los Nueve - OEA/Ser.H/X.8 - 1966.

set up a system which took this type of financing into account. Besides making it clear that the preparation of development plans was almost obligatory, the Charter explicitly welcomed the principle of global financing, the link between external financing and domestic efforts in pursuance of the economic and social objectives of the Alliance, and the principles and machinery for the multilateral evaluation of plans. Subsequently, the Inter-American Committee for the Alliance for Progress, (ICAP), the executive and coordinating body for the Alliance, adopted the additional role of determining the financial needs of Latin America and of reviewing annually the situation and programmes of the countries of the region and their needs in terms of external co-operation. From a formal point of view this system would constitute an adequate basis for gradually establishing at the inter-American level the practice of global financing in a multilateral context. In spite of all the problems, conditions in Latin America are more suitable for an action of this type than in any other part of the developing world.

With the approval by the United States Congress of the amendment submitted by Senator Fulbright to the Foreign Aid Bill <sup>15/</sup> and with the growing acceptance and importance of annual studies of countries belonging to ICAP the time may be approaching when this system for financing development plans may be put into practice. Of course, all the participants in this system must be ready to fill the financing gap completely, which means that in certain cases there may be one or more financial bodies ready to assume responsibility for financing the amounts not covered by loans for projects or credits for sectoral programmes.

Apart from these circumstances which are concerned rather with the attitude and capacity of external contributors, the increased financing of development plans would also involve concerted action between such external contributors and the countries of Latin America along the two following lines.

15/ The relevant part of the amendment states the loans granted to Latin America by the United States Government may be used solely for projects and programmes of economic and social development compatible with the conclusions and recommendations adopted by ICAP in its annual report on national development activities.

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In the first place, within the multilateral framework of the Alliance for Progress, such financing would require the joint determination of certain basic criteria for deciding upon the requirements of external financing and for evaluating the national contribution to development policy. Given the characteristics of the Alliance for Progress, all the participants should have a clear idea both of the measures and of the techniques which can be employed by external contributors to reinforce domestic efforts and also of the bases on which those domestic efforts may be evaluated. Planners must know whether there is any possibility of financing secondary demands for foreign exchange and in certain cases this may avoid the distortion of priorities which may be forced on countries as a result of their efforts to fulfil their programmes by resort to normal external financing. In the same way, both the country itself and the external contributors must be certain, for example, of the role played by foreign trade when evaluating the domestic contribution of a country towards the implementation of its plan.

In the second place, in order to attract global financing, planners must observe certain standards which ensure a minimum of technical accuracy in the forecasts, including of course, forecasts of financing. Thus, most countries will have to try hard to improve the quality of the data and the techniques of programming, both physical and financial. It is doubtful whether all the countries of the region will achieve such progress within a short period but if they maintain the efforts to improve planning already begun during the first years of the Alliance for Progress, many of them, on the basis of the experience acquired, can certainly achieve the *minimum* technical standards required. Of course, these standards must not be so rigorous as to become impractical and they should be formulated so as to allow the country concerned the necessary flexibility for deciding upon the method of planning best suited to it. The technical weaknesses that will inevitably appear at the outset should not necessarily affect the principle of global financing. It should be possible to work out a procedure whereby, after the amount of a commitment for global financing has been agreed upon would depend on the behaviour of certain basic

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variables the control of which would also be useful for making adjustments and modifications in the plan and hence in the method of financing it.

### 3. Political and institutional change

As already explained, the history of planning in Latin America shows that it is not an instrument of the status quo. A development policy based on economic and social change justifies it as a form of discipline. These statements do, of course, imply value judgements and an apparent failure to distinguish between planning and the planners. When dealing with political phenomena so intense as those that characterize the present situation in Latin America, it is not realistic to draw a dividing-line between the technique of planning and the belief of the planners, since a large majority of the latter constitute a homogenous group which shares - and to some extent has created and spread - the concern for economic development and social justice felt by the new generation of Latin Americans.

The policy of economic and social development which expresses this concern, irrespective of the degree of change implicit in it, is by its very nature such that there will be groups which gain from development and groups which lose, if only in relative terms. It might legitimately be concluded that, so long as the losers are the dominant groups, there is little hope for the speedy consolidation of an effective system of planning, since - in extreme cases - the very need for planning is questioned, if only on the grounds of efficiency alone.

Nevertheless, rather than discussing the circumstances which might give rise to these extreme instances, one problem which must and can usefully be considered is how to strengthen planning in societies which have at least a nucleus of ruling classes favouring development and holding opinions conducive to change. In many countries, because of political evolution and of past development, whatever its vicissitudes - the traditional society has been eroded and the economic and political structure contains transitional patterns with dynamic modern groups on the ascendancy. In some countries these groups are already in a

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dominant position and their interests coincide with certain processes of structural change in the economy; in such cases, potential conflict has centered on the redistributive objectives of development policy.

On the other hand, the changing economic process in Latin America necessitates a continuous revision of assumptions, which in turn leads to changes in the degree of incompatibility or compatibility between planned development policy and the interests of the pressure groups. For instance, Latin American planning will in future tend to place increasing emphasis on the goal of integration and this will, in many countries, generate resistance from the industrial sectors which during the last two decades benefited from the import substitution drive; these groups, especially in countries where industrialization is in its infancy, were formerly supporters of planning because of a logical community of interests. This conflict is already emerging in several countries and can be expected to become more intense and widespread in future.

All of this means that, in view of present trends in Latin America and changes in the pattern of conflicts and identity of interest between development policy and the pressure groups, there is often an opportunity for limited but effective planning action, if political leaders and planners deliberately take these patterns into account and use them in devising a strategy for facilitating and accelerating the change and the resultant development. It is not a matter of persuading or suborning, but of taking into account social preferences which are often overlooked, because they are not general or spectacular enough, because they are considered a priori opposed to the criterion of effectiveness, or merely because they are not known. The action planned may not achieve optimum efficiency but it will, in the long run, have laid a more solid foundation for development.

The ability of planning to incorporate social goals of this type may be most valuable in creating an identity of interest with groups which having nothing to gain from the status quo and are receptive to development stimuli. Two examples will suffice: undue emphasis on a policy based on "national" priorities may alienate regional interests which are quite justifiable in political terms. A planning system which

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takes those interests into account, as one element to be weighed in deciding priorities, would provide motivation for such groups and convert them into supporters of the development policy, even though the policy might, in the short term, represent for them a departure from the "best" solution. Similarly, a system which explicitly makes provision in plans for measures to raise the status of civil servants, particularly by guaranteeing them security of tenure, can win over an ally of great value for the planning system and development policy, although the short term effect may be to increase current expenditures in the public sector.

In a society such as exists in most Latin American countries, the groups which are "categorically" opposed to a development policy and, therefore, to planning are, by definition, small in number, although they may be powerful. A preponderant part of the population represents interests which may coincide with planning, if the latter endeavours to take them into account in development policy strategy and if an effort is made to make them aware of this identity of interests.

It would be desirable for social research and planning techniques to have tools for incorporating these factors more systematically and less arbitrarily than has hitherto been possible. This is one of the most important items of the programme of future research which must be undertaken in order to provide answers to certain planning questions.

Finally, the effort to build the institutional foundation for planned development policy must continue. Results have already been achieved and action is very necessary - and possible - in public administration. Reference was made earlier to the administration's personnel system and the improvement of information machinery,<sup>16/</sup>

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<sup>16/</sup> "I look towards improvements in precision of econometric judgements of the order of magnitude of 50 percent as a result of a better knowledge of the functioning of economic institutions, through the use of new measurements on variables, and through the use of more accurate data. In contrast, I would expect marginal improvements of 5 or 10 percent through the use of more powerful methods of statistical inference. All routes to improvement must be followed since any gains, no matter how small, are precious, yet different contributions should be kept in proper perspective. The adoption of more powerful methods of mathematical statistics is no panacea" - L. R. Klein, "Single Equation vs. Equation System Methods of Estimation in Econometrics," *Econometrica*, Vol. 28 (October 1960), p. 867.

to which so little attention has been paid in recent years, is an obvious priority. The importance of action in these areas is too obvious to need stressing here. There are other matters which, since they have not received so much attention, at least a brief discussion.

The emphasis of the administrative reform being carried out in Latin America has been laid on strengthening the policy-making machinery, chiefly the central and sectoral planning offices, and on the administrative rationalization of machinery for executing plans. As one objective criterion, namely the increase in the capacity to absorb external finance shows, progress has been made in the second area, although results are still fragmentary. In contrast to this there is the virtual absence of action to improve the machinery for supervising plan implementation, an objective example of which is the lack of a flow of information sufficient to keep the planning process moving by checking on the departures from the action planned and making the necessary adjustments to programmes. In Latin America, generally speaking, plans are not revised. The usual practice is to retain a plan until it is so out of date as to become an anachronism and then to embark on the preparation of a new one, often unrelated to the earlier plan. In short, planning is not a living continuous process and, if the decisive element required to give it these qualities has to be identified, it must be the machinery for supervising implementation. Its importance lies not only in the fact that it forms the basis for continuous comparison and adjustment but also in the fact that it makes planning a completely relevant working tool for the executing staff at all levels. With a very few and partial exceptions, this kind of machinery is non-existent in Latin America, at least in a form in which it might be useful for planning purposes. The introduction of programme budgeting has been one of the great achievements of ECLA and IESP; many countries have adopted it but, as has been said, in most

/of them

of them the supervisory arrangements required for this kind of budgeting have not yet been set up. In many cases, budgetary control follows the old patterns and it is hardly surprising that the only time when results can be compared is at the end of the budget year, and then only in terms of costs and financing.

Hence it is essential that administrative reform should in future concentrate on the establishment of supervision systems which are incorporated in the planning process. This also pre-supposes a change in the methodology of planning <sup>17/</sup>. In any event, there is a series of basic variables the behaviour of which must be systematically studied. The selection of these variables must be made at the time a plan is prepared and the supervision machinery should be so designed as to allow for such selection. Cases will arise in which it will only be possible to operate with a very small number of variables. If they express the over-all economic trends with a reasonable margin of error and provide relevant information for decisions in certain strategic sectors, the supervision machinery can fulfil its purpose. What is important is that, in conjunction with the information system which is, in the last resort, the basis for supervision, systematic action should be organized with the participation of the various centres which determine economic and social policy.

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The foregoing considerations relate to only some of the problems facing Latin American planning. The author's personal experience has prompted him to single them out for special emphasis because, among other reasons, their real significance for planning is usually overlooked. If the lessons gained from this experience are valid, the realism and imagination with which planners approach their work will be as essential as their scientific skill for achieving success in this period of continuing adverse conditions.

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<sup>17/</sup> See paper submitted to the second session of the United Nations Committee for Development Planning by the Organization of American States: "Supervision of the Implementation of General Development Plans in Latin America", Pan American Union, Department of Economic Affairs, Washington, D.C., 1967 (Mimeographed).



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TECHNICAL AND ORGANIZATIONAL REQUIREMENTS FOR EFFECTIVE PLANNING

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

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1. The purpose of this paper is to transmit the main conclusions reached by the Committee for Development Planning in the Report on its Second Session on the problems encountered in the implementation of development plans in Latin America (E/4362).

It is important to note, in general, that although the Committee, in its discussions encountered points of particular interest in the experience of plan implementation in Latin America, it did not find these problems characteristic of this region alone; they had also arisen in other regions, as well as in industrialized countries, naturally with differences in relative significance.

2. Section 2 takes up the problem of the technical requirements for planning. It begins with an analysis of the degree of breakdown to which the objectives and targets of medium-term plans must be subjected to make them serviceable as the basis of policy design, with special reference to the problems of the agricultural, external and social sectors. The absence of any specific discussion of industrialisation may perhaps be surprising, but since most Latin American plans have focused on that subject, it has been deemed preferable, from the viewpoint of indicating the technical requirements for helping to correct the deficiencies, to point out the specific problems in connexion with each of the themes analysed.

Special attention has been given to the co-ordination that should obtain between the plan and the plan policies adopted, on the one hand, and the price system and traditional economic policies - monetary and credit policies, stabilisation programmes, income, fiscal and monetary policies, foreign-exchange and tariff policies - on the other.

Resource planning has likewise been considered from the point of view

of the breakdown and time-phasing required for their implementation and financing, with separate consideration to the identification of projects in relation to their importance for resource planning, for policy co-ordination, and for the planning of the external sector.

Section 3 treats of the problem of the administrative and reporting mechanisms required for the implementation of a plan, and points out the importance of the position and subordination of the central planning office and of the exact definition of its functions, as well as the influence that may be exerted by the methods of plan formulation and control, and the content of the plan itself, on co-ordination with the other government services, with sectoral and regional planning, and with the private sector, with special reference to the need of programmes of administrative reform in the plans.

The final problem discussed relates to the compilation of the basic technical information required for plan formulation, and its relations with implementation control.

3. Planning techniques per se have been considered only secondarily, and the entire treatment of this theme has tended, insofar as possible, to be more on the illustrative side, in order to stimulate the discussion and the formulation of conclusions in the Seminar.

In respect of external co-operation, in accordance with the principal emphasis placed by this paper on the technical and organisational requirements, the conditions have been considered as given, without entering into the discussion of their possible and appropriate modification or amplification - itself a separate theme of very considerable importance, but outside the scope of the present paper.

While, as already noted, the themes and their arrangement have followed the Report of the Committee for Development Planning (E/4362), the examples

and the suggestions on planning techniques, like many of the specific appreciations of the prevailing conditions, are presented on the author's own responsibility.

## 2. TECHNICAL REQUIREMENTS FOR EFFECTIVE PLANNING

4. The need for adequate forecasting of the effects of economic policy decisions, and for evaluating the consistency between the objectives sought to be attained, the available resources, and the instruments which it is intended to employ, has made it very desirable, in both industrialised and developing countries, steadily to improve the over-all and sectoral techniques of planning.

This need is more acute in the developing countries, where the problem of mobilising resources for economic growth is of an urgency unmatched in the industrialised countries. The situation is still further complicated by the fact that economic progress, in this case, presupposes significant changes in the composition of demand and in the structure of production, as well as in the social and institutional structures, which lends more and more importance to this necessity of using systematic procedure to determine the consistency of the various objectives and the coherence of the means of policy among themselves, and with those objectives. These are undoubtedly the causes for the almost total agreement on the suitability of planning techniques to promote economic progress in the developing countries.

This recognition of the importance and the appropriateness of planning must be carefully qualified, for it must not be interpreted to mean that planning is a substitute for the formulation of policies, or that it can be superimposed on them. In reality, it is an instrument for their adequate formulation, in qualitative and quantitative terms, and for their implementation.

5. The use of planning to evaluate the consistency of the objectives and the coherence of the development policies demands consideration of a period

long enough to make it possible to estimate the changes in composition and structure, and to elucidate adequately the interrelations between the objectives and the consequences of policy decisions.

The problem is different when planning techniques are used in the industrialised countries to design compensatory policies or to stabilise the economy, for in such cases it is the short term that is dominant, and the needs of development are considered secondarily. Historically, in countries like The Netherlands, planning was initiated precisely for the **sole consideration** of short-term problems, and it was only with the passage of time that its objectives were extended, and its techniques modified, to give development more searching attention, which ultimately became dominant.

Nor is too long a period ideal, for with increasing length it becomes more and more difficult to predict the magnitude of the changes that will occur, and the consequent lack of precision impairs the usefulness of the task of planning.

Owing to these circumstances, medium-term plans play a major role as tools of planning in the developing countries.

6. It still remains true, however, that for proper selection of certain objectives and determination of the importance of certain obstacles it may sometimes be necessary to use plans longer than medium-term, and thus necessarily less detailed, as, for instance, in evaluating alternative uses of natural resources, or in programming human resources.

On the other hand, the adequate instrumentation of medium-term plans demands the formulation of shorter-period plans, in order to give the planning the flexibility to make the necessary adjustments between the proposed targets and the changes that have actually taken place, and to **correlate medium-term with short-term policies.**

To summarize, the application of planning techniques in the developing countries is based on the formulation of detailed medium-term plans covering a period of four to six years, supported in some cases by more general, longer-term plans, for instance for a ten-year period, and instrumented by **operational plans of period generally coinciding with that of the national budget**, to secure adequate co-ordination of the policy of the public sector with the implementation of the plan and to be able, at the same time, to make the necessary adjustments in the medium-term plan to harmonise it with the actual development of the economy.

The pragmatic concept of planning, as a rational mechanism helping to ensure **the choice of consistent objectives and the formulation of coherent policies of resource mobilization and plan implementation**, in conjunction with the necessity of evaluating the results obtained in their relationship to the targets to be reached, fundamentally distinguishes plans from studies **of qualitative type on policies designed to promote investment, attain higher employment ratios, combat inflation, and, in general, to promote the growth of the economy.**

Plans adopted with the above purposes are those sufficiently detailed and specific in quantification, as, for instance, to identify the fields in which specific decisions must be taken, and to permit measurement of the progress attained in their implementation.

7. More particularly, the objectives and targets should be specified, sector by sector, in the medium-term plan, with a degree of breakdown sufficient both to identify the points of decision responsible for its success and to determine its feasibility in terms of physical and financial resources.

An indispensable requirement for this identification is the distinction between the activities to be accomplished by the public sector and those for which the private sector is to be responsible.

In the former, the necessary decisions, the procurement of the resources and the measurement of the results should be specified in detail and coordinated with the existing administrative and budgetary organisation, as well as with the modifications it may be necessary to make in such organisation.

In the latter, on the other hand, the policies to be programmed are those to induce implementation, and the measurement of the results, like the prediction of the physical and financial resources, exhibits characteristics differing from those in the public sector.

8. Obviously, however, this breakdown of the objectives and of the resources required has a limit beyond which it constitutes a useless effort, and any engagement to exceed it may well be an actual loss of time in adopting the decisions necessary for economic growth.

It is not an easy matter to give general rules for determining this limit, but an acceptable criterion might be one permitting identification, in the public sector, of all the critical factors of the programmes into which administrative action is divided; and identification, in the private sector, of the principal changes in demand and in production, with their historical tendencies and with the degree to which they may or may not be compatible with the existing institutional structure.

This will yield the minimum basis for programming policies directed toward the attainment of such changes in the structure of production and of the required institutional adjustments.

9. The basic strategy adopted in plan formulation must likewise be stated in a form consistent with the degree of decentralisation in implementation that exists in the public sector, and with the need to keep

the private sector informed. This basic strategy means that pattern of economic development that is deemed most appropriate for the attainment of the basic objectives of improving the economic conditions, (such as industrialisation to provide employment for the surplus labour force unable to find employment in primary production, and/or import substitution to diminish external vulnerability or to accelerate development over and above the limit imposed by the foreseeable possibilities of the volume of external demand, etc.), for the various decision-making centres can adequately calibrate their action only if they know and understand this general philosophy.

10. Planning is a technique for formulating social decisions, and as such it has specific requirements for acceptance, which must be adequately taken into account for any plan to be amenable to implementation.

In particular, both the targets to be attained and the general strategy to be followed should be able to generate motivation on the part of those who are to execute the plans or collaborate in them, and this relates both to the plan content itself and to the manner in which the plans have been formulated and explained.

Plans that may be technically correct in their internal consistency and in their feasibility of implementation, in terms of the resources required, may still fail in their implementation because they do not include objectives, or do not clearly set them forth, such as employment, income distribution, or the opening up of new opportunities for enterprises of medium or small size, which could evoke support and provide incentive for plan fulfilment, or because they fail to give an adequate answer to the specific problems of action that must in any case be faced by those responsible for their execution in the public sector, regardless of the existence of plans and this may then lead to

the relegation of the plans to a secondary position among the various tasks to be performed.

11. Planning experience in the developing countries in general, and in Latin America in particular, indicates that the sectors in which problems for plan design and implementation are most frequently encountered are the agricultural sector, the external sector, and what are termed the social sectors (health, education and housing).

The planning of the first two of these sectors is complicated by the fact that certain of the main variables that determine agricultural production in the first case, and the external demand in the second, cannot be controlled nor influenced by the authorities charged with the implementation of the plans.

In the social sectors, the problems arise in the very definition of the objectives and targets (often but vaguely expressed), and in the difficulty of establishing consistency with the rest of the plan.

12. In the agricultural sector, climatic irregularity is an uncontrollable factor, making it generally necessary for the quantification of the production objectives to include two alternatives based respectively on a series of good years and bad years in respect the yields that can be assumed.

The alternative corresponding to the years of good yields is generally that requiring greater physical and labour inputs, and is the one which should be taken into account to secure projections of the agricultural sector compatible with those of the rest of the economy in respect of the use of these resources.

The other alternative, that of low yields, is, in turn, the one to be taken into account for the projections of the external sector, if agricultural exports are important for the balance of payments, and likewise, possibly,

for financing the public sector, since in this case it may be necessary to grant subsidies to prevent a crisis in one year from impeding the recovery of production in the next, while its resources may simultaneously decline.

13. It must, in particular, be borne in mind that, owing to the **usual length of the production cycle** in the agricultural sector, maladjustments between production and demand tend to be compensated by price variations. When these maladjustments operate separately in time on the various activities comprising the agricultural sector, they constitute a permanent source of disturbance of the relative prices, which may be an important factor limiting production, for by inducing frequent changes of activity, it interferes with the benefits of specialisation and exerts an adverse influence on those lines of production that require greater capitalisation. Difficult problems are raised by action even partially to compensate these variations of relative prices, and by the **effects of such action on the orientation of production**, and an additional charge on the public finances is generally involved.

14. Finally, it must also be borne in mind that another major difficulty arising in the planning of the agricultural sector is the brake on expansion that may result from the lack of adequate dissemination of technological knowledge, and the possible negative influence of certain institutional factors, such as the system of land tenancy and credit organisation, both of which should be objects of analysis in the process of plan formulation, in order, if necessary, to include in the plan appropriate programmes of transformation, dissemination and technical assistance, together with the internal and external resources they presuppose.

15. The planning of the external sector, as already noted, is likewise usually one of the critical points encountered by planners, since very often indeed the limitations imposed by the balance of payments have operated as a brake on economic development.

For this reason the explicit formulation of the strategy to be followed in the external sector is one of the important elements in the general strategy of development, just as, in the choice of objectives and targets, the best possible selection of the projects and programmes to promote exports and substitute imports is an important element.

All this should be supplemented by the design of policies aimed at decreasing external charges, increasing the corresponding income, and programming the debt (a point to be discussed later).

16. With reference to these policies, the plan should include a group of measures to increase and diversify exports. Their design is a complex problem: they may range from mechanisms of support and stimulation to programmes of technical assistance and technological investigation, such as quality verification or control.

When export production is sensitive to climatic irregularities, it may likewise be necessary to have the plan policies include measures to set up reserve stocks of exportable products (if technically possible), with the corresponding storage facilities, to make it possible to meet the needs of the steady foreign customers with the minimum of regularity acceptable, and to design the procedure for financing these reserves.

17. The process of development, if it is not accompanied by a change in the relative advantages of the various products as is often the case, will necessarily result in increasing the imports of consumption goods and services and of capital goods, generally rendering the policies for maintaining and expanding export volume insufficient, and requiring the introduction of supplementary policies aimed at import substitution. The latter has frequently served as the base of development strategies in Latin America.

The approximate projection of the import demand, and of the net substitution which must be obtained to avoid a crisis in the balance of payments and to contribute to its stabilisation, is one of the most delicate problems facing the planner, especially when this substitution depends mainly on industrialisation programmes, in which the measurement of indirect imports is a complex task. Moreover, when the disposable per capita income increases, the composition of the demand may undergo significant changes in the direction of new items with a large imported component. The experience of the industrialisation process in Latin America has shown that while the imported component in one or several specified activities may have decreased as a result of import substitution policies, this change in the structure of demand has generated new imports which have cancelled out that decrease. The forecasting of these complex changes and effects is essential for correct programming of the external sector and of the industrialisation policy.

18. The need for including health programmes in the plans results not only from the desire to gain social ends at the same time as economic ones; improvement of the environmental conditions and of the general state of health also has a considerable impact on the productivity of labour, which is reflected in the general efficiency of the economic system, especially in those regions where diseases are endemic.

It is difficult directly to quantify the targets, and they generally must be expressed in indirect form, such as the number of physicians and paramedical personnel and auxiliaries per thousand population, coverage of the care and prophylactic services, etc.

19. The upgrading of the educational systems to the needs of economic development is a need felt with ever increasing intensity. General plans of

primary education are no longer sufficient. Instead, technical training must be provided if economic progress is to be possible, and, in cases with high illiteracy rates, this may give rise to a certain conflict with the traditional focus, for the human resources (teachers and supervisory personnel) may be insufficient to serve the needs of technical education and the extension of primary education.

In principle, the targets are simpler to quantify in this sector than in the sector of health, since the coverage of the educational systems gives a clearer idea of the attainment of the objectives than in the latter case. Certain special problems, like that of desertion, however, must still be taken into account to lend genuine significance to the targets so expressed.

20. Housing programmes are intimately related to health programmes, for the influence of housing on environmental conditions is decisive if accompanied by the corresponding expansion of the water supply and sewerage services.

The processes of industrialisation, which have generally accompanied economic progress in Latin America since the second world war, and have usually determined it as well, imply a considerable redistribution of population, increasing the proportion of town dwellers and generating serious problems of shortages of housing and of the corresponding sanitary services.

But the expansion and technological transformation of agricultural likewise require consideration of the conditions of rural housing, not only to improve environmental conditions which may be adverse to the maintenance of public health, but also to prevent the attraction of the urban centres from becoming disproportionate to the opportunities for employment and for ensuring adequate levels of living.

The quantification of the targets in housing is in principle simpler than in the other social sectors, but it does depend on the exact specification of the minimum conditions defining an acceptable housing unit, which depends on the income levels and often requires regional qualifications within the very same country.

21. The adequate treatment of the social sectors is one of the essential requirements for the success of a plan. Not only must one establish the conditions for general support of the plan, but the problems of these sectors are matters for the urgent attention of the implementing authorities, and if the plan fails to respond to this preoccupation, it may, as pointed out in para. 10, descend to a secondary level of importance.

22. As already stated, planning is not a substitute for policy formulation, but should instead be viewed as an instrument for quantifying policies and determining whether they are consistent with each other and with the development objectives.

The execution of a plan thus presupposes that the functioning of the price system will be taken into account, together with the adequate operation of the various traditional instruments of economic policy: money and credit policy, income, fiscal, taxation, foreign-exchange and tariff policies, and the general efficiency of the economic system.

If these possibilities of operation do not obtain, the plan will have to provide procedures by which these instruments will acquire validity, for otherwise planning will encounter serious difficulties in implementation, and the very process of development may prove to be frustrated. The employment models for plan formulation generally assume complete employment of the existing capital goods, or at least the complete utilisation

of the increments and the progressive employment of the remaining stocks, and it is precisely for this that these instruments of policy must be operational in varying degree and with varying relative importance, according to the particular case involved.

23. A very frequent fault in the formulation and implementation of plans has been the lack of sufficient attention to the form in which the price system operates, and to the instruments that affect prices.

For example, in the agricultural sector, high **input cost** may make it difficult or impossible to accomplish the technological transformations implicitly or explicitly required to attain the plan targets. Similar problems likewise arise in the industrial sector, and may seriously affect the import substitution programmes, causing deflection of the objectives, increasing the cost of the investments, and creating distortions of the price system that are difficult later to correct.

In general, the variations of relative prices have often tended to generate trends of economic activity that have acted as a brake on the mobilisation of the resources necessary for development in the **direction** sought by the plan, and on the attainment of the objectives proposed in it 1/.

24. Credit policy is usually an instrument of fundamental importance for promoting the changes proposed in the plan.

More particularly, in the agricultural sector, systems of supervised credit are in general an indispensable requirement for accomplishing the technological transformations envisaged, and the various programmes included in the plan should be supported by **specific credit systems of this type**.

1/ The policies and instruments for resource mobilisation are the subject matter of another theme of the present Seminar.

In the industrial sector, likewise, the availability of lines of credit adequate in purpose and volume, is often a decisive factor in the success of programmes of investment, of modernisation and of productivity enhancement.

25. The co-ordination of credit policy with monetary policy is a point of fundamental importance to avoid the generation of imbalances in the economy, which may seriously affect the implementation of the plan.

In particular, the relations between planning and the efforts to contain inflationary tensions have frequently not been taken into account in Latin America, with the resultant formation of two mutually incompatible poles of decision-making.

The existence of inflationary tensions, and the design of policies for containing them, not only creates a problem for planning, but also makes it still more necessary to co-ordinate the policies aimed at stability with those whose fundamental objective is economic development, by including in the medium-term plan the elimination of the restrictions on the elasticity of supply, and taking care not to aggravate, but to correct, the possible sources of imbalance in physical and financial resources, which should permit suitable quantification of the stabilisation policies.

The possibility of effective co-ordination between these two great groups of policies depends in large measure on the existence and effectiveness of annual plans, or at least of plans shorter than those of medium term, to which we have referred in para. 6.

26. The co-ordination of the income policy is another indispensable requirement of planning, if it is borne in mind that the objectives involving a change demand for their success, not only initial actions and price policies but also income policies, as a means of influencing private

activity and securing the consequent reallocation of physical, financial and human resources.

But the income policy likewise exerts a general influence on the establishment of the conditions that make economic development possible. Analysis of Latin American experience shows that the increase in the demand has been an important factor in promoting economic progress, which is linked in this way to the distribution of income, and thus makes it indispensable to analyse the consequences of the plan targets and plan policies from this point of view, and with respect to their possible impact on the regional incomes within the same country.

27. The prediction and evaluation of these consequences also makes it necessary to pay more attention to the projections of the supply and demand for human resources - projections which, up to now, have been generally employed only to check the possible effects of the plan on employment and to detect the obstacles due to a lack of adequate technical training, although such projections might also serve as a tool for orientation on the possible redistribution of income and improvement of the conditions of life.

In particular, this analysis of these projections would render possible the more complete evaluation of industrialisation programmes, showing their influence on the transformation of the social conditions and on increasing the demand.

28. The fiscal policy is directly related to the price and income policies. In Latin America planning experience, it has generally been treated mainly from the viewpoint of the estimation of the current needs and investment of the public sector, and of the provision of the corresponding resources.

It has already been pointed out that the estimation of the financing

needs of the public sector, should also take into account the possibility of formulating compensatory policies to absorb, though only partially, the shock effects of the cycles of production or of price variation in the primary activities, thus preventing these cyclical variations from depressing production and investment in sectors basic for the supply of domestic and export demand (para. 12 and 13).

But the fiscal policy likewise affects the price system and the distribution of income, making it imperative to investigate the adaptation of the tax system to the plan requirements in this direction, and to anticipate the transformations that are indispensable and the administrative organisation that is suitable for tax collection and control.

The existence of deficiencies in the tax organisation often demand the imposition of taxes at high rates, which could be reduced if collection and control were adequate and the tax base were broadened, with advantage to the stimulation of production in certain sectors.

29. The urgency of rapidly locating resources, and of simplifying the methods of control, has in many cases helped to narrow the tax base and concentrate it in those sectors where verification is easiest and where liquidity apparently renders the tax burden more acceptable, which has led to the loading of exports. Without discussing the character of the most equitable form of direct taxation and its distribution according to the ability to pay, which the latter taxes may possess, their adequate graduation is a major problem in any plan in which the external sector appears as a limitation, for they may help to discourage exports.

On the other hand, indirect taxes may also be not only an important source of revenue with their load distributed according to ability to pay, but also a tool for the redistribution of resources, if they are applied in order to discourage consumption of certain types, their application takes account

of the income levels typical of such consumption, and their effect in restraining the demand permits the liberation of investment resources for the sectors with priority for development.

30: Relative to the policy for the external sector it will always be necessary to define the most suitable exchange and tariff policy and its co-ordination with the tax policy and price policy.

Efforts to restrict imports by exchange restrictions or higher tariffs have often resulted, in Latin America, in stimulating the internal production of the articles whose consumption was to be discouraged, or at least not encouraged, which had complicated and sometimes distorted the processes of import substitution. This disadvantage could have been avoided if, parallel with the direct or indirect restrictions on imports, taxes on consumption had been imposed, reducing the demand for the internal production in the same categories.

31. On the other hand, a change in the traditional structure of exports may be obstructed by the fact that the basic element in fixing the rate of exchange is the cost of these traditional products. An overvalued rate of exchange may cause a redistribution of income in favour of certain productive sectors which do not need them, and by making their activity more profitable, it may really operate with an effect contrary to that sought, apart from its adverse action on the price level, if this is directly influenced by the rate of exchange.

In this case it will also be necessary to co-ordinate the tax policy with the exchange policy to eliminate these effects. But it must be borne in mind that if, in this way, the relative marginal productivity of the various export activities is altered, it will be necessary to investigate the need for including

in the plan the means required to change these marginal productivities as a consequence of a technological transformation or of a more efficient use of the factors of production. The long-term effect will otherwise be to induce inadequate use of the factors of production, favouring their accumulation in sectors of low relative productivity.

32. The specification and quantification of the objectives and targets in the medium-term plans is not satisfactorily provided by mere detailing of the **levels** to be reached at the end of the period covered by the plan.

The necessity of establishing an objective system of assessing the manner in which the plan is being implemented also requires the corresponding specification and quantification at the end of each year of the plan period. On the other hand, by making it possible to establish the mutual consistency of the production flows and their consistency with the requirements for human, physical and financial resources, this greater degree of detail permits verification of the feasibility of implementation.

Just like the objectives and targets for the end of the plan period, these partial objectives and targets should be broken down sufficiently to identify the agencies responsible (particularly the public sector and the private sector) and to determine the magnitude of the changes anticipated, which will allow, each year, the application of the necessary adjustments to the targets, and the revision of the policies utilized, both by graduating their intensity and making whatever modifications may be indicated.

33. In the public sector, the utilisation of the techniques of programme and performance budgeting 1/ will provide a sufficient basis for procurement of the required information and establishment of the assessment system.

1/ See "A Manual for Programme and Performance Budgeting" (English only), U.N.Sales No.66.XVI.1.

In the private sector, in contrast, the problem is different, since it will be necessary to organise the compilation and analysis of the information required to establish the manner in which the plan objectives are being carried out and the principal deviations that occur.

The organisation of this information system, the determination of the needs it must satisfy, and the indices it is expected to provide, is a subject that should be a part of the medium-term plan.

34. In order to adjust the plan formulation procedures to this specific group of requirements, it will be necessary in many cases to supplement the planning techniques used.

The linear models and methods of product input customarily employed to quantify the production of the various sectors and to check the targets and objectives at the end of the plan implementation period may possibly have to be supplemented by a systematic application of the methods of material balance for each of the years covered.

This upgrading of the planning techniques will be the more necessary, the greater the need for avoiding imbalances in the economy, whether to prevent changes in the relative price levels that might have a considerable effect on the attainment of the final targets, to analyse the possible sources of inflationary tensions due to inelasticity of the supply, or to identify in advance the scarcity of critical resources.

35. The uncertainty associated with the attainment of the targets in the agricultural sector, owing to the influence of climatic factors, already discussed from a different viewpoint in para. 12, is why, to be able to measure the progress in implementation in this sector, the quantification of the production targets should be accompanied by that of other targets at least

partially immune to that influence.

For example, in agriculture, the areas sown and the acreage prepared for exploitation are partially independent of the climatic influence, and their measurement may better represent the influence effectively exerted by the instruments designed in the plan than the volumes of production.

Similarly, the quantification of the targets of the programmes auxiliary to those of production, such as technical education, extent and application of sanitary measures, etc., may provide valuable additional information on the manner in which technological changes are taking place in the desired direction, which is another one of the problems to be taken into account in the implementation of agricultural plans.

36. The adequate planning of the physical, human and financial resources necessary for the attainment of the plan objectives and targets raises one of the problems most critical for its implementation.

A detailed inventory of the needs for the attainment of the final objectives and targets is essential, but the possible composition of this inventory will be affected by the technological alternatives, by the varying degrees of efficiency in their utilisation, and by the time necessary for the additional facilities to go into service.

37. The base for estimation of the resource requirements is a detailed knowledge of the initial conditions assumed to exist at the beginning of the period of implementation.

This knowledge should include not only the great economic aggregates - gross internal product and production, total and by sectors of origin, employment of the labour force, prices, etc. - but also the physical productive capacity by sector, the physical volumes attained and their relation to the sectoral investment and to the capacity and state of the infrastructure of

services, the existing level of qualification of the human resources, and the limitations on the utilisation of the natural resources.

A habitual omission from the plans applied in Latin America has related to knowledge of the existing projects and their state of implementation at the beginning of the plan period, which in the short term might substantially modify the initial conditions and contribute to the formation of bottlenecks not only in productive capacity but also in the provision of services and in the demand for specialised manpower.

38. Once the initial state has been predicted in sufficiently close approximation, the question of the applicable and most suitable production techniques arises. Unfortunately little is yet known in Latin America on this subject, at least in a detailed and acceptable form allowing the planner to select alternatives leading to the most efficient use of the resources.

This problem becomes still more serious for Latin America in cases where the choice of techniques depends on a detailed knowledge of the natural resources - a knowledge which is very limited in this region, especially in respect of the various possible uses for them.

39. In this general aspect of the choice of techniques, the exploitation of natural resources, and the need for upgrading the qualifications of the human resources, it is very often necessary to base the medium-term plan on another, longer-term plan, as already pointed out in para. 6.

It may well be that at the end of the period of implementation of the medium-term plan both these types of resources will still be in short supply, but one of the aims of planning is to avoid the creation of obstacles to the future progress of the economy, and therefore the entire group of decisions and policies proposed by a medium-term plan should likewise be reviewed from this point of view. It may very well be that, at the end of the implementation period, the initial conditions and the availability of resources for a new

medium-term plan will be inferior to those of the first plan, making it necessary to include, sufficiently in advance, corrective measures which would not be required for the predictable development of the economy during the implementation period of the medium-term plan itself, but which are nevertheless required to make sustained development possible in the following period.

For example, at the end of the plan implementation period, the available land may be on the way to exhaustion, and in that case it will be necessary to anticipate the reclamation of new areas, or a technological transformation and upgrading of the technical training to increase the yields, for in the absence of such action the agricultural sector may act as a brake on development in the following period. Similar situations may arise in the supply of raw materials for the manufacturing industry, or in the utilisation of power sources, both of which cases may require large investments to prepare new sources, explore the natural resources, or radically modify the development strategy.

40. The longer-term plans should cover at least two medium-term plan periods in order to make possible the type of connexions indicated above. Naturally their formulation will be less detailed, and will particularly consider only those objectives which are specific for establishing the corresponding assignments for the period of the first plan, and are based on general aggregates and the trend relations, with their possible changes, between these aggregates and the resources whose availability is of concern.

But the estimation of these investment needs demands an additional breakdown to establish their consistency with the projections of the external sector between imported capital goods and those produced internally.

Unfortunately there is still little experience on long-term plans in Latin America, especially in respect of the problems of internal consistency 1/.

41. The investment needs require a breakdown and specification similar to that proposed for the plan objectives and targets, which, in addition to identifying the amounts corresponding to the public and private sectors, should be carried at least to the extent of identifying the influence of the changes anticipated in the structure of production, and of the institutional reforms, on the sectoral distribution of investment.

But the estimation of these investment needs requires yet another breakdown to establish their consistency with the projections of the external sector, between imported capital goods and those produced internally.

In this latter aspect, the choice of techniques and the design of suitable policies may be of considerable importance in determining the magnitude of the imported component of the total investment anticipated. Similarly, the choice of the over-all strategy of development may likewise depend in large measure on its consequences on this imported component, and on the possibility of reconciling it with the projections of importing capacity and possible external financing.

42. The distribution of investment between the private and public sectors, and its imported component, is a fundamental element in planning financing, but it must not be forgotten that this distribution relates to the physical flows, whose relation with the financial flows is of nature such that the participations of internal and external savings, and the distribution of

1/ See: "Problems of Long Term Economic Projections" (Sales No.63.II.F.6) (English only); and

"Review of Long Term Economic Projections for Selected Countries in the Ecafe Region (Sales No.65.II.F).

internal savings by sectors, may be very different, since it is susceptible of modification by the application of the policies of resource mobilisation that may be employed.

43. In general, the historic experience of the financing of the public sector affords a very limited base for its projection, since it is affected by a variety of factors whose influence is not explicitly set forth in the corresponding financial accounts.

For example, part of the taxes collected are characterised by the lapse of a relatively long period between their imposition and the time of their payment, which may be still further prolonged by granting special terms of payment to some individuals. The amount of the tax collections in any year may be decreased by the credit thus granted by the public sector to the private sector, and increased by the collection of items corresponding to earlier periods. The influence of this group of circumstances is usually the greater, the more important the restrictions on bank credit, or the higher its cost, for in that case the enterprises tend to finance themselves by postponing the payment of taxes, as an alternative to the difficult or costly procurement of credit.

The adequacy of the base of projection obtained consequently depends primarily on the quantification, as approximately as may be, of the corrections thus introduced into the financial accounts of the public sector, a fact which is of fundamental importance when there are or have been price changes with a fundamental effect on the real value of taxes accruing in one fiscal period but collected in another.

44. The forecasting of the financing in the private sector is likewise affected, not only by the influence of the public sector and the external sector

on it, but also by the fact that in general the magnitude of the transfer of financial resources between the various sectors of private activity is unknown.

45. Lacking an integrated, real, financial model permitting the measurement of the influence exerted by all these factors, it will be necessary in that case to establish, as a minimum, the determination of the imported component of the investment, and of the distribution of the investment between the various sectors, indicating any anticipated changes in its composition calling for a special analysis of financing necessary.

46. Both the need to define the time phasing of the various activities in order to attain the objectives and targets of the plan, as considered in para. 32 et seq., and the difficulties involved in forecasting the financing, as just pointed out, make the identification of the major projects an essential element for any medium-term plan to be amenable to implementation.

This is not to say that the plan itself must contain these projects, but merely that due attention must be paid, in its formulation, to the time when the principal projects involving structural changes in production and demand should go into operation, and to predicting the time when their study and construction will have to be initiated<sup>1/</sup>.

47. Given this information, it will be possible to analyse the main sources of internal and external financing, which will be of basic importance for completion of the financing forecast. Indeed, the use of the various sources of credit, with their varying term and cost, depends largely on the nature

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<sup>1/</sup> The problems of project generation, preparation and execution constitute another theme for the present seminar.

of the projects, and may have an important bearing on the estimated balance of payments and the internal credit programmes. The problem is of far greater importance when the existence of a large external debt makes it necessary to programme its service to avoid an excessive demand for foreign exchange during certain periods.

48. It has sometimes been claimed that the lack of basic information for the preparation of a development plan may make it preferable to concentrate the efforts on the preparation, instead, of a list of projects that have been adequately studied and are able to attract financing.

The objection to this criterion is that the fundamental basis of project selection would be mainly qualitative, since in that case no quantitative estimate in satisfactory form could be made on the effects of the policy decision that the adoption of this list of projects would involve, nor would any criteria permitting a better selection be available.

Without failing to recognise the difficulties due to the lack of adequate information, and the aid which the above criterion might lend under certain circumstances, it is still obvious that it will always be necessary to make an effort to obtain a quantitative point of reference to serve as a more complete guide in the choice of alternatives. While, as already pointed out, the identification of projects is necessary for the implementability of any plan, it must also be emphasised that a schedule of projects is not the same thing as a plan.

49. External financial and technical co-operation may play an important part in the implementation of a plan, on condition that the recipient country provides the most suitable modalities of utilisation, taking account both of its own needs and the characteristics of the systems of co-operation possessed by the international bodies and the industrialised countries.

The lack of one or both of these conditions has very frequently deprived external co-operation of any significant final result and has thus led to questioning of its appropriateness.

50. External financial co-operation is limited in amount, and sometimes also by certain restrictions in its use, such as the obligation to spend its proceeds in specified monetary areas. Although the negative effect of these restrictions may even cancel out its advantages of longer term and lower cost in comparison with current commercial credit operations, its utilization is not contraindicated, provided these circumstances have been duly anticipated.

If the needs for external financial aid for a plan have been held within the limits of the amounts whose procurement can be reasonably anticipated, a careful analysis can usually locate fields in which the above disadvantages will be of minor relative importance. In such cases the combination of the sources of aid with those of commercial credit may yield, as their over-all result, a set of conditions better adapted to the exigencies of the balance of payments than the simple use of the current sources of credit as the sole means of financing. The judicious combination of these two sources of funds may, in turn, likewise compensate the relative modesty of the aid funds available.

51. A particularly important type of external financial aid is that which provides funds for local expenditures. Although on first analysis it might appear unjustified to use external credit, which must ultimately be amortized, to finance expenses that could be covered by local funds, the sale of the foreign exchange arising from these operations will, nevertheless, provide additional resources to the foreign sector, and permit procurement of a kind of long-term refinancing of import operations that would otherwise be troublesome.

The difficulty in utilising this resource has many times been that it has been completely neglected in the preparation of the plan, so that later on there are no projects whose opportune execution would lend effectiveness to the above mentioned mechanism.

52. Similarly, the lack of analysis, during the preparation of the plan, of the points where the local technical resources must be supplemented by external co-operation, results later in delaying the realisation of certain essential activities owing to the time required for negotiating such co-operation, while, on the other hand, the urgency of putting some types of co-operation into practice leads to its expenditure in sectors which are not of priority for development.

53. The Development Administration is a procedure for decision-making conducive to economic progress in conformity with the objectives and targets set forth in the plan, and for putting into practice the strategy designed for their attainment. It is a special case, but not essentially different, of the general administrative problem of making consistent decisions in a complex organisation.

However, the fact that in Latin America the public and private administrative structures are often poorly equipped in respect of sufficiently effective methods of consistent decision-making, and that the traditions that exist in the governmental agencies are customarily opposed to this demand, is what makes it appropriate to focus the problem of the organisational requirements for effective planning from this point of view.

In what follows, the structural aspects of the organisation of planning and their relation with the governmental authorities will first be analysed, then the functional aspects of the flux of decisions and orientations, and, finally, the collection and reception of the basic information for formulating the plans and supervising their implementation.

54. The prevailing tendency in Latin America has been to initiate the process of planning by organising a central office, which has handled practically the whole task of formulating the plan, and has been placed at the highest possible administrative level (generally the office of the president).

Reasonable as this tendency may appear during the first stage of initiating the process of co-ordination to accelerate economic growth, the advisability as a permanent arrangement must be analysed from the functional and organisational points of view.

Functionally considered, it is obviously adapted to the facts that the first plan or plans generally have only partial coverage, treating in detail only one, or a limited number of, what are considered strategic sectors, and that the availability of technical staff is likewise limited at these initial stages. But as the process becomes more and more perfected, and as more detailed treatment of the whole set of sectoral and regional aspects is called for, this concentration of activities may become inadequate, and it will be necessary to proceed further by delegating certain functions to other bodies of competence narrower than that of the central office - bodies whose functioning must be co-ordinated by it - but, precisely on account of this limitation of their competence, are in a position to specialise themselves, with resulting benefits to the general efficiency of the planning mechanism.

Organisationally considered, the position of the central planning agency at the highest possible administrative level does not appear to be a transitional characteristic, but is consistent with the permanent necessity for it to occupy a position sufficiently strategic to exert a direct and immediate

influence of the process of making the key decisions for development, and to co-ordinate, without the limitations derived from the lack of administrative hierarchy, the sectoral and regional planning operations.

55. Regardless of the location which the political institutional organisation, the administrative practice and the state of the planning process in each individual country may make most expedient for the central, sectoral and regional planning agencies, the implementation of a plan necessarily involves the previous assessment of the existing administrative organisation.

Once the sectors of responsibility of the governmental authorities have been defined, and the governmental agencies to accomplish the attainment of the <sup>plan</sup> targets and objectives have been duly specified and broken down in this respect (see paras. 7 and 8), it will be necessary to have a second stage of assessment of the ability of these agencies to execute their assignments, in view of their human resources (technical training and possibilities of adaptation) and their material resources. Particular attention must be devoted, in this assessment, to the problem of the possibility of preparing the projects required for the implementation of the plan.

To predict and decide the changes and re-enforcements required, this allocation of responsibilities and functions, and this examination of the possibility of their performance, should be made within the framework of an assessment of the activities currently performed by the administration in question, and of the degree of efficiency attained in them. Only in this way will it be possible effectively to dimension the task of adaptation.

56. This adaptation often involves a thoroughgoing administrative reform in respect of both functional aspects and staff training and recruitment procedures.

The lack of adequate consideration of the problem of the evaluation and

reform of the administration, whether by simple omission or because such consideration has in fact been very incomplete owing to the unavailability of the required technical staff, which is very scarce in Latin America, has frequently been a serious obstacle to the implementation of plans. Sometimes such omission, coupled with the necessity of performing certain functions, during the implementation of the plan, although the responsibility for such functions had not been clearly established, has led in practice to the extension of the powers of the planning agencies to the executive levels, giving rise to partial overlapping and conflicts which should be avoided, and disregarding the principle that development administration does not require a new structure, parallel to that already existing, to perform the ordinary functions, but the co-ordination and improvement of the existing structure, with the establishment of a minimum number of new agencies.

It is quite possible that, apart from the above mentioned shortage of technical staff specialised in administrative organisation, one of the main difficulties may reside in the contrast of character that usually obtains between the traditional administration and the planning agencies. While, in the former, system predominates over personality, it is often the case in the latter that the personality of the planner predominates over the organisation, and the problem consists in part in institutionalising the operation of the planning agencies and making the operation of the traditional administration more flexible.

57. Success in plan implementation may depend on the organisational structure adopted and its co-ordination with the rest of the government and with the private sector, as well as on the procedures for plan formulation and on the plan content itself. The latter aspect has already been mentioned in connexion with the technical requirements.

In particular, the selection of the main objectives and of **the basic strategy** of development implies a decisive policy decision of first magnitude which cannot be expected to be taken merely as a consequence of its enunciation in a technical study, if those primarily responsible for that decision, and for its implementation, are not convinced of its expedience and feasibility.

58. The presentation, during the process of plan formulation, of specific policy alternatives linked to objectives of general interest may be a first and fundamental step in order to prevent the implementation of the plan from later becoming a subject of merely secondary importance because its connexion with the problems requiring almost daily attention is not clearly grasped.

Although the compromise between the time required to reach this basic agreement, in advance, which may be prolonged if, as desirable, it is in principle to be accepted by the executive and legislative branches of government, in accordance with the institutional system of each country, and the urgency of rapidly defining the basic directions of policy, may make it advisable for this delicate process of participation to be carried out only partially during the initial stage, while attention is being devoted to the priorities of themes and of consultations, the application of this method will nevertheless be very useful. When the plan enters the stage of final approval and implementation, it will then cease to be a mere technical guideline and will become, instead, the reflection of the needs and purposes of each one of the elements consulted.

59. A similar process of consultation with the responsible administrative authorities, restricted in each case to specific subjects, but taking care to register them in the general strategy, may likewise be a decisive step to ensure that the planning agency does not remain in a position isolated from the rest of the Government and to prevent the plan orientations from seeming

to have been adopted outside the normal decision-making mechanism.

The necessity for the application of this procedure will be the greater, the more the decision-making mechanism departs in practice from the scheme of hierarchies and functions established by the legislation and the body of administrative regulations. This phenomenon of the existence of a decision-making mechanism separate and distinct from that which would result from a rigid restriction to the provisions in force is all the more pronounced, the greater the accumulation of traditions in the machinery of government, for it owes its very existence precisely to these traditions.

An analysis to determine the real decision-making mechanisms is of great importance, but constitutes a problem more typical of a study of the public administration per se, and of its need for reform, than of the specific formulation of a plan, during which it will be necessary to use methods which, like that just proposed, will permit all or most of the plan components to be covered, without losing too much time on the precise determination of their interrelationships.

60. The definitive inclusion of the planning agency within the governmental decision-making mechanism demands a clear conception of its functions and limitations. If the establishment of a new agency, or the re-enforcement of an existing one, appears to set up a new authority without clearly specifying **whether it is to be merely advisory or is to be clothed with decision-reviewing powers**, the opposition which may arise may impair the effectiveness of its work.

If, in addition, the plan is deficient in the co-ordination of its instrumentalities with the traditional economic policies, so that it cannot be responsive to the needs for orientation on the concrete problems of policy in relation to the objectives of development, it will run the risk of having

the isolation avoided during its formulation occur during its implementation.

61. It is in this stage of implementation that the planning process has in general shown its greatest weakness in Latin America. The failure to include a programme of administrative reforms in the plans, and the lack of evaluation of the actual capabilities of the public service, the insufficient identification of the projects and the lack of teams to prepare them in proper time and due form, and, finally, in more than one case, the tendency to isolation of the planning agency - all of them points already separately considered above - have operated, taken together, to diminish the efficiency of planning.

This result of the organizational problems during the stage of implementation makes it manifest that, even though needs for staff trained in planning techniques still persist, the need for staff trained in administrative techniques may perhaps be even more keenly felt, since all the problems we have just summarized either belong to this field or are intimately related to it.

62. The co-ordination of the private sector with the aims of plan implementation is a result depending in part on a method of participation such as that set forth in the case of the government and the civil service, in order to create conditions that will make that sector receptive. But the content of the plan instrumentalities, and more specifically, their co-ordination with the traditional economic policies, also play a very important role in this co-ordination.

63. The method to be followed in establishing the procedure for consultation with the private sector, and its participation, is generally a complex one. The existing organisations, both employer and labour-union, usually cover the sector only incompletely, and tend to concentrate their activities and the larger part of their membership, in the great centres and in the sub-sectors

of the traditional products and services. The plan, on the other hand, should generally devote major attention to new and undeveloped sub-sectors and to depressed regions and centres.

It is thus essential for the plan to be explicit in its treatment of the general economic objectives and of the problems of the traditional activities, demonstrating how they are tied in with the sub-sectors and regions to be developed, for they may otherwise be interpreted as instruments of change directed against the domination of the existing social groups, or ignoring those groups.

This misunderstanding may evoke great opposition and contribute to the generation of a passive attitude on the part of sectors which could otherwise be extremely helpful.

64. The existence of an efficient method of participation and consultation, however, is insufficient as a real inducement to the private sectors to follow the guidelines and trends of the plan. The decisions on consumption and savings, and the direction of investment, depend on the expectations relative to the progress of the economy and the patterns assumed by it, however great the value attributed to the plan.

Only the adequate co-ordination between the price system and the monetary and credit policies, on the one hand, and the plan objectives and targets, on the other, can create conditions under which the expectations of the private sector will be oriented in the desired direction. It will in general be necessary to utilize all the other traditional instruments of economic policy (see Section [e] of Part 2).

65. A problem of particular difficulty for plan implementation arises when projects essential to the attainment of objectives and targets depend for their accomplishment on the private sector.

It is not merely the creation of expectations and the estimation of the necessary financing that is here involved. The technical resources for project preparation may be wanting, especially if external funds must be used for financing, for the customary practice in making investment decisions in the private sector does not as a rule follow the standards of preparation, presentation and evaluation which are requisite in such cases.

A consultative service in the planning agency itself, or closely co-ordinated with it, which may help to overcome this obstacle, will therefore be necessary.

In some cases the entrepreneurial organisations themselves have been successfully encouraged, in Latin America, to organise such services for their members. In other cases, the organisation of the users and consumers into co-operatives or similar associations, promoted by the planning or implementing agencies, has likewise accelerated and improved the preparation of social projects.

66. It has already been noted that the limitations on the availability of statistical information, and of data relative to the possible utilisation of the natural resources, are important factors conditioning the coverage and degree of detail of plans in Latin America. In addition to the problems which may arise on this account for the application of planning techniques, it is obvious that there can generally be no hope of filling in these lacunae or imperfections for the formulation of a first plan. It is precisely the preparation of this plan, and the identification needed for the control of its implementation, that will permit the formulation of an organic programme of priorities to expand the statistical services and those for the exploration of natural resources, which should be integrated into the very same plan.

67. It will in many cases be possible to enlist universities and scientific

centres in this effort to provide complementary information. In this way they could adapt their programmes to the needs of economic progress, creating those opportunities for effective personal achievement, the lack of which has in some cases motivated the emigration of technical and professional staff whose training has been very costly, in time and other resources, for the country involved.

68. Provision should be made in advance for the organisation and compilation of information on plan fulfilment, as already pointed out in para.33. The problems presented are different, according to whether the activities involved are the primary responsibility of the public or the private sector.

69. In the public sector, the application of the techniques of programme and performance budgeting (para.33) provides a fundamental scheme of reference, particularly if extended, in some form, to the decentralised and autonomous agencies, which in many cases are exempt from the obligation of annual budgeting. In general terms, it is preferable for those responsible for implementation to be the original source of the information for control, for otherwise a parallel administration for control would be involved, with loss of general efficiency and the possible occurrence of conflicts. It is only sectoral compilation and integration into a global panorama that should be entrusted to specialised agencies, which would be co-ordinated by the planning office and might serve as a base for the future decentralisation of its functions and their allocation to sectoral and regional agencies as mentioned in para. 54.

70. In the private sector, part of the information on plan fulfilment might be collected by the statistical services, but considerable information of qualitative nature, and on the progress of project generation and the changes in expectations, should be derived from the mechanisms for consultation and participation.

71. It is clear that a judicious use of the possibilities of the indicators provided in the manner above mentioned for the public sector and the private sector, with those responsible for implementation, could be a most useful tool for improving the planning system, progressively broadening its scope, and leading to an increase in the number of responsible persons involved in the technique of social decision which, in the last analysis, is what planning is.

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PLAN AND ECONOMIC BUDGET

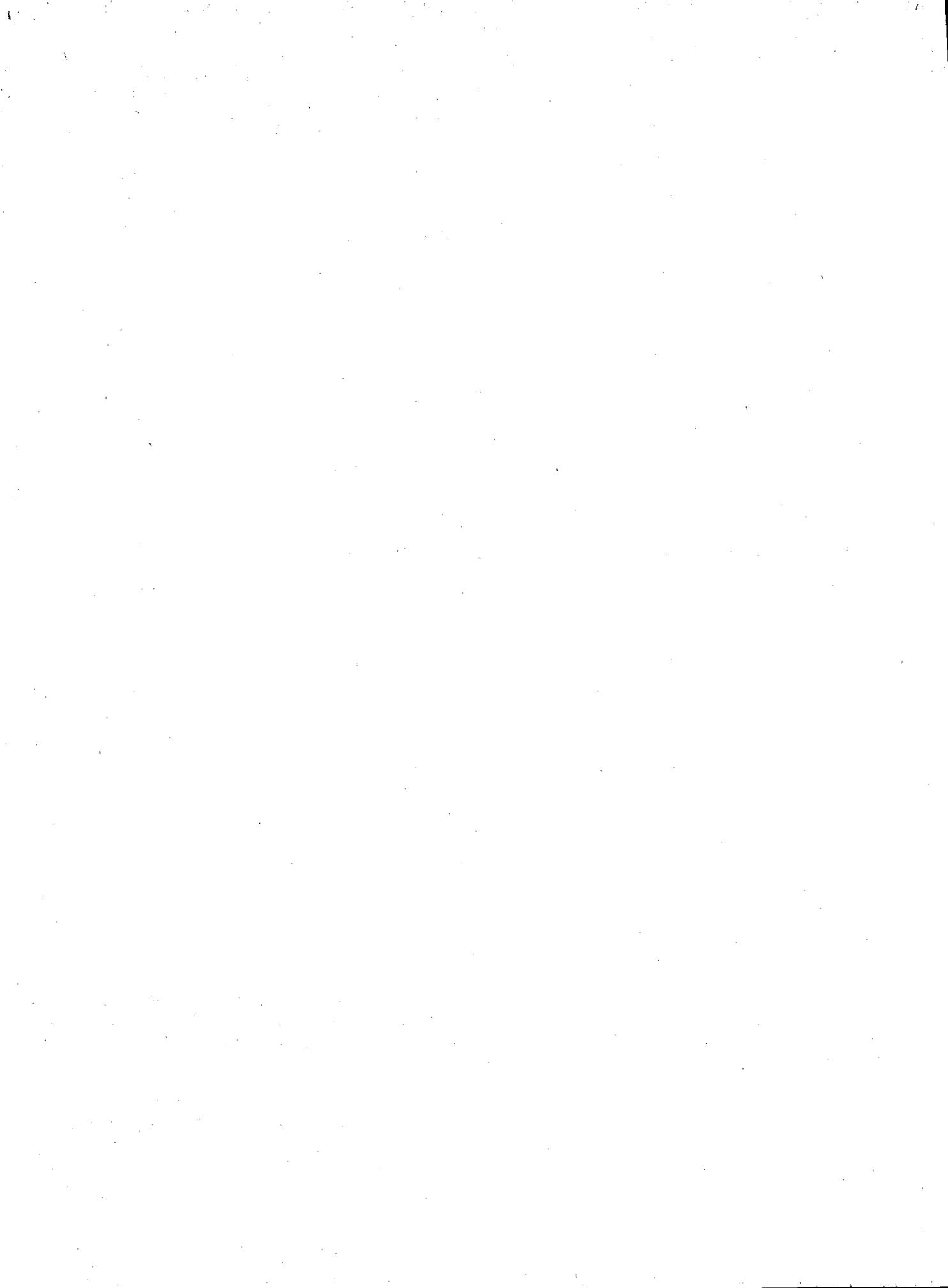
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## PLAN AND ECONOMIC BUDGET

The relation between the targets set by the medium-term plan and the series of decisions which, each year permits an approach to those targets, is very variable, according to the way the plan is drawn and according to the compulsory powers inherent in it.

There are, nevertheless, many points in common between the technical and administrative problems thus posed in each country.

This paper describes some of these general problems, and sketches practical solutions based on the French experience.

\* \* \* \* \*

One terminological precaution at the outset: we must avoid confusion between the economic budget, the State budget (or finance act), and the annual plan.

The economic budget is a numerical forecast of the over-all economic situation, based on the decisions and projects which may be adopted by the State, and by other economic agents. Alternative forecasts will permit us to envisage the implications of the various possible economic policies. According to its structure and its degree of detail, the economic budget can elucidate, to a greater or lesser extent, the problem of plan implementation.

The finance act prescribes or predicts the State expenditures and revenues; it aims to maintain a certain type of short-term equilibrium; it is related to certain targets of the plan, but that is only one of the constraints to which it is subjected.

The annual plan is a complex administrative procedure of forecasting,

of decision, and of co-ordination, designed each year to determine the degree of plan implementation, to follow up the achievement in the year to come, and which, if necessary, can modify the targets if events have made them outmoded.

The annual plan is designed to realise the synthesis of the short-term and medium-term targets, the economic budget, like the finance act, is one of its tools; but other tools could also be thought of - company meetings, commissions to prepare the medium-term plan, recourse to the referendum, etc....

The confusion between these three administrative acts arises from their operation on the same subject matter, economic development, and often with converging aims.

But each of them relates to a level and a structure of different decision-making centres. The danger of terminological confusion is thus that it may lead to the belief that the same criteria actuate very varied decision-making centres, while the real problems, beyond the technical aspects, arise from this diversity.

#### I. THE TWO ROLES OF THE ECONOMIC BUDGET

The medium-term plan is composed of an over-all projection and a set of capital investment projects. The appropriations authorized by the finance act finance these programmed projects, but also cover, and in much greater amounts, the general operating expenses of the State.

The object of the economic budget technique is to make these two groups of expenditures mutually consistent and compatible with the maintenance of the major general equilibria.

The economic budgets thus place an effective tool at the disposition of the annual plan. In the liberal-planning countries, when the annual plan procedure is not explicitly placed in operation, the problems of implementa-

tion of the medium-term plan are necessarily brought up during the preparation of the finance act, which progressively takes on a character of a section of implementation of the development plan. Thus it relies equally on the economic budget, to guide its contra-cyclical action on the economic situation, and to attain the medium-term targets.

The new measures and expenditures undertaken by the State in accordance with the plan assignments are worked out in two phases:

First of all, a phase of certification: the developments in the economy and the effects of prior decisions are estimated and compared with the targets;

Then the consequences of the various possible decisions are evaluated and a choice is made between them.

The economic budgets play an important role in each of these two phases.

A. Forecast budget or budget of findings

It might be thought that the effects of past decisions could be very objectively observed on the basis of the accounts for the year to which they refer. It might be thought that the effects of past decisions could be very objectively observed on the basis of the accounts for the year to which they refer. It will be readily seen, however, that this would be precluded by the inertia of the economic and administrative machine. Let us take, as an example, a year of the Fifth French Development Plan.

The Fifth Plan covers the period 1966-1970. If we try to measure the degree of its implementation in 1967, the provisional account for 1967 will be available only in May 1968. At that time, if a major deviation in respect of any target should appear, it would often be too late to prescribe effective measures for catching up with the lag. Indeed, the economic policy for 1968, and the funds for its application, would by then already have been voted by Parliament and definitely established since October 1967, when the 1968 finance act was introduced.

Moreover, in the month of May, 1968, the major decisions of the next finance act, relating to the year 1969, would already have been made. It would henceforth be difficult to amend the block appropriations for State expenditures, and any marked change in the structure of these block appropriations could be made only in 1970, the terminal year of the plan.

Thus we are led to analyse the course of the plan on the basis of an economic budget instead of an account of a past period.

The economic budgets of a given year n, prepared after the information contained in the draft finance act for the year n has become available, will constitute a good basis for the control of plan implementation.

On the one hand, the knowledge of the State budget and the proximity of the year projected eliminate the risks of gross error in prediction.

On the other hand, being based on a detailed breakdown of the State expenditures, they permit a fine comparison (theoretically, project by project) of the plan targets with the current fulfilment.

These economic budgets are called forecast budgets.

Forecast budgets are prepared from detailed information. They utilise the content of the finance act, which prescribes the State expenditures and the general line of economic policy for a year; but they are also based on abundant data on the economic cycle, and on a series of sampling studies of administrations, business and households.

#### B. Exploratory budget or decisional model

The economic budgets prepared before the finance law is known, and thus having a more distant horizon, will serve to work out future decisions and to test their consequences. These are called exploratory budgets.

Exploratory budgets, being unable to rely on a good knowledge of the intentions of the State, or on data of the economic cycle, are based instead

on a more or less formalised model. The procedure for their preparation is uncomplicated and highly centralised. These characteristics permit the rapid preparation of series of exploratory budgets, each describing the effects of one type of economic policy and one set of given measures.

Measures can be classified according to their relative advantage; and exploratory budgets in this way orient governmental decisions.

The distinction between exploratory budgets and forecast budgets is of course to some extent arbitrary. Budgets are prepared throughout the year; as time passes, more information on the plans of the government becomes available, the data on the economic situation accumulate, and the exploratory character of the economic budget gradually becomes predictive.

Thus there is a continuous transition between exploration and prediction.

## II. THE CERTIFICATION OF PLAN IMPLEMENTATION

This relates both to the known data of past years and the predictable consequences of decisions already taken.

Thus it relies on the analysis of the finance act and is conducted at the levels, that of the entire economy and that of the actions of the State. It analyses the two kinds of indications contained in the medium-term plan: the over-all description of the activity of economic agents, and, on the other hand, the detailed schedule of the capital investment projects that the State has decided to finance.

### A. The over-all economic review

This is prepared by calculating the average rate of growth of certain aggregates over the period of the plan covered by the accounts and the forecast budgets. These rates are then compared with the average rate assigned by the plan, and we deduce the development required during the last years of the plan in order to attain the targets.

The aggregates considered may be, for example, the consumption by households, the gross domestic product, the agricultural income, the deficit on State account, the price level, or the activity of the great sectors of production.

The following table shows the presentation adopted. Forty such tables, based on economic budgets, form the set called "Instrument Board or Indicator Tables of the Plan". The degree of detail of these tables should be selected in agreement by the planners and those who prepare the economic budgets.

The need for exhaustive filling of the accounting framework sometimes compels apportionment of the over-all forecasts; the uncertainty of prediction is greater in the items so apportioned than in the total amounts; and in this way abnormal developments may appear in these elementary, broken-down items, and may disturb the planners, while they are in reality entirely arbitrary. Even if the planner feels himself frustrated in his desire to study the detailed items, it is therefore still inadvisable to provide him with broken-down figures of doubtful significance.

RESOURCES AND USES OF  
GOODS AND SERVICES  
(concepts of national accounts)

Rates of annual growth by volume

	Fifth Plan	ACCOUNTS AND BUDGETS				Average for period elapsed	Average for remainder of period
	Average values, 1965-1970 projection	1966	1967	1968	1969		
Gross domestic product	5.0	5.0	5.3			5.2	4.9
Imports	8.8	12.5	11.1			11.8	6.8
<b>TOTAL RESOURCES</b>	<b>5.5</b>	<b>5.9</b>	<b>6.0</b>			<b>6.0</b>	<b>5.2</b>
<hr/>							
Total Consumption	4.7	4.5	4.9			4.7	4.6
by:Households	4.5	4.4	4.8			4.6	4.4
Administrations, total	6.9	4.8	5.3			5.1	8.2
civil	(6.9)	(6.5)	4.0			5.2	
military	(8.3)	3.4	6.4			4.9	
Financial institutions	4.0	9.4	7.7			8.4	1.1
Investments:	5.2	4.9	7.2			6.1	4.7
Productive	5.8	7.1	6.7			6.9	5.0
Housing	2.7	-1.4	6.4			2.4	2.8
Administrations	8.2	10.2	11.3			10.7	6.5
Financial Institutions	6.9	7.6	6.7			7.6	6.7
Exports	8.9	10.0	8.9			9.4	8.5
<b>TOTAL USES</b>	<b>5.5</b>	<b>5.9</b>	<b>6.0</b>			<b>6.0</b>	<b>5.2</b>

The preparation of these tables and their comparability with the medium-term forecasts involves many problems.

A-1 The accounting system.  
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The same **system** must be used for the medium-term forecasts and the economic budgets.

Since these forecasts are not made according to the same categories and the same breakdown of the economy for the plan and the budgets, the framework adopted must present the **groupings and regroupings that are useful in** both cases, and all the decision-making centres whose behaviour is important to know must be separately shown. The unity of the schedules should permit comparison by products, by categories of enterprises, etc.

All this will considerably encumber the system of accounts. It must, however, be assumed that all the indications that may be provided by the budget will not be utilised, for the examination of these indicator tables is long and difficult; it is thus useless to increase their number. But the preparation and examination of these tables, it may be envisaged, will be largely handled by computer.

A-2 The choice of the base-year  
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The Fifth plan has prescribed a progression from 1965 to 1970 for each of its targets, based on an economic account for the year 1965 that was not the definitive account but a forecast budget.

When the definitive account for 1965 was established, it showed substantial deviations from the budget. In the mean time the plan had been voted by Parliament and the projections had been decided.

Under these conditions, what should have been taken as the target for 1970, the absolute level previously calculated or the rate of growth applied to the new base?

In the latter case, the distortions would have been such as to make simultaneous attainment of all targets impossible. Finally, sometimes the absolute level must be maintained; this is the case with the forecast of the active population.

Thus the choice of an unelapsed year as the base-year for the plan work may rob the projection of part of its significance, cast doubt on the value of the targets assigned, and make the development of the economic behaviour described incomprehensible.

The question "What is the plan?" is thus raised continuously during the course of the review of its implementation.

It seems clear that this contradiction can be eliminated only by accepting an elapsed year as the base of the medium-term projection.

#### A-3 - The Course

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The plan provides evaluations for a terminal year, but gives no information on the physiognomy of the intermediate years.

In particular, the plan makes no claim that the approach to a target must be regular, at the given average annual rate.

How, then, can we know whether we are ahead or behind in the implementation of the plan? A growth of consumption at a rate lower than the average rate of the plan, observed for two years, does not mean that we are behind schedule, if causes of acceleration during the last three years are otherwise predicted.

The ideal solution would be for the plan to specify not only the terminal year but also, at the same time, the course, year by year, of the main targets, in self-consistent economic framework, in a way analogous to that of the economic budget.

It is extremely valuable to plot the course, in particular, if the initial

year of the plan, or the previous year, is a year of economic reversal; the plan targets will then appear to be in doubt from the very beginning of implementation.

The presentation of the "indicator tables" reduces down to comparison of the development observed in the annual rates of the plan. In this respect it is very unsatisfactory. Consequently, in the absence of the annual march, we must complete it by giving the deviations from the actual recorded long-term rates.

#### A-4 The price problem

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The forecasting of price developments in planning work is in general rather poor. The principal targets are therefore assigned in a system of constant prices.

The annual movements of the volume of the components of the balance of goods and services are then easily compared with the target rates of growth.

On the other hand, the rates of the various **income** items cannot be established unless the plan explicitly states its hypotheses on the relative prices and the general price level.

The projection of the medium-term plan, to be completely effective, must thus be based on a forecast of the price development for each of the aggregates of supply and demand.

The price of the gross national product defines the general price level, and the distortions of the relative price scale are studied product by product. The relative price system so obtained serves as a basis for the financial balance of each sector of enterprises; it serves likewise to determine consumer purchasing power; finally, it is just as necessary to a correct estimate of State expenditures, which are defined when the plan is voted by Parliament in the form of credits covering several years (programme

authorisations).

According to the development of the general price level, these credits will permit 100% attainment of the physical targets, or only 50% attainment, and the judgement as to the amount of the credits expended during the implementation of the plan will differ greatly (the same problem arises during budgetary decisions).

B. Establishing the implementation of capital investment programmes

The capital investment by the administrations often amounts only to a small fraction of the gross national product (about 4% in France, where only 10% of the State budget is allocated to projects programmed under the Plan).

In spite of their low relative amount, these expenditures constitute the very backbone of the Plan, and their accomplishment is the point on which the Government makes the most firm engagements.

They are thus the object of a special supervision. The Finance Act may for example be accompanied by a general annex recapitulating all of the financial efforts envisaged by the State budget for the implementation of the Development Plan.

This report on Plan implementation may include, besides a commentary on the global economic development and on the main sectors of production, a breakdown by economic and social sectors, and a breakdown by regions, of the capital investment credits programmed.

These breakdowns will not permit us to follow the implementation in physical terms, since they add up all the credits disbursed without taking account of the price movements, which is a disadvantage we have already noted.

B-1 The functional view  
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Except for a few individualised projects, the credits are apportioned

in functional classification, of which the following is an example.

Table taken from the Plan Report  
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FUNCTION "CULTURAL INVESTMENT"

(millions of francs)

	Fifth Plan Share of the State (1965 francs)	Programme authorisations granted in 1966 (current francs)
<u>Sub-functions</u>		
Historic monuments, national palaces and sites	524	109.55
included in programme law	(162)	(38)
Civil buildings	90	12.35
Excavations	25	4.31
Archives	36	5.50
Museums	134	20.30
Art education	240	18.00
Creative artistic work	27	3.50
Cultural action, theatre, music	205	18.40
Cinema	14	2.00
Various plan assignments	57	11.59
Land, stddies, appointments of Great Palace, inventory of waters and fountains of Versailles and Marly		3
TOTAL cultural investment proper	1,352	208.5
Administrative cities	100	41.5
TOTAL	1,452	250

The problem of knowing "what the plan is" now arises again. For a given type of investment (for instance, investment having a cultural function), the Plan envisages an amount of expenditures covering several very clearly defined projects and many other projects not explicitly set forth.

During the period of implementation new projects are added to those already assigned and we cannot always say whether or not these new projects should be considered as part of the non-explicit projects of the Plan.

Examination only of the block appropriation relating to a given function will thus not inform us whether the Plan projects as a whole are in course of realisation. According to whether we assume that the Plan merely prescribes the block appropriations or that its object is the realisation of certain well defined projects, we may reach different conclusions about the degree of progress attained.

In the industrialised countries the Plan generally covers a very large number of small-scale projects. The functional view plays a predominant role in measuring its degree of implementation.

In a developing country several very large projects form the skeleton frame of the capital investment. It is of greater interest to consider them separately than to regroup them into a functional schedule.

B-2 The viewpoint of the individualized project.

Implementation control requires a very detailed set of estimates, which should comprise:

- the description of the project,
- the amounts of the expenditures to be assumed by each of the sources of financing (State, communes, etc.),
- the preliminary time-phase schedule of the work and the payments due from each agent concerned,
- indications touching the possibility of slowing or accelerating the stages of the project, to provide an index of the degree of flexibility left to financial policy.

During the course of implementation the actual figures corresponding to the estimated schedule of payments are entered in the file, and an attempt is made to distinguish the changes due to underestimation of the price level, those due to estimated project cost (which generally occur even in terms of constant prices), and those due to changes in the schedule of payments estimated for each phase of the project.

In France the preparation of these project files was commenced under the Fifth Plan; the information entered in these "investment schedules" is as yet incomplete (the payment schedule is not a part of such schedule); but the method should be developed during the Sixth Plan.

(Chapter 9031)

Date	Nature of Operation	USES (EXPENDITURES)			FINANCING (RECEIPTS)					PROGRAMME ACCOUNT	
		Credits opened (or estimated cost)	Net obligations (less cancellations)	Mandates	Subventions State	Other	Loans	Other Allocated receipts	TOTAL	Debit balance (estimate 3 - 10) (actual: 5 - 10)	Credit balance (estimate 10-3) (actual 10 - 5)
1	2	3	4	5	6	7	8	9	10	11	12
I. ESTIMATES											
General Estimate											
2 Nov 63	Land acquisition	100,000									
	Construction work	400,000									
	C.D.C.Loan						100,000		100,000		
	State subvention				320,000				320,000		
	Department subvention					30,000			30,000		
	Advance deduction									50,000	
		500,000			320,000	30,000	100,000		450,000	50,000	
2 Oct 65	Additional work	20,000						20,000	20,000		
	Alienation of land										
		520,000			320,000	30,000	100,000	20,000	470,000	50,000	
BUDGET ENTRIES											
BP 1964	Account 2601 Land	100,000									
	Account 2301 Works	400,000									
	Account 166 Loan						100,000		100,000		
	Account 1055 State subvention				320,000				320,000		
	Account 1055 Department subvention					30,000			30,000		
		500,000			320,000	30,000	100,000		450,000	50,000	
Account 1964	Cancellation of credits	-7,000									
BS 1965	Account 2301 New Works	20,000						20,000			
	Account 2109 Land Transfer										
		513,000			320,000	30,000	100,000	20,000	470,000	43,000	

In conclusion, the ~~certification~~ of plan implementation would seem to be an operation difficult to accomplish in detail; the interpretation of the results is by no means one of the easiest tasks.

The certification of implementation cannot be made unless the planner has taken care, during the preparation of the plan, to prepare for that determination by appropriate techniques of target presentation and by adopting an accounting system common with that of the economic budget.

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### III. THE DECISION-MAKING PROCESS

During the period of preparation of the Finance Act the economic policy of the following year will be defined; the economic actions are prepared, the possibility of application of the major reforms recommended by the Plan is studied, and the financing of each capital investment project is considered.

The exploratory economic budget is used to characterise the effects of the various policies that are possible, to calculate the fiscal revenues, and to evaluate the block appropriations to be allocated by the State to its current operations and to the financing of the Plan.

The sequence of the operations depends on the administrative and decision-making structure of each country. Our discussion will be based on the French example.

The administrative structure is as follows:

The Bureau of the Budget, which prepares the Finance Act, and the Bureau of Forecasting, which is responsible for the economic budget 1/, belong to the Ministry of Finance. In France, the very great decision-making power of

1/ The National Institute of Statistics and Economic Studies, which is likewise attached to the Ministry of Finance, participates in the preparation of forecasts.

the Minister of Finance on matters of economic policy largely conditions the implementation of the Plan.

The Office of the Commissioner-General for the Plan is directly responsible to the Prime Minister. It does not formulate the technical content of the Plan; the projections are furnished to it by the Bureau of Forecasting and the Institute of Statistics. Its function is to prepare and guide the medium-term decisions of the Government, to ensure the co-ordination of the work, to decentralise the modernisation committees, and to follow up the implementation of the Plan.

The following time-schedule shows how the collaboration and confrontation between these bodies develops during the course of the year. The example selected is that of the year 1967, during which the Finance Act for 1968 is drawn up.

Date	Bureau preparing the economic budget
October 1966	1966 and 1967 Economic Budgets (submitted to Parliament)  Indicator tables.
December 1966	Alternative forecasts for 1968 and prolongation as far as 1970. First estimate of fiscal receipts for 1968.
February 1967	Publication of forecasts of fiscal receipts.
March to May 1967	Choice of variants of economic policy for 1968; preparation of economic budgets; dialogue with the framers of the Finance Act.
May 1967	Economic Budgets for 1967 and 1968 (with variants for 1968). Indicator tables.
October 1967	Economic Budgets for 1967-1968 (introduced in Parliament). Indicator tables.

Bureau preparing the  
Finance Act

Office of the Commissioner-  
General for the Plan

Introduction of the Finance  
Act for 1967

Report on the implementation  
of the Plan in 1965 and 1966.  
Regional allocation of the  
Capital Investment Budget for 1967.

Examination of the over-all  
perspectives of development for  
1967-1970 opened up by the  
economic budget.

Drafting the Finance Act  
begins

Estimation of expenditures;  
dialogue with the Plan Office  
and the Ministries making  
the expenditures.  
Definition of possible  
economic policies.

Participation in budget  
readjustments.

Last major budget readjustments.

Introduction of the Finance Act  
for 1968 in Parliament.

Report on the implementation  
of the Plan in 1966-1967.  
Regional allocation of the  
Capital Investment Budget  
for 1968.

With some simplification of reality, we may distinguish, in the formulation of policy for the year: the phase of certification above described which takes place in October, at the time of introduction of the draft Finance Act; the phase of search for the possible economic policies, which covers the entire Spring; and the phase of choice at over-all level and at detail level, which covers the second and third quarters of the year.

A. The search for over-all policies

Beginning at the end of 1966, projections of the year 1968 (taken here as our example) are prepared in order to explore the economic policies capable of best realising the targets of the Plan, according to the economic situations encountered.

The year 1968 is still too far away to be able to predict the economic situation that will be encountered in it. We shall therefore content ourselves with the preparation of a series of possible economic equilibria, without claiming to construct any one of them endowed with higher probability than the others.

A-1 The study of the contingencies  
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The number of sketches, however, must be limited; we shall therefore seek to analyse the dynamics of economic development during the transition from 1967 to 1968.

The year 1968 depends largely on the course of the development assumed for 1967; thus, if the perspectives of the year 1967 are poor, we study the conditions for an upturn; if, on the contrary, 1967 will probably be a year of very rapid growth, the risks of inflation are studied instead; whenever possible, we eliminate the elements of cyclic behaviour (inventories and investments), and also take account of the dates when certain institutional

changes are scheduled (for example, the end of the Common Market on 1 July 1968, the fiscal reform on 1 January). In short, 1968 is given the most marked physiognomy possible in order to limit the variants to be constructed.

It is helpful, in this work, to consider the work of the Plan, which predicts the development of the trends of many variables which vary but little with the economic situation (démography, for instance), or whose growth results from governmental decisions (such as civil service salaries). It is legitimate to retain these mean estimates for 1968, at least initially.

Conversely, the examination of the terminal year of the Plan yields ideas of new equilibria. The structural modifications forecast for the year 1970 may show up more or less distinctly from 1968 on; they may also fail to develop at all. This leads us to construct variants for 1968 taking account of all these uncertainties.

Thus we come to define a set of contingencies, situational or structural in nature, affecting 1968. For example, in 1968 the wage rate may increase or remain motionless, the international economic situation may be good or poor, productivity may show a normal growth or an accelerated growth as the end of the association with the European Economic Community approaches, etc.

The contingencies thus represent the exogenous variables of the projection, those which cannot be predicted with assurance, and are not controllable by the will of the Government.

#### A.2 The description of the possible states of the economy

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Each of these variables may assume several values (rarely more than two or three); the various possible combinations of these values are taken, and with them is associated the same economic policy, called mean, defined by

a few key figures (State expenditures, fiscal pressure, etc.). This "mean policy" may be deduced from an examination of the Plan, or extrapolated from the year 1967. It makes little difference which is done, for it is subsequently modified.

Certain of the associations so defined may be rejected a priori, because they result from mutually incompatible contingencies. For example, a great rise in the wage rate is inconsistent with a sudden fall in exports. In this way we restrict the field of the possible equilibria and ultimately set up all the accounts representing **them**.

The study of these accounts shows the economic **imbalances** or deviations in respect of the Plan targets. With each of these accounts we associate a variant of economic policy comprising measures permitting a return to a more desirable situation.

This work is aimed less **at the** formulation of figures than at the systematic study of the basic hypotheses.

Thus we dispose of a description of the possible states of the economy, each provided with an economic policy adapted to it.

The question then arises as to what economic indicators must be watched in 1967 to determine the condition towards which the economy is in fact moving. With the lapse of time, the number of possible states decreases very rapidly. Out of 10 eventualities envisaged **for** the end of 1966, we have only three or four for May, 1967; thus, since the situations have been studied very early, we can orient ourselves towards the economic policy that is most desirable from the viewpoint of the economic situation and in respect of the Plan.

### A.3 The example of the year 1968

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The following contingencies for 1968 have been studied since the end of 1966:

Behaviour of investors: may prove to be less dynamic than in the past, owing to new financial difficulties which may diminish the amplitude of the investment cycle. To take this into account, a "deviation variable" is added to the equation determining investment in the model utilised. This variable modifies the coefficients of the equation; each determination of the contingencies is characterised by a value of this deviation variable.

More or less vigorous rise in the wage rate: this rate is an exogenous variable of the model.

The study of these two contingencies is designed to test the Plan forecasts on each of these two variables.

The impact pattern of the fiscal reform of 1 January 1968: on the occasion of the reform, entrepreneurs may reflect in their prices the advantages they have gained from it (decreased cost of investment); such behaviour, however, will not necessarily occur. In that case we shall have to introduce a deviation variable into the equation giving the prices.

With two determinations per contingency we obtain eight possibilities.

These contingencies are confronted with the possible economic policies. These policies are characterised by several global choices. For example, in 1968 the reform of the social security system envisaged by the Plan (increased social contributions and decreased benefits) might take effect either on 1 January or on 1 July.

The fiscal reform might go into effect six months later;

The action of the State by way of its expenditures may be restrictive

or neutral relative to expansion. Combination of the eight policies so defined with the eight contingencies yields 64 economic budgets.

All of them are not of interest; those representing extreme situations are seldom studied. If necessary, however, the mechanisation of the exploratory budgets would allow us to generate them rapidly and to test their value on several well selected items (prices, production, budget deficit, etc.).

#### A.4 The 1968-1970 paths

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The accounts selected are studied for their compliance with the Plan targets; to this end, some of them are projected as far as the terminal year by using the same mechanised model.

Contingencies as far as 1970 are selected in order to display the behaviour on which the Plan is based, although it is not exempt from uncertainty.

These contingencies should be consistent with those selected for 1968. We attempt in some way to imagine simple scenarios for the economic history of the three years 1968-1969-1970, while respecting the limits imposed by the possible states of 1968 and by certain targets of 1970.

Variants of the economic policy for the restoration of equilibrium are likewise constructed on the most interesting of the 1968-1970 paths.

On the whole, the examination of this series of accounts will help us to understand the routes by which structural changes predictable over the medium term may act over the short term. Numerous ideas about the year 1968, and several about 1969 or 1970, are extracted. The exercise is very gross and comprehensive, and makes no claim to provide the march for 1968-1970. But it does give food for thought and is a valuable intellectual stimulant.

A.5 The results of the exercise are discussed with the experts who  
 -----  
 have established the projection of the Plan. What is, in general, questioned  
 is the behaviour predicted over the medium term.

The planners describe an economic equilibrium for the terminal year, which is realised owing to modifications in the behaviour of economic agents - modifications made possible by the very data of the equilibrium at which the planners have arrived. For example, the circuit:

concentration of the industrial sector → unemployment → checking of wage rise → relative decrease of domestic demand → necessity of export → search for a better competitive position → concentration of industrial sector → etc.

describes an equilibrium which is self-consistent, but is not the only possible equilibrium. Its realisation implies a continuous realisation, harmonious in each of its elements during the implementation of the Plan. If unemployment increases too rapidly, if the domestic demand is checked too soon, entirely different equilibria may be reached.

Observation, at a very comprehensive level, of the short-term development of the economy permits the formulation of a judgement on the probability of the appearance of the predicted behaviour. Those who draw up the economic budgets, who are as a rule better acquainted with the immediate reactions of the economy, determine from their study of the paths the points of conflict with the Plan projection.

The experts of the economic budget then confront the Plan experts to elucidate the nature of the causes of this disagreement. It may, perhaps, be connected only with differences in the method of appreciation of the reactions of the economy. More often, however, it results from the failure to take measures envisaged by the Plan as conditions of its satisfactory

execution; finally, normative developments have sometimes been adopted in the medium-term projection without being supported by explicit measures.

The Plan figures, both during the technical preparation and during the choice of policies, are derived from complex compromises which are hard to reconstruct after the event.

The budget experts find it difficult to reach an exact understanding of the intentions translated by the figures of the medium-term projection. It is, in particular, very difficult to distinguish, among the normative variables, those describing a target that is valid per se from those providing the means of realising a different target.

Experience shows that the good understanding of the Plan by the short-term forecasters requires them to participate to some extent in its preparation. They ensure by the presence that the economic situation at the inception of the Plan shall not be in conflict with the picture of the terminal year.

Thus we arrive at the idea that economic budgets extending over two or three years on the completion of the Plan forecasts may prove to be a test of its subsequent development.

During this final period of Plan preparation, the budget specialists and planners collaborate in the refinement of "a philosophy" on the development of the subsequent years and the means of verifying its validity; it is during this period that the short-term and medium-term projection methods can be harmonised.

The short-term model used to generate the paths is likewise reviewed during the period immediately preceding the inception of the Plan; it is constructed less on the extrapolation of past behaviour than on the new trends of deformation of the structures envisaged by the Plan. The model is

thus valid only for the period covered by the Plan.

B. The choice of a detailed policy and the preparation of the Finance Act  
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The review of Plan implementation and the trends revealed during the search for the paths contribute to the formulation of the Finance Act, which commences in the Spring.

Those responsible for the economic budget carry on a dialogue, on several levels, with those responsible for the State budget.

On the one hand, several over-all schemes of economic policy are worked out, in order to afford a choice of methods of intervention in the economic situation.

On the other hand, special problems are treated in great detail. For example, a forecast is prepared on the equilibrium of the accounts of the chief public enterprises; the financing problems of certain industrial sectors are studied, etc.

The necessity of integrating all of the work into a single form, while facilitating discussion, leads to the construction of a very detailed economic budget, or central account, which is based on studies broken down to the maximum possible extent.

Alternative or "variant" budgets, constructed in over-all fashion, are also submitted in order to indicate the choices available to the Government. It does not seem imperative to break down these variants into finely divided schedules.

B.1 The content of the central account  
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The central account represents the economic activity of all the national agents - **business**, households, administrations, etc. The nature of the problems of decision-making leads to the breakdown of certain agents or

operations in a particularly standardised way.

(a) This is the case with the balances of resources and uses of goods and services, which are drawn up in a nomenclature of 76 products.

These balances are then compared in the framework of an input-output matrix; they are treated at constant prices and at current prices. It is in this very detailed framework that the forecasts of production and foreign trade, branch by branch, are treated.

The investment problem is treated in connexion with this matrix. They are distributed by purchasing branches, and compared with the production. The active labour force is similarly distributed among the branches.

Thus we dispose of data on the productivity of capital and labour. Indications are likewise drawn on the financial situation of the enterprises, and on the resultant tension on the level of prices and wages.

The Development Plan includes as major targets the level of investment, the equilibrium of relative prices, the development of real wages, and the financial situation in certain sectors (heavy industry, public enterprises, agriculture).

The detailed work above mentioned throws light on the degree of achievement of these targets, and seeks to learn what actions of the State could improve it. The list of measures is worked out at this level in a form that facilitates the choices by synthesising them.

For example, it is specified that a 5 per cent increase in a public tariff would permit a decrease of 100 million francs in the State subventions and would increase the level of consumer prices by 0.2 per cent.

At this stage, however, only the direct effect of each measure can be studied. The impact on industry as a whole is ignored.

(b) A second set of detailed forecasts relates to the account of the State and administrations such as Social Security, local governments, etc.

On the one hand, it is indeed important to elucidate the multiple interactions between these sub-agents. A decision to increase the pay in the national civil service will react on the pay in the local civil service and on local taxes; a decrease in the State subventions to Social Security affects the contributions charged by that system, etc.

On the other hand, the State expenditures, and primarily those involving capital investment, are analysed for conformity to the Plan by means of functional breakdowns, and evaluation of the credits allocated to certain major projects.

In this way is developed a language common to those responsible for the Plan, the Economic Budget, and the Finance Act.

(c) Finally, the table of financial operations covering all economic agents accords particular importance to the operations of the Treasury and the financial intermediaries closely associated with it (central bank, savings banks, etc.). Given the complexity of the financial circuits and the rules governing them, this breakdown is necessary in order to find the most desirable budgetary equilibrium and the funds to finance it.

## B.2 The variants

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The ideas of the over-all alternative economic policies have already been conceived during the formulation of the "paths". They are sharpened during the preparation of the central account; the global orientations are given concrete form in a group of specific measures.

Although constructed globally, on the margin, relative to the central account, the variants are thus based on precise measures and may simultaneously

satisfy several objects.

For example, a variant presenting supplementary budget expenditures for action on the economic situation may be based on the hypothesis that certain definite projects will be accelerated.

A good knowledge of the detailed problems posed by the Plan, of the shortages of plant and equipment in certain sectors, etc., ensures the optimum concordance between cyclical policy and Plan. Very intimate collaboration between short and medium-term forecasters is therefore essential at this stage of the work.

Some of the variants will be concerned with the impact on the economic situation of the institutional reforms envisaged by the Plan; the possibility of their rapid or time-phased accomplishment, taking account of the constraints of the economic situation or of policy, should be discussed from the dual viewpoint of short-term and medium-term equilibrium.

### B.3 The adjustments

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The confrontation of the two decision-making centres (Minister of Finance and Commissioner-General for the Plan) develops at several levels.

They may be summarised in a very schematic way.

First level: Choice of institutional reforms to be carried out (fiscal reform, actuarial reform of Social Security, etc.) and the general line of the contra-cyclical policy (restarting or cooling off activity) on the basis of the central account and of global variants.

The account ultimately adopted presents a certain budgetary equilibrium and defines the State expenditures in blocks: pay, subventions, etc.

Second level: These blocks are then apportioned and distributed over the items of a functional schedule and compared with the targets of the Plan.

Taking account of budgetary constraints and uncontrollable expenditures, the rates of growth of each function are selected.

Third level: The allocation of the credits between the most important projects within each function is then deduced. Review of the functional blocks is sometimes necessary at this stage if certain projects appear too greatly disadvantaged.

Agreement is established on the first level, either in a common conception of the risks run by the national economy, or by compromise. Experience shows that this common conception does not materialise unless the services of the two administrations have collaborated in selecting the decisions during the formulation of the Plan. This same requirement has been found to exist at the level of the technical preparation of the projections 1/.

1/ In France, the accord of the technical planning staff is based on the following organisation: Divisions of analysis (subordinate to the Ministry of Finance) are each specialised in the treatment of an economic agent (enterprises, households, etc.), but at the same time prepare the account of the past and the short and medium-term forecasts for that agent. Three divisions of synthesis assemble the set of analytical studies; but each of them is specialised in respect of time: past, short-term or medium-term.

Thus the same division describes a given agent under three aspects, thereby preventing the short-term neglect of a problem revealed for the medium-term, and also preventing the misuse of statistics.

On the other hand, the specialisation of the divisions of synthesis prevents confusion of the projection methods and maintains the specificity of each type of forecasting.

SYNTHESIS:	DIVISION OF ACCOUNTS (past)	DIVISION OF ECONOMIC BUDGETS (short-term)	DIVISION OF PROGRAMMES (medium-term)
ANALYSIS:	Enterprises      Households	Administrations	Foreign      Financial Intermediaries

At the second level, the adjustment of the amounts allocated by the State to each function is guided by the concern for the maintenance of that equilibrium between the functions that appears in the Plan.

This procedure is clearly not completely satisfactory. Modifications in technology or structures since the launching of the Plan may have rendered this equilibrium inadequate. However, to the extent to which it is not possible to reformulate the Plan every year (plan-revolving), it must be accepted as the better choice.

At the third level, there are in theory methods permitting the choice between two projects in the same function.

After having defined a single criterion of profitability for a class of mutually competing projects, they are arranged in order of their rate of profit. But this method is applied only to very limited groups of homogeneous projects (highway or power developments). It can be generalised by the discovery of criteria common to very different projects (return expressed in terms of human lives saved, for example). Studies of this kind have been performed in the United States (Planning-projecting budgeting system) and have been initiated in France (optimisation of public decisions).

(c) The review of the Plan

At the end of two or three years of Plan implementation, it may become apparent that certain over-all targets will not be attained, even if measures to catch up are adopted.

Since the formulation of the Plan is spread over at least three years, the work on the following plan have already been initiated at the time the current Plan must be modified. Inasmuch as the procedure cannot be stopped in order to reassign statisticians and administrators to the task of remodeling

the current plan, a hasty projection for the terminal year of the Plan, now outmoded, may be made instead 1/. Such a projection generally covers only two years, in view of the usual four or five-year period for the medium-term plan 2/.

Thus it partakes much more of the nature of a prolonged economic budget than of that of a medium-term forecast.

This explains why the search for "paths", when it occurs towards the middle of the Plan period, is of most particular importance. It sheds light on the necessity of starting work on an interim plan.

1/ The plan-revolving technique avoids all inconveniences of this kind. Fault may be found with it, however : it is excessively cumbersome, and it also permits the indefinite postponement of awkward **policy decisions**.

2/ This was the situation in France during the Third Development Plan, when an "interim Plan" for 1960/61 had to be constructed.

As we conclude these few remarks, we are struck by the partial and heterogeneous character of current practice.

The confrontation between the short and the medium term, from the viewpoint of forecasting and of decision alike, does not yet operate systematically and rationally. The dialogue procedures and the mathematical methods that could lend mutual consistency to the various decision-making centres are still hesitant or inexistent. It would seem, however, that the economic budget does serve as a support for whatever progress may be made.

It provides the common language necessary for the dialogue, it permits a test of the value of the decisions adopted, which it assembles in a self-consistent framework; finally, its dissemination and its systematic discussion within the ranks of the administrations gives rise to politico-administrative structures making the confrontation of adverse opinions possible.



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TECHNICAL AND ORGANIZATIONAL PROBLEMS IN DEVELOPMENT  
PLANNING AT THE REGIONAL LEVEL (WITH SPECIAL REFERENCE  
TO ASSWAN REGIONAL PLANNING EXPERIMENT)

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

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TECHNICAL AND ORGANISATIONAL PROBLEMS IN DEVELOPMENT  
PLANNING AT THE REGIONAL LEVEL (With Special reference  
to Asswan Regional Planning Experiment)

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Introduction

The objective of this paper is to consider the major issues in the planning of regional development as part of the national planning effort. It attempts to examine the technical and institutional problems in the formulation of regional plans within a national planframe.

While international experience in regional development planning needs to be assessed and evaluated for the benefit of providing general guidelines, it should be emphasised that such generalisation may be difficult, and sometimes dangerous to adopt without due regard to the political and institutional characteristics of each country. It was, therefore, felt that the study should be closely related not only to the socio-economic climate of growth in a specific region, but also to the known resources of the region which determines its growth potential. The basic elements analysed in this paper have been based on the Asswan Regional Planning experiment. The Asswan experience is anatomised in such a way so as to show the types of problems faced by regional planners and the alternative approaches towards their solution. In this way it becomes possible to examine some specific technical and organisational problems in the establishment of regional agencies and in the formulation of regional plans in a realistic setting. Relating the theoretical treatment of these problems to an actual experiment lends realism to the analysis and makes for a higher degree of flexibility in adopting approaches and methods of regional development in other countries.

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<sup>1/</sup>In some countries where regional political feelings are not always in harmony with the national solutions, e.g. Northern Iraq (Kurds), Southern Sudan, Nigeria, Congo, Kashmir, France (Alsace) etc., regional planning might prove, in the short run, politically unacceptable. In the long run, however, it could become the only feasible solution based on the understanding of the interplay of forces; political, social and institutional.

The paper, leaning heavily on the Asswan experiment, emphasises the following points :-

1. The historical development of a region has a bearing on its future growth and its people's psychology of growth.
2. The effectiveness of national planning in prescribing a detailed path for development is limited.
3. The ability of regional planning to manage and manipulate all the relevant factors (variables) in the development effort is greater than that of national planning.
4. The pragmatic approach to planning logic is obtained in a regional setting through autonomy and less procedural restraint.
5. The need for resource research and surveys to identify development projects becomes clearer in a regional context.
6. The need to institutionalise the entrepreneurial function in planned societies is emphasised.
7. The multi-dimensional elements of development is more operational in a regional context.
8. The urgency of developing human resources at all levels should be given a high priority.
9. The manipulation of institutional and political realities is necessary in order to achieve realistic and effective planning agencies.
10. The relationship between regional and national plans should be carefully worked out.

The Asswan Experiment - A Historical Perspective

Some forty centuries ago during the fourth dynasty of the pharaonic reign of Egypt, Asswan became a centre of great importance as the supplier of the basic raw material of the time. The industry to which was diverted most of the national capital at that period was the construction industry, including the Pyramids, and the raw material was granite from Asswan. Hordes of workers were assembled to mine, cut, shape and load granite blocks through, no doubt, especially erected primitive roads and ports on the Nile. The prosperity resulting from these activities came to an end after the required supply of granite was fulfilled and as investment in the construction industry, the symbol of power, diminished. Roads became in disrepair and the port "facilities" were dismantled or rotted away.

During the Middle Kingdom, about 1700 B.C., Asswan witnessed another surge of economic activity with the discovery of gold. A gold rush ensued, not dissimilar from the California gold rush. In Asswan, however, it was initiated and organised by the Pharaoh who realised the value of the gold for his military purposes and immortality beliefs. The weakening of the subsequent Governments (Pharaohs) led to the decline in efforts in organising gold rush groups, and the disappearance of surface-mined gold sharply brought down the fever of economic prosperity in Asswan once again.

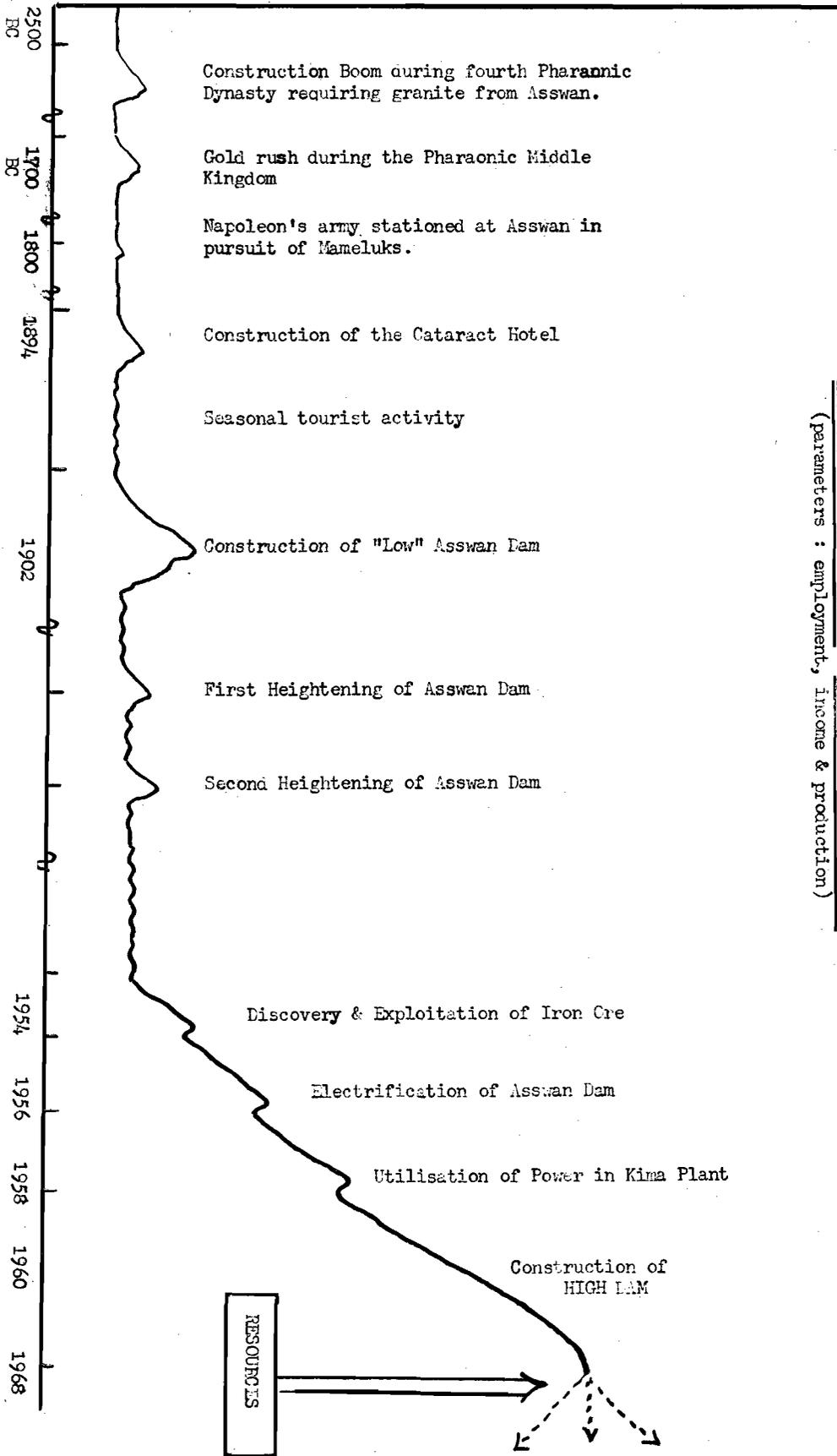
There is evidence of numerous spurts of economic prosperity in Asswan since the ancient history, during the Greeks, the Romans, the Arabs, the Mameluks and the Napoleonic venture in Egypt. All of them never proved cumulative in nature and did not have the characteristics of continuity. The modern concept of the "take off into self sustained growth" could not come into operation.

As recently as 1890 Asswan remained a quiet village, with subsistence agriculture, little fishing and caravan smuggling trade with the Sudan. This stagnation was broken for

a time with the building of the first "modern" hotel in Asswan, the first major agent of converting Asswan into a money economy. Prosperity, employment and higher incomes came with the construction activity and ended with the completion of the building, leaving a seasonal pattern of slight tourist prosperity during the winter months. The ensuing stagnation was broken with the building of the first Asswan Dam at the end of the 19th century. In spite of the rise in the level of economic activity resulting from such an investment, no permanent dent on the economic profile of the region was achieved. Skilled labour employed on the dam returned north to Cairo after the dam completion; housing specially built for them were left empty, quarrying activities naturally came to an end and the indigenous population were left in a state of unemployment, with a sharp fall in money incomes. The same story with its social, economic, and political implications was repeated during the subsequent two heightening operations of the low dam between 1902 and 1930. Stagnation followed short-lived activity and no permanent effect was achieved except on the psychology of the people who began to distrust the falsehoods of development as temporary relief and permanent misery.

In 1954 attention was directed again to Asswan with the discovery and exploitation of the iron mines in the surrounding hills. The ensuing activity sharply raised the welfare of the region in the form of new housing, roads, utilities and commerce. History did not repeat itself, however, as the level of activity was pulled along with the electrification of the low Dam. The rise continued once more through the utilisation of the generated electricity in the production of fertilisers in the \$ 36 million Kima Plant. These three consecutive development projects had, by 1960, raised all parameters of growth to a new high and created a climate most suitable for growth in developing regions. The starting of the construction of the High Dam sharply pushed the level of economic activity to an extent that promised a permanent take off. It is

Development Parameters



ECONOMIC GROWTH OF ASSWAN - Historical Retrospective -  
(parameters : employment, income & production)

CHART (1)

considered, by the sheer magnitude of the operation, i.e. a billion dollar investment, as capable of pulling the region away from the gravity of under-developed stagnation equilibrium to a new equilibrium position of continued growth.

### National Planning

Growth, however, is not determined by the statistical analysis of a historical perspective. The fact that the growth climate of Asswan is favourable, is a necessary but not a sufficient condition for continuous growth. To enquire whether the curve of development would rise above the level reached now, or be maintained at a plateau of achieved levels, or decline, is an enquiry that does not lend itself to intelligent guessing. Rather, it is an enquiry to be approached on scientific lines. The pillars of development are resources, natural and human, and the skillful use of utilising them in properly administered operations. These are the major determinant of future growth. The rate of growth is dependent upon the rate of discovery, assessment and exploitation of the resources in any one region. A planner in the regional or national context should not start with a preconceived idea of a development rate. He should assess the resources, compute the required investment and hence the expected and realisable rate of growth. There is some doubt whether such detailed studies as required can be undertaken within the context of national planning. To elaborate on this, it would be relevant to digress a little into the conceptual framework of nationally planned development.

A review of the economic development literature, as well as bilateral and multilateral development programmes suggests that most programmes are based on the reasoning that rich countries have a larger stock of capital, technical knowledge, and educated and skilled people than do poor countries, and that the growth and levelling-out process can be brought about, or at least accelerated, by organising the

movement of such resources within the developing nations, supplemented by marginal capital and technical assistance transfers from advanced nations.

This reasoning is sound enough. It is governed, at the one end, by the readiness of advanced countries to mobilise such movement towards areas where the maximum impulse can be generated with a minimum optimum size of development aid necessary to create the desired change. On the other end, it is governed by the ability of developing nations to absorb such transfers and to create those institutions that can radiate the impulses thus generated. However, even if the two sets of conditions, both at the giving and receiving ends, are satisfied, it should be recognised that the availability and the transfer, of such resources does little more than create potential. No amount of foreign assistance (or domestic resources) can bring about viable socio-economic development without appropriate knowledge of the areas of potential development and the intensity of the required effort.

The history of development and international aid in the last fifteen years or so indicates a large degree of failure in recognising these conditions. The resources of developing countries, the development of which should be the major objective of international transfer of technology, have not been subjected to intensive surveying, nor have developing countries set up the necessary institutions which can absorb advanced technology in such surveys. Furthermore in most developing countries, because of economic, social and political realities, the free market and the capitalist entrepreneur are not the relevant "appropriate institutions". There has been widespread agreement on this. And, the fashionable substitute for this has unfortunately, in some cases, been recommended in the form of national planning agencies.

Accepting this, most of the developing countries have established national agencies responsible for economic planning.

The precise nature of these institutions varies from one country to another, but they are usually responsible at least for setting objectives and guidelines, and, in some measure or other, for seeing that specific projects fit the guidelines and will contribute to satisfying these objectives.

This is only part of the job of igniting the development process and perhaps the easiest part. Overall planning must be supported by a complex of sub-plans describing the steps whose implementation will satisfy the general objectives. These sub-plans are the real bricks and mortar of development planning, dealing, not with intangible aggregates, but with specific technological and social data and decisions. The quality of these sub-plans and of their execution has much to do with the effectiveness of foreign assistance, not to mention the pace and climate of economic growth. In a capitalist economy the entrepreneur prepares these sub-plans, and follows them in their implementation. Who can best do this in a non-capitalist developing economy ?

The job is frequently delegated to the various central Ministries, each responsible for its own sector. This has the advantage of putting the task in the hands of institutions with the technical capabilities needed, and of giving the detail planning work to those who will be responsible for implementing the plans. But there are important disadvantages to this approach. Ministries, being executive arms of the Government, are heavily burdened with the administration of existing programmes and the implementation of new ones. They are large (sometimes vast) and specialised, neither of which is a characteristic conducive to the imaginative, inter-disciplinary efforts needed for dynamic development planning. And they are centralised; in terms of geography and of first-hand knowledge they are close to only one part of the nation which is to be developed. By design and by evolution the central Ministry is an administrative, not an entrepreneurial, institution. What is needed is an institution created specifically to play the entrepreneurial role in a planned society.

Such an institution must have as its sole raison d'etre the planning and promotion of socio-economic development. Its concern would have to be with technology, with physical and social resources, and with economics, - not in general terms, but in detail. It would have to be close enough to the people and the resources with which it is concerned to know them well and, in psychological terms, to "identify with them". In most countries this suggests a regional institution, as does the need for an inter-disciplinary organisation small enough that formal and informal communication can be easy and frequent. At the same time, however, to participate in key decisions and influence actions related to specific projects, it would have to have very close working relationships with executive agencies of the government, generally central ministries, and with those responsible for overall planning, i.e. the national planning agency. Such an institution should provide an aggressive development agent which bridges the planning and execution stages of development projects, and an institutional mechanism responsible for searching out and creating new resources and opportunities, and for promoting their full exploitation.

### Regional Planning

There is no particular mystique about the word "regional" in economic development planning. It is simply the selection of an area of manageable size and the application of pragmatic resource - based planning logic. It is this combination of manageability and detailed knowledge of the region which has made regional planning a possible solution and which has made the Asswan experiment vital to the U.A.R. economy and unique as a model of development methodology in that country.

It is becoming fashionable to regard "regional planning" as the solution to all problems of development, just in the same way as "national planning" and "community development" were regarded in the fifties and early sixties. The logic for the change in fashion may be explained in terms of the complexity

of the planning process, the number of inter-dependent variables to be introduced in any planning system, and the absence of the human element both quantitatively and qualitatively. As a result, plans in most planned societies have been either irrelevant to the actual process of development, i.e. in the form of overall national budgeting which claims to ensure equilibrium among sectors with little or no mention of the catalysts of change, i.e. the resources, the projects and the decisions required to bring about the prescribed growth, or unrealistic by ignoring or assuming away the relevant decisional elements required to bring about needed change.

This led to an ever-increasing sophistication in model building, a fascinating exercise, incorporating more variables and permitting mathematical solutions. The marriage between technological and social data was not successfully achieved as the latter is less readily quantifiable. In some planning exercises emphasis was made on the engineering aspects of planned development action, with partial or total neglect of the role of human resources either as agents and participants of development or as recipients of the fruits of development. In other exercises, particularly those based on community development approaches, human resources were regarded, quite rightly, as the key to development, but equally wrongly as both necessary and sufficient growth factor by neglecting technological and institutional elements. This was done, probably unconsciously as a system that can accommodate social, technological and political functions would be difficult to evaluate, let alone manipulate.

While the search continues for even more comprehensive models encompassing all aspects of development, planners in many countries are still facing the basic development problems to which models have given theoretical meaning but applied solutions are difficult to obtain.

In most cases, regional planning seems to provide more realistic answers particularly in the field of inter-sectoral relationships, combined social-physical data,

resource survey, preparation of stockpile of investment projects, and the coordination of various investment activities.

### Regional Planning of Asswan

The construction of the High Dam at Asswan in the U.A.R. provided an excellent opportunity to test the validity of these concepts in a regional microcosm. As a side effect of the tremendous construction activity in this southernmost segment of Egypt, the region is undergoing an economic renaissance. The High Dam became a catalyst for the regeneration of the surrounding area which lain **dormant** for centuries. The resources of the area have been dramatically "rediscovered", the city of Asswan is mushrooming, activities in agriculture, industry and education are expanding at an accelerated rate and the full attention of government is focussed on exploiting the resources of the area to the maximum.

At the core of this activity is the Asswan Regional Planning Authority. This Authority was created four years ago by Presidential Decree and charged with the responsibility of generating and executing plans for the total development of the region. Considerable thought was given to structure and function of the Authority during the organisational phase. In its final form it is organised along functional lines with seven "Development Centres" (Agriculture, Industry, Water, Minerals, Human Resources, Environment and Transportation) each of which is responsible for identifying, evaluating and exploiting resources in its sector. The activities of these Centres are, in turn, coordinated and integrated by the regional technical and administrative unit. The Authority's programme of action is based on the following basic concepts :-

1. That resource development must be based on reliable resources research;

2. That planning would be oriented to specific projects rather than to broad aggregate plans;
3. That each Development Centre would take on the role of the entrepreneur or innovator for the resources in its sector;
4. That the work of each Centre must be closely allied to the relevant agencies and ministries in Central Government;
5. That project priorities would be related directly to the political realities and the degree of Government interest and support;
6. That development activities and methods must be institutionalised to permit continuity and eventual adoption by other U.A.R. regions;
7. That the high degree of inter-dependence between sectors must be recognised and the work of all Centres must be integrated for the maximum benefit.

It is this conceptual framework, rather than the organisational structure, that will be emphasised here.

### 1. Resource Research

From its inception the Authority has operated on the thesis that if development activities are to be fully productive they must be based on reliable and comprehensive research. This maxim, though widely accepted, is easier to articulate than to apply. Most developing countries, and Egypt is no exception, have a plethora of "resource data" much of which is based on estimates, "informed guesses" or improperly administered surveys. This welter of often contradictory data seldom provides a realistic basis for project preparation or evaluation. Aware of

these limitations the Authority approached the task of multi-dimensional resource evaluation with a high degree of scepticism. In almost all instances existing data was replaced by findings from surveys and research developed and administered by the Development Centres. In the Human Resources area, for example, fifteen separate surveys were administered including a complete census, in order to ensure that plans for human resource development activities were based on accurate data.

The Authority has been fortunate in obtaining substantial foreign assistance in carrying out this research. The Ford Foundation has provided both consultants and equipment to strengthen these activities. The U.N. Development Programme has also provided considerable support toward this end for research on water and mineral resources. As a result, major research and survey activities have been underway in all sectors for the past four years. Some of these, such as research on water and minerals, are long-term projects and will require several years to complete. But most of these efforts yield immediate results which can be used as the foundations for specific development projects. This is particularly true in the fields of agriculture, industry and human resources.

The knowledge that every project which the Authority proposed is based on valid data has gradually spread through the executive arms of the central government. This, in turn, has served to establish confidence and to enhance the attractiveness of the entire programme. This is one of the reasons why the Asswan Region has been able to obtain a larger and larger share of funds each year from the national development budget.

## 2. Project Based Planning

The U.A.R. National Government includes a Ministry of Planning which prepares long-range plans. It is seldom possible for the Ministry, however, to engage in the detailed planning of individual projects or planning for specific geographic sections of the country. Although such detail plans are the bricks and mortar of development, their preparation and execution are

delegated to the relevant ministries and organisations. The Asswan Regional Agency recognised from the start that if the development programme was to succeed plans must be linked directly to implementation. This, in turn, implied that the planning process must start with individual projects from which a mosaic would gradually emerge which would become the "Regional Plan".

The Asswan Regional Planning Authority is responsible directly to the Prime Minister and not to the Ministry of Planning. Nevertheless, it was obvious that plans and projects for the region could not be in conflict with, and indeed must supplement, the targets of the national plan. The fact that the dictates of the national plan were broad rather than specific left considerable latitude at the regional level, particularly for the project-by-project approach. Also, as in most developing countries, the high-priority projects in the region were readily identifiable and their acceptance at the national level was virtually automatic. The critical task was therefore the careful preparation of bankable project plans, including financing and execution, to ensure acceptance when they were presented for approval.

Project preparation has proceeded on two levels : long-term and short-term projects. Plans for the aluminium factory, for example, have been in process for three years and are still incomplete. Alternative sources of raw material are being carefully evaluated as are various methods of processing alumina; local aluminium consumption has been surveyed and projected; the world market has been studied; several methods of financing have been prepared and compared; etc. This project could easily require ten years from inception to completion. During this period hundreds of short-term projects will have been prepared, vetted and implemented. One such project is the quarrying, cutting and polishing of Asswan granite for export. All that was required here was the expansion and modernisation of an existing operation, together with market research as to

customer requirements, pricing and shipping.

The most important ingredient in the preparation of each project is the inclusion in the plan of steps and responsibility for project execution. The Asswan Regional Authority shares the responsibility for project implementation and is insistent that steps for execution be an integral part of every project proposal. Approval of a proposal therefore virtually guarantees that the project will go into operation without delay.

### 3. The Entrepreneurial Function

As was noted earlier, one of the factors which tends to retard development in the developing "planned" societies is the virtual absence of the entrepreneur as an individual or as a recognised institution. The system does not provide for the vital "search-discover-exploit" risk function which is so important in the development process. The Authority is endeavouring to supply this missing ingredient. In addition to the continuing research on resources, it is constantly alert to the evolving needs of the people and the region's economy and to the emergency of new road-blocks to progress. In this constant quest for better methods, new solutions to problems and modern services and equipment, the Authority's personnel inevitably become innovators. It is perhaps in this role as the "agents of change" that the Authority will make its most valuable contribution.

With this philosophy of innovation as a keystone it is not surprising that the Egyptian technical and professional men, who have been attracted to the project as staff members are, in the majority, relatively young men and women with imagination and drive. They see in the project an opportunity to experiment and to work with only minimum governmental restraint. This expanding key group has been able to maintain a high level of motivation primarily through the constant process of inter-

personal stimulation since personnel from all of the Development Centres are in regular contact with each other and with the consultant groups provided by the U.N. and Ford Foundation.

The fact that each of the seven Development Centres is an autonomous unit, responsible for exploiting the resources and solving the problems in its sector, lends further encouragement to the entrepreneurial approach. Sectoral road-blocks can be quickly pin-pointed and corrective measures initiated. One example from the Environmental Centre comes to mind. In their effort to mount an aggressive village improvement programme the major block encountered was in construction materials. The virtual absence of trees and timber products was at the base of the problem. As a substitute two experimental machines were imported - one which fabricated wall board out of reeds or corn stalks and the other which produced highly compressed bricks by a simple hand-machine process. The machines were introduced and successfully demonstrated by the Environmental Centre and a new construction industry was born which has been spun off from the Centre as a cooperative. The village improvement programme as a result is moving ahead.

#### 4. Institutionalised Development Activity

One of the goals of the Authority during this evolutionary stage has been to regularise and organise policies, activities, facilities and personnel toward the establishment of an institution capable of servicing all aspects of development: research, project preparation, finance, marketing and implementation. With this target in mind, the Centres have evolved considerably beyond the status of "paper entities". Although most of the operation is presently accommodated in a single eight-storey building in Asswan, construction of buildings for three of the Centres is now in progress and quarters for the remaining four are in the final stage of planning. In addition, to specialised personnel each building will house laboratories, testing devices, specialised libraries and other facilities, materials and equipment required for the Centre's operations. Each Centre will be virtually self-sufficient and capable of carrying out the entire development process, from research through implementation, with only minimal outside assistance.

Self-sufficiency of this degree was dictated partially by the geographic location of Asswan, 600 miles from Cairo. But there were other reasons as well. One of these was the desire to create an institution capable of digesting and applying technical assistance to the maximum. Too often, the aspirations of a developing country greatly exceed its ability to effectively make use of foreign assistance when it is forthcoming. This, in turn, tends to depress the amount of foreign assistance offered. The existence of the Asswan Agency has already had a favourable effect in this regard as evidenced by the fact that several foreign assistance agencies have already made sizable allocations to the programme and additional proposals are in the discussion stage.

Another reason for institutionalising the Asswan programme was that if the programme was proved successful in that region the U.A.E. Government hoped to be able to duplicate it in other sections of the country. The programme has gained such acceptance that the Council of Ministers has been considering a bill which would redistrict the country so that the present twenty four provinces would be subsumed under six regions, each based on the Asswan model. If approved, this change can be effected with minimum difficulty because of the institutional character of the Asswan programme.

#### 5. Integrated, Multi-Dimensional Development

The interdependence of sectors and production units on a national level is heavily documented and universally accepted as a major pre-requisite for successful planning. In the absence of a minutely detailed plan, Ministers in charge of "sectors" are permitted to make decisions "within the framework of a national plan". It would be a sheer coincidence if the various decisions taken by a member of ministers in a given

period of time represent an equilibrium package that does not deviate from the planned path.<sup>1/</sup> Inter-sectoral equilibrium can be obtained theoretically through the use of inverted input output matrices within a programming model. In real life it may be achieved through a continuous process of inter-ministerial discussion (inter-sectoral analysis). On a national basis, this is hard to visualise.

The following example may be relevant; the resettlement of the Nubrians in the U.A.R., whose lands were threatened by inundation as a result of the High Dam, in a new area about 300 kilometers (on average) to the north. The project occupied a few lines in the National Plan where no detailed programming of individual projects can be accommodated. Moreover, no single ministry was in a position to undertake or be responsible for the operation as the work involved a coordinated effort by several ministries and within a large number of sectors. The Ministry of Social Affairs was involved in the basic study and assessment of the needs of the people. Transport problems involved the Ministry of Transport and Water Navigation Department. The Ministry of Land Reclamation was entrusted with the task of reclaiming new lands for the settlers, while the Ministry of Irrigation was to undertake the canalisation and irrigation and drainage network. The Government Foreign Trade Corporation had the responsibility of importing the necessary pumps for lift-irrigation. The Ministry of Industry was asked to provide the additional cement to build the new houses for the settlers.

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<sup>1/</sup>The problem is similar to that of measuring the direct and indirect consequences of increased production of any one sector on the rest of the sectors in an input output table in the absence of a computer, i.e. by iteration. In this case, the larger the number of sectors (Ministries) involved, the more difficult it is to obtain an optimum solution (decision).

The project also involved the Ministry of Education (Schools), Health (hospitals), Housing, Supply, National Guidance etc. Needless to say, none of these Ministries had taken into consideration the required "deliveries" when establishing their own sectoral programmes, Furthermore, the resettlement had to be completed within the period of 15 months.

On the spot, regional planning came into operation through a Regional Planning Commission whose members represented all the Ministries involved. Operationally, the Commission was given the combined powers of the Ministers represented, and its decisions were designated as final and compulsory to all Government Departments. In effect, a Regional Cabinet. An integrated time scheduled plan of operation was prepared and carried the necessary powers of implementation. The project was accomplished within the time schedule and 60,000 people moved to their new stone-and-concrete houses with agricultural land sufficient to keep them fully employed at the rate of 4 acres per family (higher than the average land-man ratio in Egypt of 1.7 acres).

The need to integrate the multi-dimensional activities included in every development programme should be emphasised. This point has been implicit throughout the fore-going discussion but deserves further emphasis. While it is undoubtedly true that different countries will, and should, give different priorities to sectoral development activities (one may emphasise agriculture while another will centre on industry) these imbalances must rest on rational foundations and cannot be permitted to grow uncontrolled.

In addition to the dangers from imbalances there is the need to recognise the inter-dependence of each sector on the others. A simple illustration would be the inter-dependence of industry and education where a sophisticated chemical plant is to be built. It is obvious that the technicians required to staff such a plant would not be readily available and special

technical education would be required. Complementarity of this type is implicit in every project, and often will involve several sectors - agricultural produce can lead to a food processing plant, to education, to housing, to roads, to services, to marketing, to village improvement and back to agricultural extension activities. This inter-relationship has positive development potential as well. Even a small project may have accelerating or "snow-balling" effects since the initial stimulus more often than not sets in motion a chain reaction. If these side potentials are anticipated their effects, can be multiplied to the benefit of all. Especially in development activities, success breeds success.

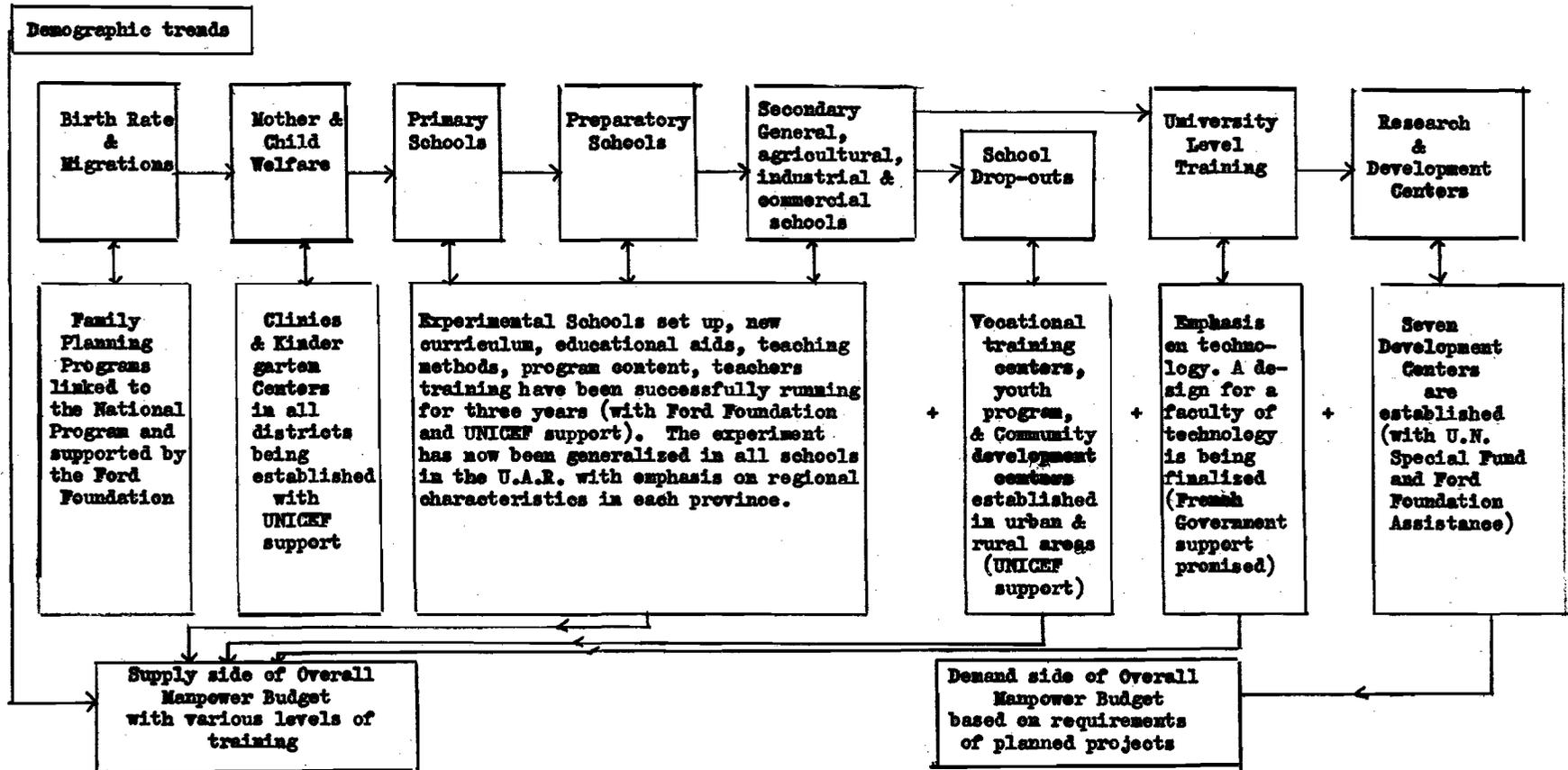
#### 6. Human Resource Development

The physical aspects of development is tightly related to the human resources of the region and its environment. The skills created by the construction of the High Dam represent a great asset to the future growth of Asswan. A manpower development plan is being undertaken in a unique form. The components of the supply side, over and above national migration patterns is being studied in extensive programmes as shown in the accompanying chart, which is self explanatory. The components of the demand side of the manpower budget is the output of developmental research emanating from the development centres being established in Asswan.

The Human Resources Development Centre is charged with planning the development of the manpower required to meet the expanding employment needs of the region; the improvement of the education system at all levels; the provision of pre-service and in-service training for employment; the development of community and social services; the improvement of health, welfare and family planning, facilities: and related activities. The Centre has three divisions, namely: Manpower, Education, and Community Development.

The following chart shows, in a functional form the process of human resource development and the type of programme carried out in each link of the "assembly line". The ultimate goal would be to raise the welfare, educational and technical skills of the population of the region, and to provide employment opportunities through dynamic economic growth.

**HUMAN RESOURCES DEVELOPMENT  
CHART (2)**



## 7. Development Research

To be effective development must be based on valid research. The importance of research per se is seldom recognised by development countries. In fact, the virtual absence of the research function is one of the characteristics by which under-developed countries can be indentified. One reason for this condition is that the costs of research are so high that the poorer countries are unable to indulge in this luxury when there are so many other, more immediately productive, uses to which scarce resources can be put. The pressures are such that, in the short run, it becomes difficult, both politically and economically, to divert even a portion of the limited funds into research activities. This, despite the fact that there is no doubt about the long-term benefits from research.

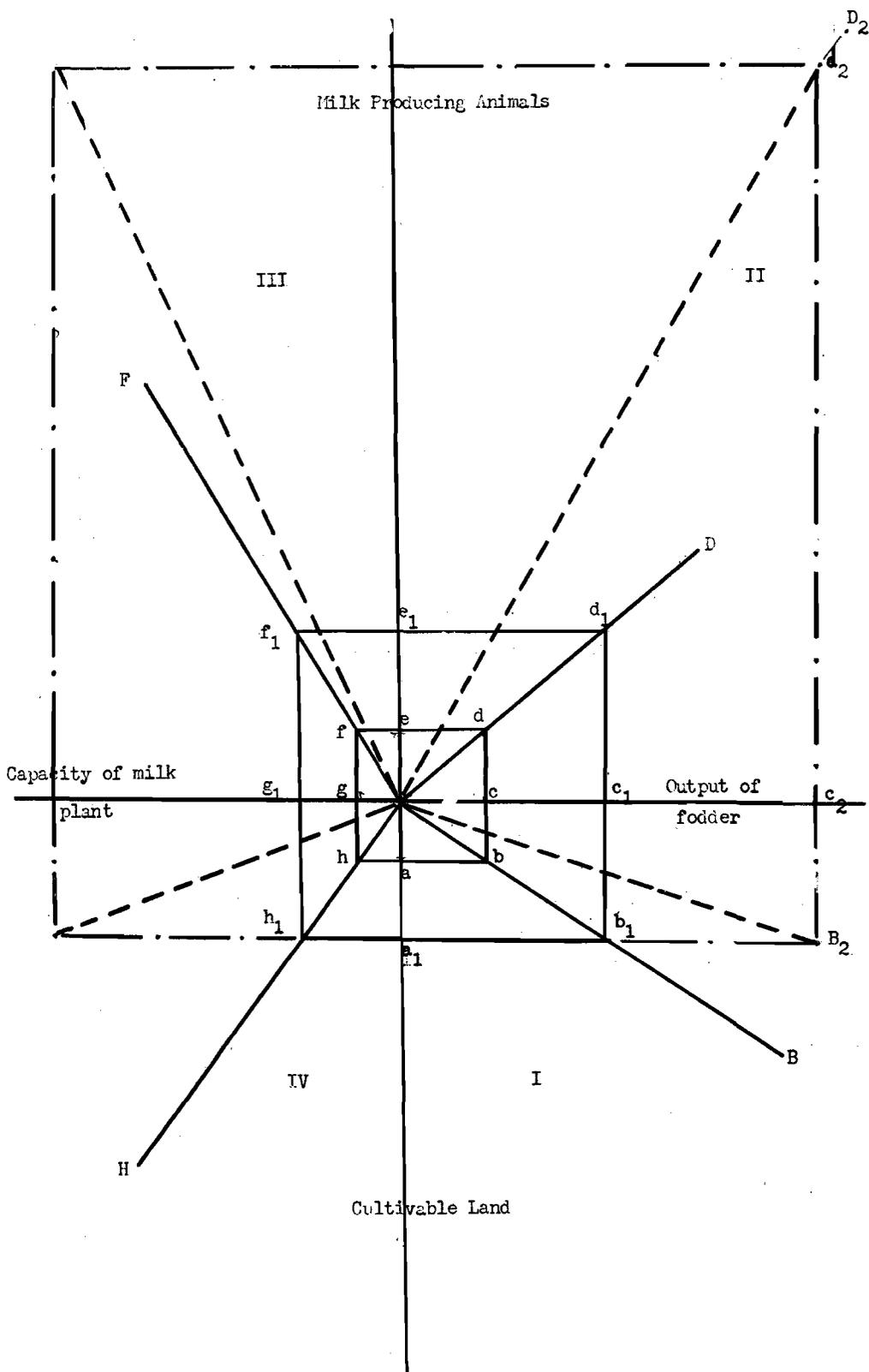
The Asswan Regional Planning Authority occupied in the two years a prominent place in the development research activities in the U.A.R. Research in the economic and technical significance of the region's resources is underway. The mineral possibilities of the area now under intensive survey would not be economically exploited unless a road network joining the mining areas east with the Nile for industrial processing in Asswan, and west with the Red Sea for export markets. The road from Asswan to Berenice, a natural harbour on the Red Sea is being seriously considered by the U.N. This will also serve the agriculture possibilities East of Kom Ombo which extends 60 Kilometers towards the Red Sea. This area is considered of the highest priority for new agricultural development by the FAO Survey team in their report finalised in October, 1966.

Similarly, the comparative advantage of cheap power in Asswan might be counter-balanced by the high cost of importing bauxite or alumina for the aluminium industry, a major consumer of the High Dam power. Hence intensive research is underway to assess the feasibility of extracting alumina from the clays around Asswan.

Two major research exercises are worth noting in more detail, relating to agriculture development and the inter-relationships between agriculture and industry. The two examples are described in the following two sections

### 8. Agricultural Development

The first example relates to agricultural development in a narrow sense, but the approach to the solution may be of general use. As a background to the problem, a milk sterilisation and pasteurisation plant was built in the Asswan Region at a cost of \$ 1.4 million following a decision taken centrally, before the Regional Planning Authority was established. The supply of milk in the region was not ensured as the cattle population is very small and scattered. As a result the plant could not be operated (the degree of utilised capacity was only 5%) and a decision was taken to dismantle the plant and to have it reconstructed in a milk-producing region. The decision is economically justified but politically unacceptable to the local authority, with undoubtedly good political reason. The Agricultural Development Centre was called upon for consultation to resolve the economic-political conflict. The study performed by the centre may be best illustrated with the aid of the following diagram :



(Chart 3 )

The diagram has four axes and four quadrants showing the interdependence of the four relationships -

- (a) the relationship between cultivated area and output of fodder in quadrant I shown along the line 'OB'.
- (b) the relationship between output of fodder and the number of milk producing animals in quadrant II shown by the line 'OD'.
- (c) the relationship between the number of milk producing animals and the milk plant capacity in quadrant III shown by line 'OF'.
- (d) the relationship between capacity utilisation of the milk plant and the fodder cultivated area shown in quadrant IV by the line 'OH'.

The then existing situation is shown by the rectangle 'h b d f', drawn on the basis of the above relationships. The fodder cultivated area amounted to  $Oa$ , producing a quantity of fodder amounting to  $Oc$ , which allows the feeding of  $Oe$  milk producing animals, the milk of which would result in operating the milk plant at capacity  $Og$ .

The traditional solution would be to increase the area grown fodder say to  $Oa$  (which is three times as large as  $Oa$ ). Given the prevailing relationships, the plant utilised capacity would be augmented to  $Og$ , (about 15%). While this would still be uneconomical, the solution represents a maximum expansion in fodder cultivation as the cultivable land in Egypt in general and Asswan in particular is limited. Any increase in fodder cultivation, beyond this area, would be at the expense of other crop, essentially sugar cane resulting in a fall in the capacity utilisation of the sugar plants.

The Authority's solution attempted to change the basic relationship governing land, production, animals and milk production. Applied experiments with various varieties of fodder crop were undertaken and new types of fodder were imported.

Hawaiian Napier grass, was introduced successfully to replace the centuries old Egyptian fodder (*trifolium alexandrinum*). Napier yield per acre proved to be six times as high as the traditional fodder, and possess equal, and in some respects higher, nutritional values. Its cultivation was generated locally after a programme of agricultural extensive work. The new relationship between land and fodder production may be illustrated in terms of Chart ( 3 ) by the dotted line  $OB_2$  which gives an output of  $Oc_2$  (against  $Oc_1$ ) from a cultivated area  $Oa_1$ .

The second basic relationship subjected to experiment relates to that governing the output of fodder and the number of milk producing animals. The search was directed towards experimenting with various breeds of cows, buffaloes and goats which would produce the highest milk yield per unit of feed under Asswan conditions. The most successful experiment was obtained from Anglo-Nubian goats, a breed that originated in Nubia some hundred kilometers south of Asswan, exported to Scotland and greatly improved. Milk yield per goat amounted to some 50% of the milk yield of an average cow in Egypt, while the feed input per goat is about 10% of that of a cow. A programme of breeding Anglo-Nubian goats was implemented, and as a result the new relationship between fodder and animals shifted, in terms of chart ( 3 ), to the dotted line  $OD_2$  and  $OF_2$  which enabled the milk plant to produce at full capacity.

The approach could be generalised in input output terminology in the form of changing the technical coefficients in such a way so as to maximise the productivity of both capital and the input complex.

### 9. The optimum utilisation of the High Dam

The second example relates to the research underway for the maximum utilisation of the High Dam potential for irrigation water and power. The High Dam has one of the highest

yields among all major dams in the world in both irrigation and power per cubic meter of water. The Volta Dam in Ghana is utilised for power only with very little irrigation component. Other dams are constructed to serve irrigation requirements and little or no power is generated. The High Dam is a truly multi-purpose dam. Nevertheless research is directed towards achieving an optimum yield.

The Asswan High Dam, the backbone of the national development in the U.A.R. is a central activity in the regional planning in Asswan. It represents the greatest single resource in the region. With the completion of the High Dam, the storage capacity on the river will be increased from 5 million cubic meters to 132 million cubic meters. It will be possible to control the random flow of the river and to save great quantities of water that would otherwise have been lost into the Mediterranean Sea. Consequently, the agriculture pattern of the U.A.R., will be changed: new crops will be introduced and crop rotation plans and crop cultivation policies will be greatly affected by the increased controllability of the river flow. The High Dam will provide about a 40 percent increase in agricultural production, as contrasted with only a 15 percent increase in the cultivated land over the last century. The electric energy that can be produced annually is about 10 million megawatt hours, an amount that will approximately double the electric energy available to the U.A.R. The increase in power generation will have a great impact on the industrial development programme, at both the national level and the regional level.

The level and structure of agricultural development will be influenced by the policy of operation of the High Dam, which will also influence the level of industrial development. The location and nature of agricultural and industrial development depend on the available transportation means and the transportation development plans. Future plans for developing the human resources in the country depend on the needs of the various national development sectors.

The discrepancy between irrigation requirements and industrial requirements raises the question of finding the best balance between irrigation and power production. This question cannot be answered properly without a systematic examination of the interdependencies between the different national development sectors and sound economic analysis of the entire system of national development. The level of agricultural development is directly influenced by the irrigation capability of the High Dam. The mode of operation of the High Dam will be affected by the shape of the irrigation requirements. The increased capability of the U.A.R.'s electric power system will influence the level of industrial development. The shape of the industrial load curve will affect the mode of operation of the entire power system. The coordinated operation of the U.A.R.'s hydraulic and electric power systems will not only influence the level of agricultural and industrial developments, but will also affect their design and structure.

Agricultural development is more immediately influenced by the High Dam than is industrial development. Releases from the dam are the main source of irrigation water. The design and structural aspects of agricultural development (crop types and crop rotation plans) give a considerable flexibility in planning the operation of the High Dam. Addition to downstream underground storage facilities changes the structure of the U.A.R., hydraulic system. The kind of interactions between the hydraulic system and agricultural development would be similar to those existing between the electric power system and the industrial development.

The choice among alternative agricultural and industrial development plans, and the time phasing (scheduling) of these plans, are a matter of technical feasibility and the availability of capital and skill. A priority may be given to some agricultural or industrial projects for financing other projects in subsequent phases of development, depending on their potential for generating capital funds, especially foreign exchange. An appropriate criterion must be formulated (for example to maximise

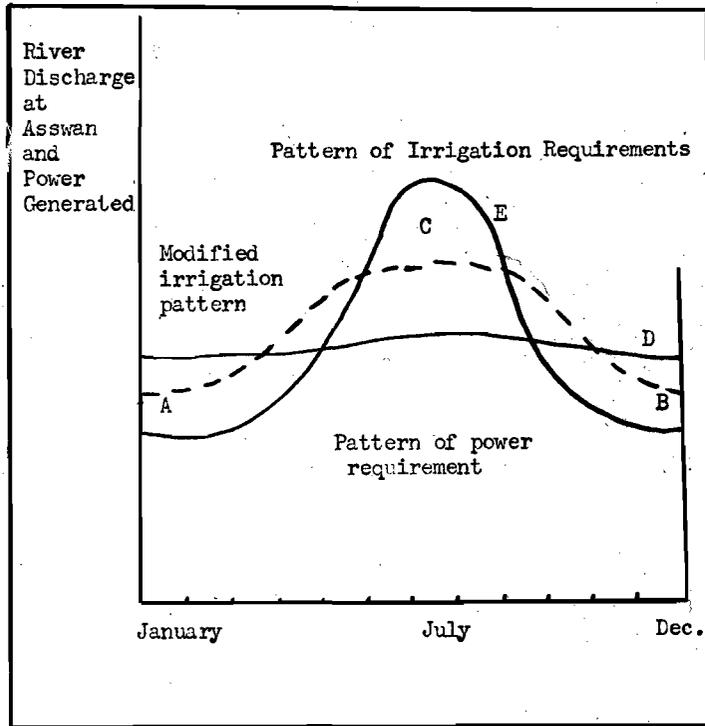
the rate of growth of agriculture and industry); a set of alternative development plans must then be generated; and the best strategy for growth must be selected.

The following diagrams might help illustrate the research content in this regard. In chart ( 4 ) the pattern of irrigation requirement for agriculture is shown. The pattern reflects the seasonal demand for water particularly for rice and sugar cane. From the equation  $E = F(D,H)$  where E is power generated, D is discharge and H is head, and assuming H not to be a restricting factor (to isolate the consequences of discharge variations), the pattern of supply of power generated would be similar to that of irrigation requirement. Demand for power does not show seasonal variation of any consequence. As a result gap A and B exist reflecting excess demand for power and gap C reflecting excess supply of power. Four solutions are possible -

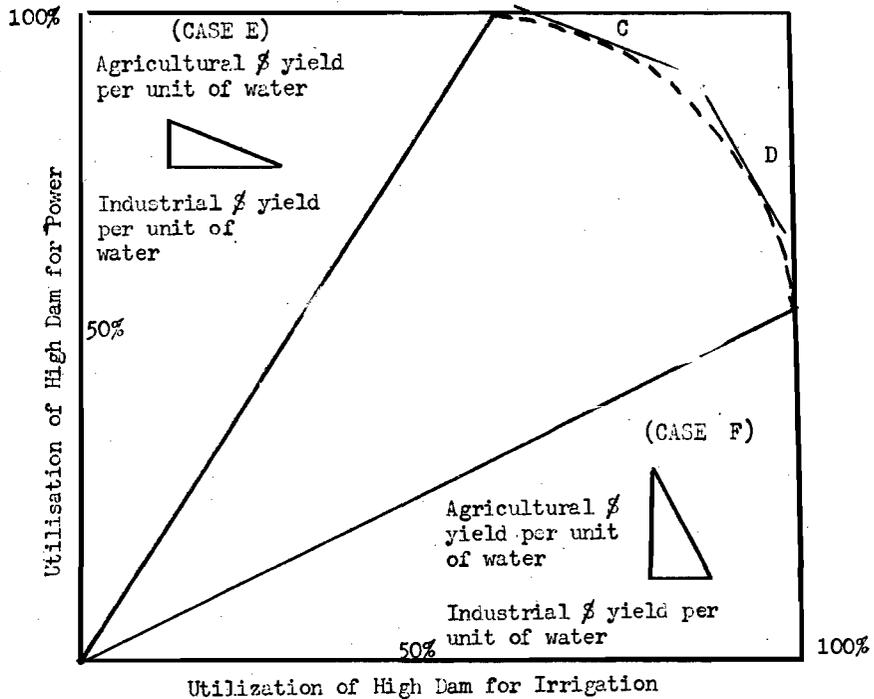
- (a) choosing industrial development of seasonal activity to match the seasonal power production pattern. This is not feasible as the magnitude of power is some 10 million megawatt hours, and the industrial capital required to establish industries capable of utilising that magnitude is too sizeable to allow it to operate only seasonally;
- (b) changing the pattern of irrigation requirements, as shown by the dotted line in the above chart, through alternative crop types and rotation. This would not lead to the disappearance of the gaps but would help diminish the magnitudes of excesses;
- (c) accept the hypothesis that although the High Dam is a multipurpose project, preference is given to its agricultural potential. The resulting excess capacity in its power potential would therefore be a policy dictated fact;

- (d) accept the hypothesis that preference is to be attached to the maximum utilisation of the High Dam power potential along the curve E in chart ( 4 ). The resulting decline in the utilisation of its agricultural potential would therefore be a policy dictated fact.

(Chart 4 )



(Chart 5 )



An optimum solution would probably encompass all four alternatives in varying degrees as well as additional infinite alternatives as may be seen from the following chart, (5).

The horizontal axis depicts the utilisation of the dam for agricultural purposes. The vertical axis shows the degree of utilisation of the power potential. Because of non-complementarity aspects of the two factors, i.e. seasonal irrigation patterns and stable firm power, it is almost impossible to achieve 100% efficiency for the two purposes. A hypothetical case would be a 100% efficiency in irrigation and say 70% efficiency in power. This case is shown on the diagram as point 'A' (case c above). Another extreme case would be where 100% efficiency in power is obtained while 80% can be achieved for irrigation as shown by point 'B' (case d above). The curve joining A and B represents all possible combinations. The choice of the optimum point depends on the yield per unit of water of agricultural output vis a vis the yield per unit of water of industrial production through utilisation of power. Such yields again depend in the case of agriculture on the location, crops, values, yield per acre, water requirements of each crop and so on. In the case of industry, the yield depends on the type of industry, its location, comparative advantage, price, export markets, etc.

This is shown in Chart ( 5 ) by the two cases 'E' and 'F'. Case E, where industrial money yield per unit of water is higher than that of agricultural yield in a proportion illustrated by the relation of the base to the adjacent of triangle E. The solution in this case would be point C on the curve BA obtained by the tangent parallel to the hypotenuse of triangle E. This solution would give a higher proportionate emphasis on power utilisation than agricultural utilisation of the High Dam potential.

Case F, where industrial money yields per unit of water is lower than that of agricultural yield in a proportion illustrated by the relation of the base to the adjacent of

triangle F. The solution in this case would be point D on the curve BA obtained by the tangent parallel to the hypotenuse of triangle F. This solution would give a higher proportionate emphasis on agricultural rather than power utilisation of the High Dam potential. An overall model combining all these factors, where the number of variables is understandably great has been completed. The brain which will eventually run the dam is a complex scientific institution whose objective is the maximisation of the national economic yield of the high Dam. An approach towards achieving this is part of the Lake Nasser Development Centre (Supported by the U.N.).

#### 10. Relation with the Central Government

From the previous example regarding the efficient operation of the High Dam the largest resource in the region, it is clear that it cannot be solely regarded in a regional context. The optimum solution requires the determination of the yield per unit of water in agricultural and industrial activities, not only in the Asswan Region but in the whole of the U.A.R. Crop pattern and rotation in the Delta affects the solution perhaps much more than similar data in the Asswan region itself. Here we have a case of regional research that needs to encompass national data with a view towards affecting change in policies related to matters outside the region. The region is now taking the role of initiating new central policies affecting the region as well as the rest of the country<sup>1/</sup>.

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<sup>1/</sup>Indeed the final outcome of such a study would produce a national plan oriented towards the utilisation of the High Dam power potential. Total investments in land reclamation, agricultural settlements, transport, industry to utilise the High Dam power would more than absorb the investment capacity of the country in the next five years.

It was obvious from the beginning that the Asswan Regional Planning Authority could operate effectively only if all activities were closely geared to the national plans of the U.A.R. Government and with the specific plans of the Ministries concerned. The advantages of development plans originating at the regional level and pre-vetted against local resources and facilities was recognised by all concerned. Still, the responsibility and financing required to implement plans remained with the central ministries to ensure that national plans proceed on a controlled and coordinated basis. To make sure that the activities of each Centre were closely aligned with ministerial plans and policies two linkage devices were created. One was the Authority Board of Directors and the second was a "Strategy Board" for each Centre.

The Board of Directors for the Authority is composed of twelve members, including the Director, and is chaired by the Governor of the Asswan Region. The members of the Board are the senior officers of each Ministry and organisation engaged in activities in the Asswan Region. The Board is responsible for the Authority's policy and direction and acts as mediator in those cases where more than one Ministry is involved in a project. The Board answers directly to the Prime Minister and, once approved, its recommendations carry a high priority.

Each of the Centres has at least one Strategy Board to provide direct linkage between the Centre, the Authority and the implementing Ministry. In all cases, these Boards include at least four members - two from the Ministry concerned and two from the Authority. Since each Board is responsible for the direction and policy of one Centre, and must approve projects which are prepared for implementation, approval and support at both the local and the national level can be assured in advance for each project proposed. This plan has several obvious advantages for the Ministries and for the Authority. It guarantees that the overall programmes of the Ministries will be

furthered and allows the Central Ministry to share the credit for successfully implemented programmes. At the same time, it leaves the responsibility for proper research, planning and analysis with the Centre. It provides assurance that staff and finance required to implement a project will be forthcoming and that there will be adequate technical supervision at the local level during implementation. It also provides a means of vetting each project in terms of local conditions and problems before any action is undertaken. Finally, it allows for the fullest possible use of local services and personnel and encourages strong local support.

#### 11. Central Government Support

Most development planners soon learn that there can be considerable discrepancy between a Government's verbal protestations of support for a programme and the translation of this verbal support into concrete action. This hiatus between words and action stems from a variety of causes - political, ideological, prestige, economics, personal, but is, to a greater or lesser degree, one of the political realities of the development process. It must be recognised and reassessed in relation to each project proposed if development plans are to be converted into socio-economic progress. In the case of the Asswan Regional Planning these points have been sharply brought into focus and indeed dramatised. For forty centuries of Egyptian history the Central Government dictated policy. Local Government and local administration were deliberately kept weak and could only gather strength when the powers of central government diminished following military defeat or under weak kings. Under a powerful central government, oriented towards socialism - defined as centrally initiated and directed decisions - regional planning would have, according to historical precedence a small chance of survival.

However, under the banner of the "Post-High-Dam-Egypt" a movement was organised to apply scientific research in the development effort. The movement reached a climax in March 1964 when an internationally oriented Asswan Development Conference was convened. Four volumes of working papers stating the problems and the possibilities were under careful study by some 100 senior Egyptian officials and experts and some 20 foreign experts who were invited (with the assistance of the Ford Foundation). The objectives of the Conference were prepared on two levels, first :

- (a) to mobilise the intellectuals and professionals in Egypt in and outside the Government, in universities, public and private corporations in the development efforts;
- (b) to establish a development dialogue between on the one hand, all sectors of society, and on the other hand between central and local authorities;
- (c) to launch a process of education in planning philosophy and the need for realistic development programming;
- (d) to invite the participation of localities in the development effort and the sharing in the responsibilities of preparing development plans;

The success achieved towards these ends in the Conference brought into play the second level of objectives namely -

- (a) to obtain solid and positive central government support to the right and need for regional planning, and for local authorities' participation in the process of preparing national plans.
- (b) to alter the administrative boundaries of Asswan Province so as to encompass the whole area of Lake Nasser and east of the Nile to the Red Sea.
- (c) to obtain from international agencies through impressive programmes technical assistance and funds to establish the machinery for regional planning.

These objectives were fulfilled, and later cemented through the creation by Presidential decree of a high level Board of Directors for the Authority and the Development Centres Strategy Boards. These provides insurance that central government support will continue and that development proposals emanating from the Authority are attuned to the political, social and economic forces of the moment. But the Boards, alone do not offer complete protection.

Regular personal contact must be maintained with the political power centres to provide indices of the real concerns of government. One method of providing intermittent measurements of the relative interest level of the Government has been to provide several alternative courses of action for a given project and to leave the choice to the politicians. This has been used successfully in a variety of instances and can provide a rather direct indication of the true direction of the Government's basic concern. As an oversimplified example, if a proposal for a crop improvement programme is presented in such a way as to permit the Minister of Agriculture to choose between crops for the domestic market or crops for export, a rough indication can be obtained as to the relative importance attached to domestic, social improvement versus the need for foreign exchange. If the foreign exchange element far over balances the other factors there would be little point in presenting a project aimed only at domestic improvement, especially if the project requires some foreign exchange for its implementation.

In this regard the timing of a proposal can be of considerable relevance as well. Every developing country is responsive to internal and external pressures which in turn can result in significant shifts of emphasis in policy from month to month and from year to year. It is not difficult to recognise these shifts if a serious study is made of the pronouncements and activities of government. For the development planner, this knowledge can make the difference between the acceptance, or rejection, of a project at a given point in time.

Conclusions (\*)

While it is too soon to provide concrete evidence of over-all achievement of regional development programmes, indicators of limited accomplishment are visible. Some of these can be mentioned but of far greater importance will be the evaluation of the conceptual framework and the approach to development which can only take place after a cycle of six or eight years of full operation.

Among the immediate indicators in the case of Asswan the fact that the U.A.R. Government holds the programme in sufficient esteem to seriously consider redistricting the entire country on the Asswan model. Many other specific instances <sup>could</sup> be listed in support of the programme. Changes in curricula and the educational methods, developed and perfected in the programme's experimental school in Asswan, have been adopted by the total U.A.R. School system. A preliminary study aimed at optimising the water and power potential of the High Dam has been accepted by the Government and could have important effects on irrigation and power production policies. The plan to rebuild the city of Asswan, developed in detail by the Environmental Centre, has been accepted and is being aggressively pursued. New fodder crops introduced on the experimental farm have been adopted by the Ministry of Agriculture for widespread use. Discovery of, and research upon, aluminium clays has resulted in a basic change in plans for the aluminium plant which originally would have had to depend on imported alumina.

There are innumerable other evidences of accomplishment but those listed above should provide a sampling which is illustrative of the total programme. Along with the success are many frustrating problems. Many of these are directly related to shortages of professional and technical personnel. Some of these shortages can

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\*This section is based on an evaluation report prepared by the author and Dr. Robert D. Loken, Senior Resident Consultant of the Ford Foundation in the U.A.R.

only be supplied through training programmes. There are, in addition, the ever-present problems of services, supplies and inefficiency which are inherent in the very definition of a developing country. Additional complexities are contributed by the turbulence and unrest which characterises the Arab World today. But against these difficulties must be weighed the potential benefits and rewards to be derived from an effective programme.

The Asswan experiment has demonstrated that the regional approach to development planning not only supplements the central planning authority but has certain additional values. Among these are :-

1. The regional approach, because of the reduced dimensions, provides a more manageable unit and an opportunity for more detailed knowledge and control.
2. It provides the opportunity to tailor plans and projects more closely to the resources and needs of an area.
3. It provides the means to generate and maintain strong and effective local support for projects.
4. Because of its geographical distance from the capital, and from the machinery of central government, the regional programme has greater autonomy and more freedom of action without procedural restraints.
5. Greater freedom of action, in turn, nurtures innovation and experimentation.
6. The regional branches of the central Ministries have a greater degree of freedom than do their central counterparts which facilitates the implementation of regional projects.





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Third Inter-regional Seminar on Development Planning  
Policies for Plan Implementation (with special  
reference to Latin America)  
Santiago, Chile: 18-29 March 1968

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DEVELOPMENT PLANNING AND POLICIES FOR INCREASING  
DOMESTIC RESOURCES FOR INVESTMENT (WITH SPECIAL REFERENCE TO LATIN AMERICA)

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the organization with which he is associated.

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Development Planning and Policies for  
Increasing Domestic Resources for In-  
vestment /with special reference to  
Latin America/

A. General Considerations

Post-war development of Latin American economies offers a puzzling picture. Rates of growth have not been, on the whole, too bad, though to a great extent nullified by the population explosion: 5 per cent per year for the continent taken as a whole from 1950 to 1955, 4,7 per cent for the next five years, and 4,6 per cent in 1960-65 /note the decreasing trend, while the rate of population growth has increased from an average of 2,7 per cent per year in 1950-55 to 2,9 per cent in 1963<sup>x/</sup>. Anyhow, many Latin American countries have fared much better than their Asian and African counterparts. Industrialization made a considerable progress, to such an extent that in 1963 23,4 per cent of the gross social product was generated by manufacturing industries and another 3 per cent by construction while the relative share of agriculture was of 21 per cent only and of mining 5,1 per cent. /It is true that industrialization did not bring with it a sweeping change in the pattern of employment. An ECLA study has pointed to the fact that workers in unimpacting industries do not represent today a proportion substantially higher than in 1925! Actually, their relative share in the employment role was in 1960 of 14.3 per cent as

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x/ All data, unless otherwise stated, are taken from ECLA publications.

compared with 13.7 per cent 35 years earlier. It is true, however, that employment in factories went up from 3.5 to 7.5 per cent, while in artisanal workshops it decreased from 10.2 to 6.8 per cent. At the same time, employment in construction rose from 1.6 to 4.9 per cent /ECLA, Boletín Económico de América Latina, Vol. X, No 2, Octubre 1965/. Several Latin American countries could claim considerable success in achieving import substitution over a wide range of products /though not necessarily those which should enjoy the highest priority so that the process came quickly to a stalemate/. But, at the same time, this process of growth, to a large measure unplanned, produced serious distortions in the economy and increased still more the sweeping social disparities between a minority of rich and vast masses of poor people. Inflation with all its evil effects on the standards of living of wage and salary earners has stricken almost all the Latin American countries and is bound to persist as long as the present unbalance between the insufficient rates of growth of agriculture and that of non-agricultural sectors of the economy remains, aggravated by an uncontrolled and uncontrollable exodus of the poverty ridden rural populations towards the urban areas. To this we should add difficulties in foreign trade, to some extent objective from the point of view of Latin American countries, but magnified by lack of suitable policies in the field of control of imports, planning of foreign-trade oriented industries /including export promotion and import substitution/ and, most of all, proper control of operations by foreign owned enterprises.

Several ECLA studies assembled an impressive evidence of both the successes and the deficiencies of the process of growth in Latin America<sup>x/</sup>. If the prevailing mood is today somewhat pessimistic and the emphasis rather on the shortcomings and dangers looming in the future, it comes from the fact that in terms of land-resources-men ratios the situation of Latin America is, on the whole, much more favourable than that of other less developed regions of the world. The reasons of the present impasse must lay, therefore, primarily in the social organization understood here in the broadest sense. This is a matter for bitter reflexion in the short run, and for considerable optimism in the longer perspective, as human societies should be able to overcome ultimately obstacles created by men.

There is today, in Latin America, a growing awareness of the goals to be pursued. 'Development ideology' has spread through the continent and finds supporters among representatives of different social classes and political factions, though their agreement may not go beyond that of aims stated in most general terms. It is also more and more understood that "development, taken in proper historical perspective, appears in last instance to be a process of transformation of structures and institutions, economic, social, political and cultural ... This implies necessarily changing the situations traditionally accepted and, therefore, challenging the vested interests both

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x/ Of course, the record is different for each country concerned and needless to say, sweeping generalizations on Latin America taken as a whole should be avoided as much as possible. One realizes it looking first at the figures of national income per head in different countries and then in different regions of each country. The range of national income per head in cross-country comparisons goes from 1 to 7 /Bolivia and Argentina/ and interregional disparities in a country like Brasil are of the some order of magnitude /Piauí and São Paulo/.

in internal and international spheres" <sup>x/</sup>, to quote the opening statement of a recent study by the Chilean economist Osvaldo Sunkel.

The sensitive areas for action can be easily identified. The following four seem to be the most important:

- 1/ redistribution of social income, leading to a higher volume of productive investment and, at the same time, to better standards of living for the working people, at the expenses of superfluous /and conspicuous/ consumption of the moneyed elites;
- 2/ land reforms achieving the double purpose of increasing the agricultural output and improving the lot of the poor peasants /who will thus become prospective buyers of industrial goods/;
- 3/ tightening of controls on foreign trade operations and capital movements, with the aim of getting more income from a given volume of exports<sup>xx/</sup> and making the best use, as far as imports are concerned, of the existing capacity to import;
- 4/ channeling the process of development into a plan, which would not only throw out goals but match them with means and suitable policies guaranteeing their implementation. A plan which does not spell out the implementation policies is but a "pseudo-plan" to use Cz. Bobrowski's terminology and we should like to subscribe here emphatically to the following statement made by the UN Committee on Development Planning: "Planning viewed as a social technique is not a substitute for development policy. This truism, however, seems to be widely forgotten. There is

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x/ O.Sunkel, Política Nacional de desarrollo y dependencia externa, Estudios Internacionales /Santiago de Chile/, Nr. 1, Abril 1967, p. 43.

xx/ Even with given terms of trade, computed in traditional way, a country can get more from a given volume of exports if profits, made by foreign owned exporting firms and expatriated subsequently, are curbed.

a tendency to assume that planning could supersede or even replace the framing of sound policies for economic and social development. Nothing could be further from the truth, and any notion that difficult policy decisions can be evaded by recourse to development planning should be promptly dismissed"<sup>x/</sup>.

To be operational, planning must deal with the social and institutional conditions for development. Planning without a policy framework, to borrow an expression from D.R. Gadgil, becomes an exercise on paper, which is by no means innocuous however, as it helps in creating false hopes and dangerous illusions.

The crux of the matter is, therefore, implementation which starts at the very moment of plan framing. Implementation and planning are but two sides of the same process. All this is nowadays, more or less agreed upon among planners and has been recently discussed in the light of Latin American experience<sup>xx/</sup>. The range of policies and measures which could instill dynamism to Latin American planning is also known. The problem, thus, lies in the sphere of decision making, largely of a political nature. This makes the outsider economist's task easier: he can claim that his responsibility is marginal. On the other hand, he is bound to be repetitive and to restate the almost obvious. Aware of this weakness of our position, we shall, nevertheless, try to analyse once more the Latin American process of growth in order to substantiate

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x/ Committee for Development Planning, Report on the Second Session /10-20 April 1967/, United Nations, New York, 1967, p. 2;

xx/ See, in particular the papers presented to the Committee for Development Planning for its Santiago Session by the Center for Development Planning, Projections and Policies and the Secretariat of ECLA.

a few policy recommendations, which - without being necessarily new - need to be hammered upon.

### B. The trap of 'perverse growth'

An underdeveloped economy is essentially a supply-limited one, although lack of effective demand and idle capacities may arise, as we shall see in the next section of this paper, for certain categories of goods. The rate of growth of the economy, and, still more important, of the popular consumption, depends thus on the best use of scarce resources, i.e., on the fullest use of the existing capacities of production for socially meaningful purposes. This implies not only avoiding that capacities lie idle, but also preventing social waste which takes the form of engaging scarce resources into production of goods and services to satisfy the rapidly growing superfluous consumption of the elites, so that bottlenecks appear if the rate of growth of other sectors of the economy is stepped up. It is important to realize that all the sectors of the economy compete for the scarce resources but their expansion does not have the same effects on the long-term potential to grow of the economy. Let us divide, for the purpose of this argument, the national economy into the four following sectors:

Sector M turning out investment goods;

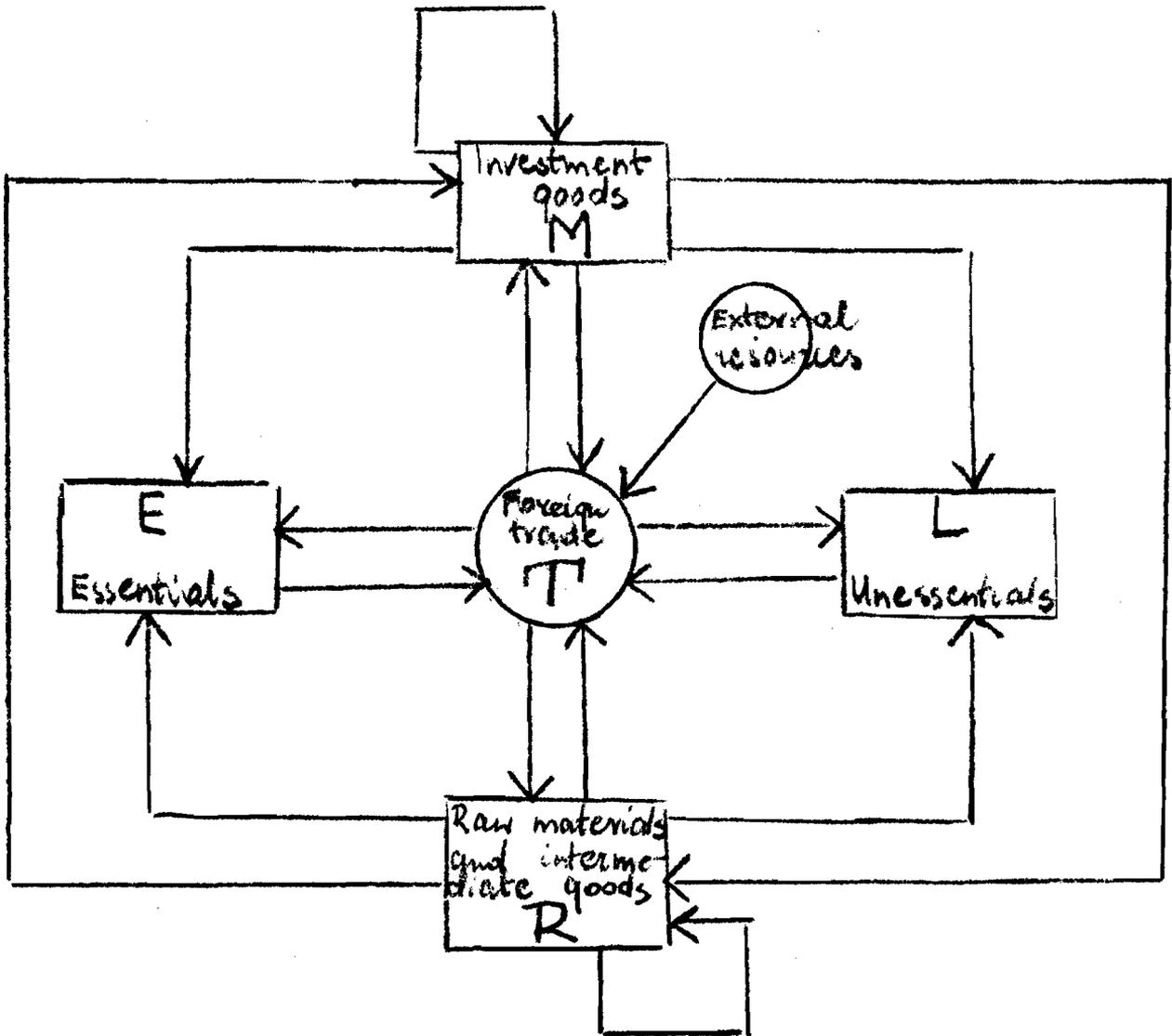
Sector R turning out raw materials and intermediate goods;

Sector E turning out basic consumer goods and services including staple food, called here "essentials" x/

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x/ The definition of 'essentials' and 'non-essentials' must be established for each country and stage of development on basis of the study of consumption patterns. A certain measure of arbitrariness cannot be eliminated altogether from such an exercise. But the concept remains valid and very useful for planning.

Graph 1  
Flows of goods and utilization  
of the capacity to import





Sector L turning out 'non-essential' consumer goods, called here a little bit abusively 'luxuries'.

Each sector may sell<sup>a</sup> part of its output abroad, and, conversely, the availabilities of each category of goods may be increased by imports.

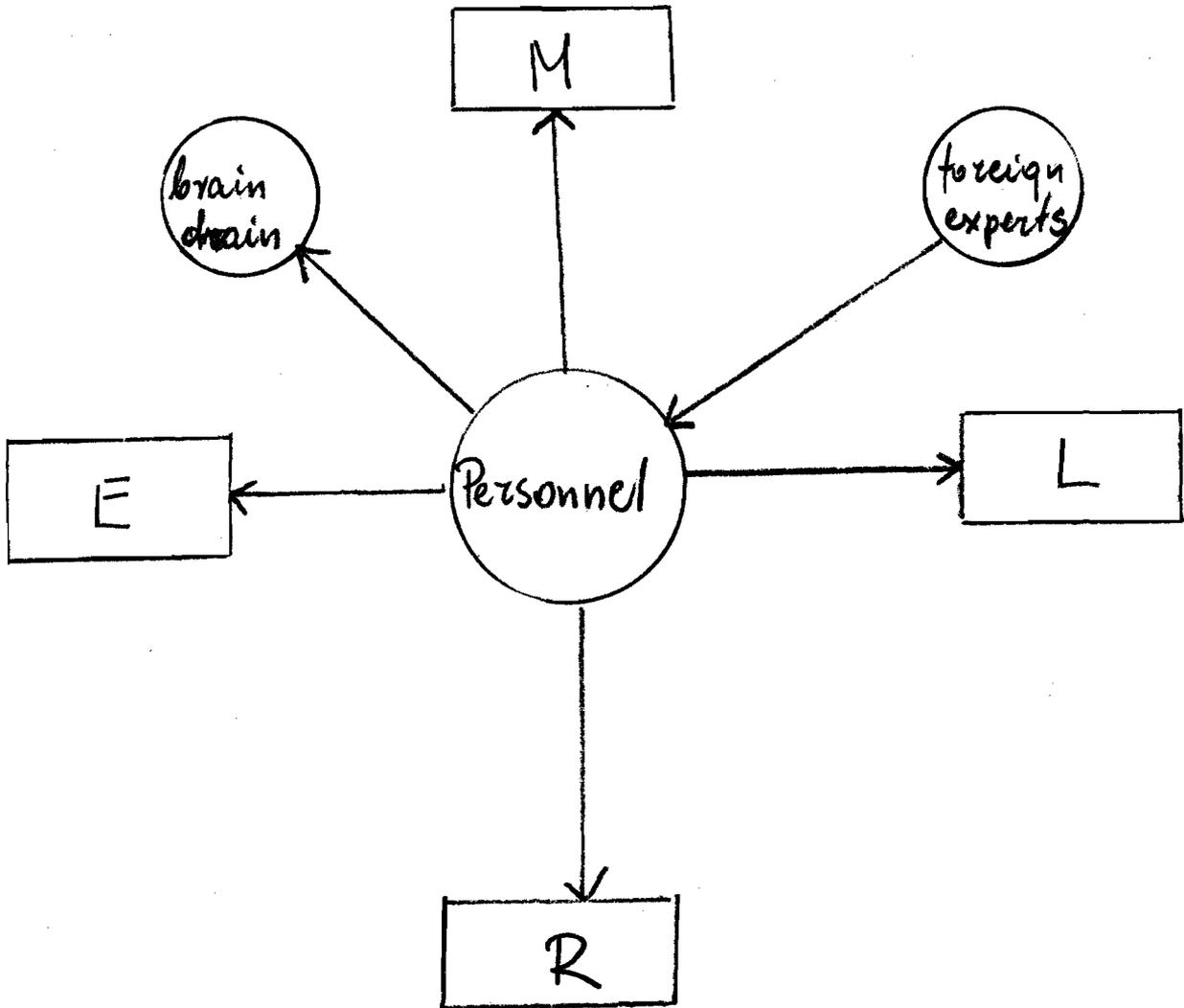
The flows between the sectors, including operations of foreign trade, are indicated in graph 1.

It is perfectly clear that the two sectors turning out consumer goods compete for raw materials and intermediate goods R, investment goods M and the capacity to import and, therefore, other conditions being equal, a higher rate of growth of one must be realised at the expenses of the other. Now, their function in the process of growth is completely different. Expansion of E is a *conditio sine qua non* of non-inflationary increase in employment and in the standards of living of the working population. To the extent to which expansion of L serves largely the egoistic interests of an elite<sup>x/</sup>, it does not contribute, however, to the long term process of growth, which depends on the availabilities of M and R matched by a proper supply of E - the main counterpart of wages. On the contrary, a hypertrophy of L is likely to endanger the long-term prospects<sup>of</sup> development, because L is not only competing with E but also with M and R, as far the utilisation of M, R and T are concerned. The arresting of growth will not happen, however, immediately and during a certain period of years expansion

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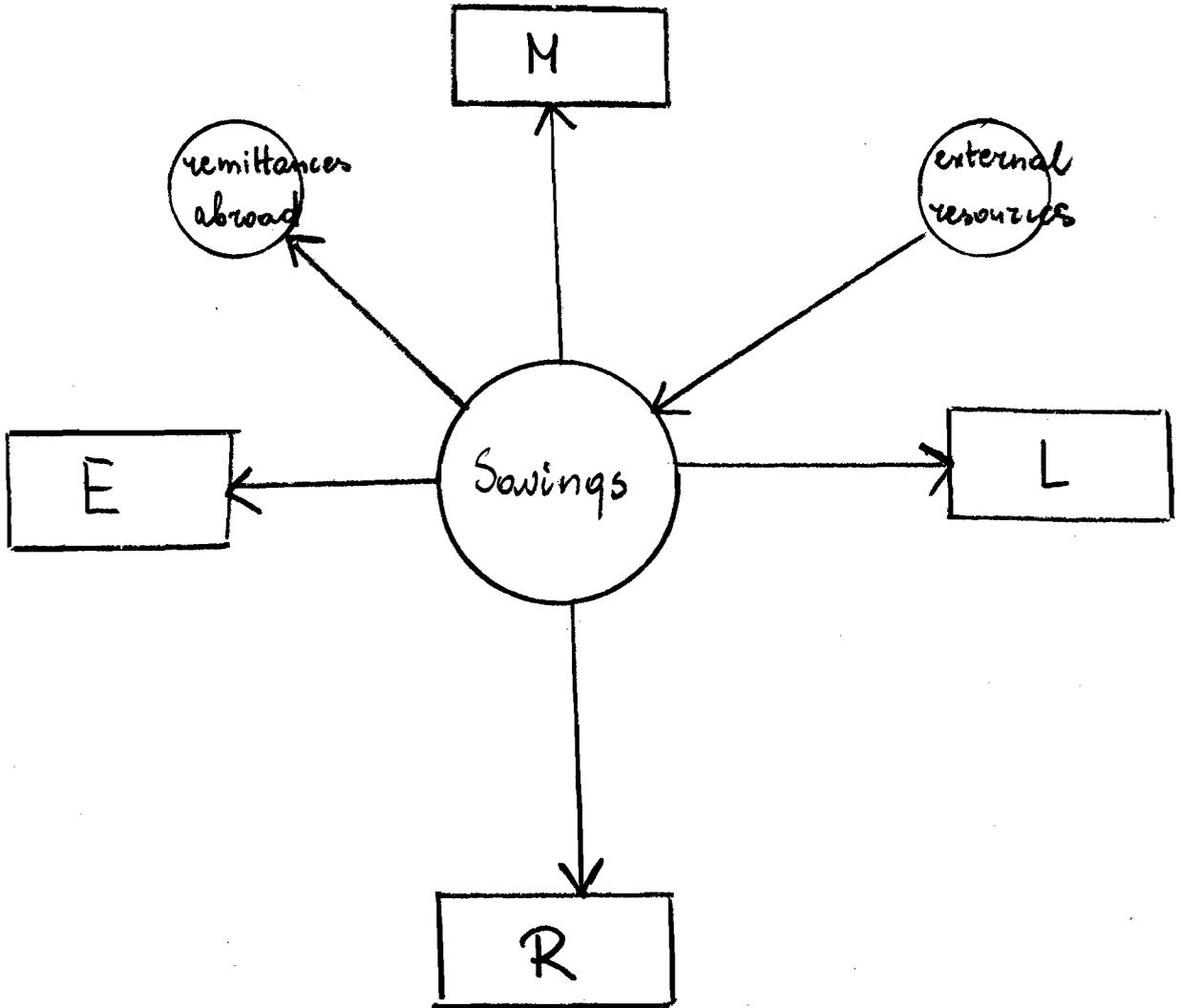
x/ We are simplifying the problem for clarity's sake by not making a further distinction between L-goods which are consumed by relatively numerous people and "luxuries" in the narrow sense of the term.

Graph 2  
Utilization of skilled  
personnel



Graph 3

# Allocation of savings



of L is bound to reflect itself in indices of growth of national income, creating a mood of euphoria. This is precisely the trap of 'perverse growth'. Conventional indices point to progress and industries boom up. Inflation - the first symptom of 'perverse growth' - is dismissed lightly as a 'growth pain' and then dealt with by means of completely inappropriate monetary measures which oversee its primary source, i.e., the unbalance between a slowly growing production of staple food and the rapid increase of urban population and employment in the L-sector. The next phase is only too well known. Growth comes to a stop, but not the inflation and we have an inflationary deflation<sup>x/</sup>

Our analysis can be somewhat refined in several ways, without affecting however its substance.

1/ We must take into consideration not only the direct flows of M, R and T to L, but also the indirect ones /M to produce R used as input in L, etc./;

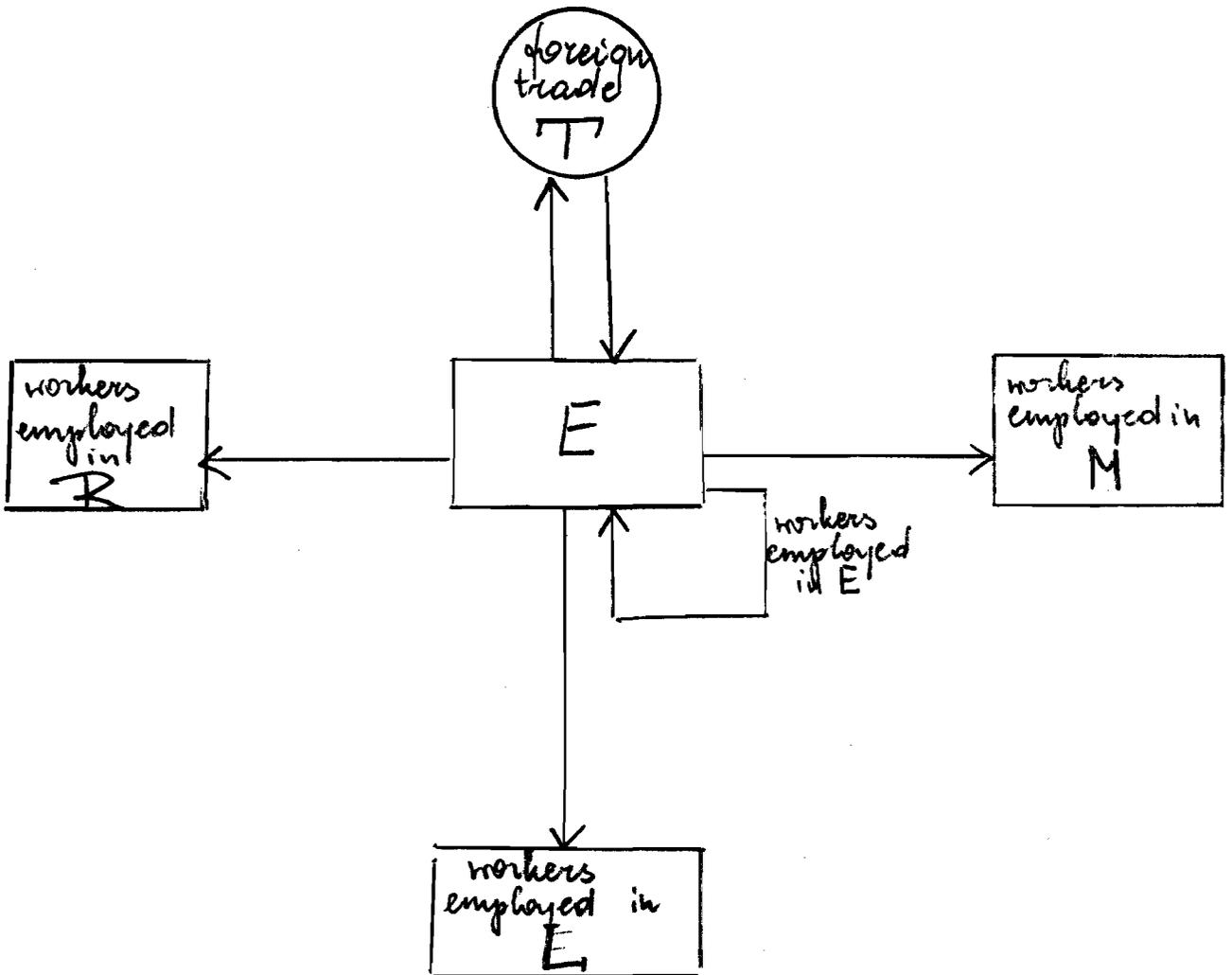
2/ We may deal in the same manner with the problem of utilisation of scarce qualified manpower and managerial skills /graph 2/, including the inflow of foreign technicians and the so-called 'brain-drain';

3/ The same approach holds also true for an analysis in financial /graph. 3/ and no more physical terms, 'savings' being the scarce resource /subject to further qualifications to be expressed later on/;

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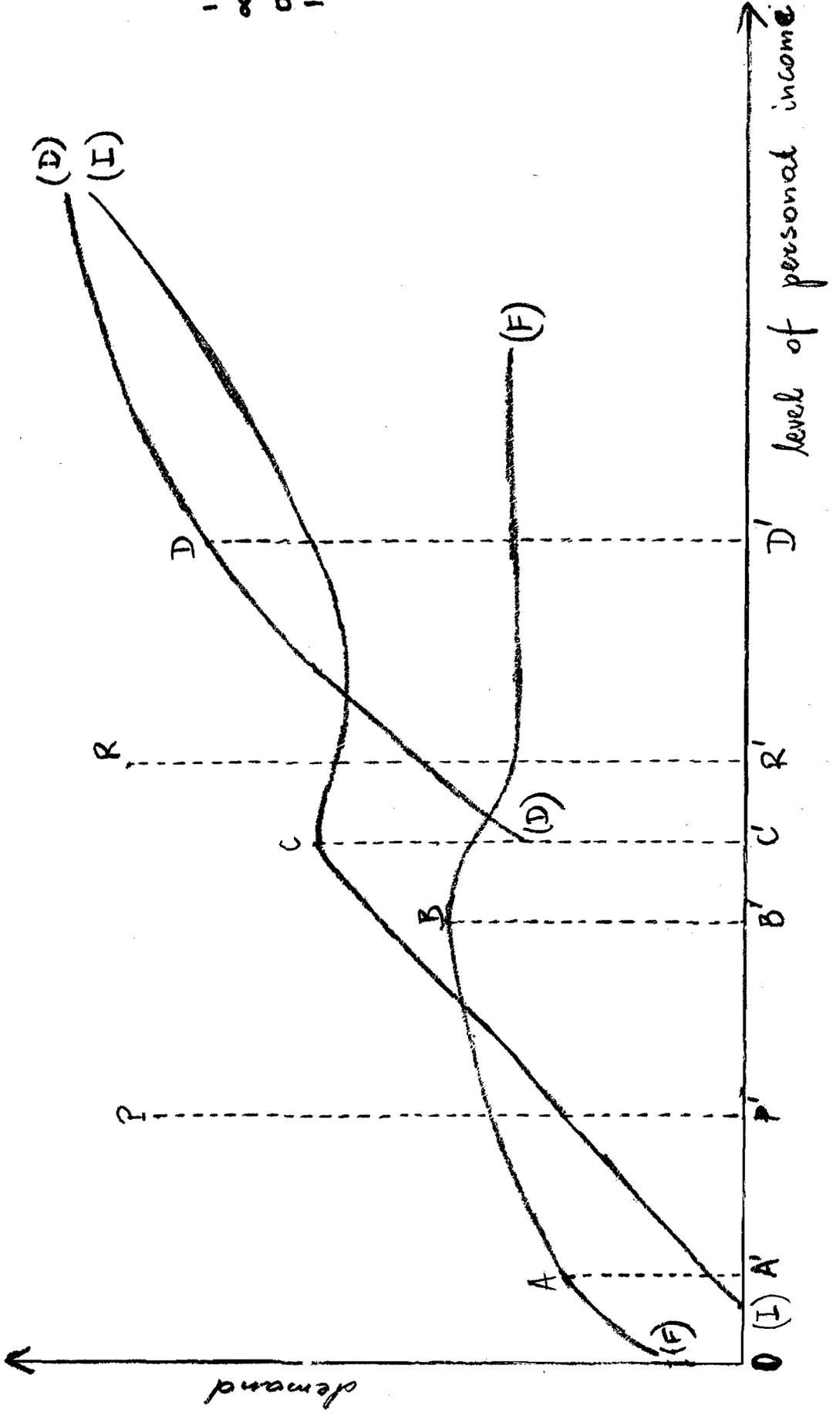
x/ See e.g., the article on Argentina by E.Eshag and R.Thorp, published in the Bulletin of the Oxford Institute of Economics and Statistics, no 1/1965.

Graph 4  
Utilisation of availabilities  
of essentials



Graph 5 Demand for F, I and D goods

- 8 b -



4/ To the extent to which availabilities of E /which constitute the main counterpart of wages/ limit the overall volume of employment, given a wage-level and the assumption of non-inflationary growth, E may be also dealt with as a scarce resource, for which compete workers employed in all the sectors of the economy /graph 4/. It is immediately seen how dangerous becomes for the prospects of growth a large increase of employment in services belonging to L.

### C. The Problem of Effective Demand

It is necessary, now, to qualify our basic assumption that a mixed developing economy is only a supply-determined and does not experience at all problems of lack of effective demand. We shall, therefore, look now at the problem of lopsided development of Latin America from the demand side for consumer goods.

The demand function for staple food /F/, non-durable and semi-durable consumer goods other than staple food /I/ and durable goods /D<sup>x</sup>/ for different levels of personal income can be represented in the following schematic way: /graph. 5/.

Let us explain the shape of the curves.

Demand for staple food F is high even at very low levels of income and rises steadily till point A /where income-elasticity for food is equal to 1/. It continues to increase thereafter till a maximum reached at point B, to stabilise shortly afterwards at a level lower than the maximum and corresponding to a diet which socially is considered optimum /physicians may have second thoughts about it/.

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x/ We are not using here the previous classification into essentials and non-essentials; all goods F are, however, "essentials" and practically all D - goods "non-essentials", while I - goods should be partly allocated to E and partly to L.

Demand for other non-durable and semi-durable consumer goods I /in which we include higher grades of processed foodstuffs and a wide range of industrial articles from textiles and shoes to radiosets/, appears at a very low level of income and grows with this income. The elasticity of demand for these goods is likely to be particularly high at levels of income between B<sup>\*</sup> and C<sup>\*</sup> because expenditure on staple food has already decreased and the threshold of income which makes it possible to purchase durables not has been, as yet, attained.

Demand for durables D, defined here in a rather restrictive way to include mainly houses, motorcars and household appliances makes its appearance only at a relatively high level of income C<sup>\*</sup>. The elasticities are pretty high between C<sup>\*</sup> and D<sup>\*</sup> taken here as a point of relative saturation. The pressure of expenditure on durables is likely to cause a temporary decrease of demand for I goods /as shown on the curve I/.

The present situation in many Latin American countries is characterized by the simultaneous existence of very large strata of population which by any standards are extremely poor and have levels of personal income situated between O and P<sup>\*</sup>, probably not far to the right of A<sup>\*</sup> and a minority of people, whose incomes exceed R<sup>\*</sup> and who have been mainly responsible for the hitherto buoyancy of the market for durables<sup>x/</sup>. The first group is rapidly increasing in numbers

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x/ We are careful not to make coincide RR<sup>\*</sup> with CC<sup>\*</sup> to signify that the upper stratum of the intermediate group is already engaged in purchasing durables. The problem to what extent this is the result of an unhealthy "demonstration effect" need not be examined here.

as a result of demographic explosion and this explains why demand for F is growing very quickly, while demand for I is lagging behind /mostly for such goods like textiles/. As for the demand for durables, it reflects above all the skewness of the income distribution curve. After all, according to recent estimates to the upper 2 per cent bracket accrues 19 per cent of total personal incomes in Latin America and to the next 3 per cent another 14 per cent, while the lower half of the population must content himself with a bare 16 per cent. This gives an average income per head of only 120 dollars for the lower half, to be compared with 3.500 dollars for the upper 2 per cent and 1.750 dollars for the next 3 per cent <sup>x/</sup>.

To substantiate a little more our argument we shall consider now, briefly, the estimates of individual consumption contained in another ECLA study<sup>xx/</sup>. They are not strictly comparable to our scheme, due to slight differences in the classification of goods, but they fully support our conclusions. In round figures the lower half of the Latin America population spent in 1960 on personal consumption less than 130 dollars per head, of which about 3/4 went to purchase food and another 12 per cent were taken by services, leaving a bare 7 dollars for textiles, footwear and clothes and 10 dollars for all other industrial goods, including beverages and tobacco! Needless to say that expenditure on durables was nil. On the other hand, the upper 5 per cent people /roughly speaking 10 million persons/ could afford a consumption of about 2000 dollars per year and head, distributed as follows: food - 14%,

x/ ECLA, The Economic Development of Latin America in the Post War Period, 1964;

xx/ ECLA, The Process of Industrial Development in Latin America, 1966, p. 126.

textiles, footwear and clothes - 10%, durables - 14,25%, other industrial goods - 16,75%, services - 45%. Their expenditure on durables slightly exceeded that on food and accounted for about 3/4 of aggregate demand for durables. /In reality it was still higher if we include expenditure on housing; in the ECLA study the latter was computed as services which explains the very high relative share of services in total expenditure/. The relative shares of the 5 per cent upper income bracket and of the lower 50 per cent in the aggregate demand for other categories of goods were the following: food - 9,5 and 32 per cent; textiles, footwear and clothes - 33 and 11,5 per cent; other industrial goods - 39 and less than 12 per cent.

The picture is clear. The prospects of further expansion of production of I - goods depend on the accession of broader strata of population to higher income levels.

The same applies a fortiori to D - goods, though two qualifications must be made here:

a/ projections of demand for D - goods are more complicated because it is necessary, on the one hand, to evaluate properly the deferred demand in the initial stages of production on account of import restrictions and, on the other, to make assumptions about the likely rhythm of renovation of these goods. It would not be a surprise at all if demand for D - goods were to slacken even among the highest income brackets of Latin American population in years to come;

b/ for reasons of social justice and as a result of measures of redistribution of income, demand for several D - goods could /and in this writer's opinion should/ be made stabilized or even altogether decreased for quite a considerable period of time. It is possible to conceive theoretically

a society enjoying considerably higher average incomes per head than Latin America at present with a pretty egalitarian pattern of income distribution, so as to reduce the number of people in the D - goods consuming bracket <sup>x/</sup>. More generally, the present pattern of consumption in advanced industrial countries, though exerting an undeniable attraction on people both in socialist and developing countries, need be taken neither as a model nor as a necessary image of the future shape of things. The affluent societies of tomorrow might wish to pay considerably more attention to public services, redressing thus the balance between privately consumed goods and publicly rendered services, so conspicuously absent at present in the western industrial society <sup>xx/</sup>.

At any rate, the margin for further considerable growth of industrial output in Latin America by means of expansion of D - goods industries does not seem promising, even if the present extremely skewed and socially unequitable distribution of income were to prevail. /One could still argue that lack of measures leading to a redistribution of social income and the ensuing expansion of demand for I - goods would sooner or later affect the earnings of those sections of upper strata who are connected with the production of I - goods, so as to

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x/ Of course, thresholds for each category of D - goods are different and vary as a function of price and preference /i.e. utility and mode/. A refrigerator is likely to be purchased before the motorcycle and, at any rate, before the car, while the air-conditioner though much cheaper than a car will come on much later.

xx/ We are following here J.E. Galbraith's argument on this subject /of. his "Affluent Society", New York 1958/ to stress that this view is shared also by people unsuspected of socialist convictions.

reduce their expenditure on D - goods. A serious recession, affecting the whole manufacturing sector, could follow/.

As for the demand for F - goods, it is likely to grow at a relatively fast rate under any set of circumstances, short of an economic and social disaster leading to further deterioration of standards of consumption of poor people. Even assuming constant per capita incomes /a very harsh assumption indeed! /, the demand would still grow pari passu with the population increase, i.e. in Latin America at about 3 per cent per year, imposing on agriculture a task of tremendous magnitude. In matter of fact, the following equation is approximately true:

$$\underline{f} = \underline{p} + \underline{e}\underline{y}$$

where:  $\underline{f}$  - rate of growth of demand for F - goods

$\underline{p}$  - rate of increase of population

$\underline{e}$  - income elasticity of demand for F - goods

$\underline{y}$  - rate of growth of personal per capita income.

Thus, wherever  $\underline{y}$  is positive,  $\underline{f}$  exceeds  $\underline{p}$ . As, roughly speaking, the overall income elasticity of demand for food in Latin America can be estimated at 0,5 at least<sup>x/</sup>, every 1 per cent increase in personal per capita incomes causes a half percent increase in the demand for F - goods on the top of the 3 per cent annual increase of this demand, computed on the basis of the population increase with the assumption of

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x/ According to FAO estimates /Produits agricoles - projections pour 1970, Rome 1962/, the income-elasticity for aggregate food in terms of prices paid to the farmer was 0,58 in Mexico in 1958. Needless to say that the elasticity coefficients vary according to the category of goods and to income brackets. There are, moreover, significant differences from country to country and between urban and rural populations. For a fuller study of this problem see this author's "Levels of Satiety and Rates of Growth" in Essays in honour of M.Kalecki, Warsaw 1964, pp. 343-363.

steady per capita income. Under the circumstances, demand for food is likely to exceed the offer in most Latin American countries, even if we were to assume a much more vigorous effort than up to now on the production side. Hence the likely persistence of inflationary pressures with all their regressive consequences as far the distribution of income is concerned. By hitting urban workers and salary earners, inflation limits still more the market for I - goods. To the extent to which price increases of F - goods accrue to intermediaries and landlords, and not to peasants and agricultural workers /and this seems to be the rule with few exceptions /, they do not translate themselves either into an additional demand for I - goods. The only beneficiary, as far as the market is concerned, are the producers of D - goods purchased by landlords and merchants, and to a smaller extent producers of M and R goods for agriculture. This enhances still more the unhealthy foundation on which rests the disproportionate expansion of the industries turning out D - goods.

The above analysis of the demand leads to the conclusion that foremost attention in the development plans should be given to the following three tasks:

1/ expansion of agricultural output, and more specifically of the production of F - goods;

2/ broadening of the market for I - goods /of course, implementation of the first task, if properly conducted, would to a great extent automatically solve the second, as farmers would spend more on I - goods/;

3/ curbing further expansion of the industries turning out D - goods.

Thus, our picture of supply-determined developing economy needs to be qualified, as far as the demand for I - goods is concerned. Nevertheless, the basic development problems consist in a better utilisation of scarce goods in such a way as to increase the long-term growth potential.

#### D. Market allocation of investment versus effective planning

At this stage one may ask why development in many Latin American countries has been lopsided and ultimately proved to obey to the 'perverse growth' pattern. In our opinion the reasons must be essentially sought in the dominant role played by the market, as far as investment allocation is concerned.

Some Latin American economists and many politicians continue still to believe that the profit-criterion is a sound one and that whenever an investment proves profitable and bankable it conforms eo ipso to the social benefit-criterion. Our whole analysis leads to a diametrically opposite position: a sound investment policy must be based on investment goals established in the plan on considerations quite independent from the individual enterprise's rate of profit. Once the priorities have been chosen, it is then possible to adjust credit and fiscal policies /including granting of subsidies in some justified cases, e.g. to some lines of export-production/ in such a way as to try to induce private capital to undertake investment fitting into the plan. But, at the same time, it is necessary to prevent private investment into projects considered undesirable irrespective of the rate of profit they might yield. There can be no accelerated growth without a policy of austerity /O. Lange used to say in such occasions that a developing economy is a war-economy/. And austerity must start with curbs

imposed on investment leading to further expansion of the L - sector. In other words, it is necessary, on the one hand, to prevent an excessive growth of demand for L - goods, mostly by means of proper fiscal measures /both a higher incidence of direct taxes on the rich people and much higher, indirect progressive ad valorem taxes and duties on L - goods, are required/. On the other hand, one need not be affraid of leaving the demand for some "luxuries" altogether unsatisfied. The income-elasticities of demand should be rigorously respected only as far as the E - goods are concerned.

Now, it is possible to argue that in countries with a skewed distribution of social income still aggravated by inflation, rates of profit are particularly high in the L - sector, which attracts, therefore, a sizable part of savings available for investment, both private and public <sup>x/</sup>.

Two types of investment within the L - sector are likely to be preferred: construction of luxury-dwellings <sup>xx/</sup> and setting up of import-substituting industries turning out semi-durables and durables which range from home appliances to motor-cars. These import substituting industries enjoy, due to balance of payments difficulties. the safest type of protection, namely drastic and effective import restrictions on similar goods to those

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x/ To the extent to which the latter consists in financing the private sector or providing it with transport and power infrastructure and/or with raw materials and intermediate goods for production.

xx/ Construction takes a substantial share /almost half/ of total investment in Latin America. In Central America the relevant percentage is still higher and exceeds 60 per cent. There are good reasons to believe that this heavy participation of construction in total investment is, i.e., due to the construction boom of luxury dwellings.

produced at home. The public for whom they work - small in numbers but rich - is ready to pay almost any price for 'prestige goods' and, therefore rates of profit may skyrocket even though costs of production are extremely high due to inefficiency and lack of economies of scale. In matter of fact, none of the pretense advantages of free competition materialize as market is imperfect <sup>x/</sup>; in the limiting case /such as, e.g., the motor-car industry in several Latin American countries/, competition leads to splitting of the market among several producers, who in spite of producing in highly uneconomic conditions make huge profits, as they operate under a regime of oligopoly and fix sale-prices practically at their will <sup>xx/</sup>. This explains, i.e., why private industries can be profitable even though their capacities are severely underutilized.

Thus, allocation of the investment through market is bound to intensify the lopsided development of the economy; while in the pre-industrial phase this lopsidedness resulted from heavy concentration of investment into export-production /often a monoproduce of plantations or mines/, now the emphasis shifts to the L - sector, adding a new unbalance to the old one. Regional unbalances are also likely to increase, as industrial investment will tend to concentrate in areas, where it

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x/ Imperfection of the market including capital and labour market - is a feature present in all the developing mixed economies. That is why all the neo-classical growth models, which assume a perfect market and full mobility of factors of production do not reflect the realities of life.

xx/ That is why lack of profit in public enterprises should not be taken as a proof of their greater inefficiency, as compared with prosperous private business, without scrutinizing very closely the costs of operation and the price policy of both.

can enjoy the external economies.

The undesirable effects of growth through market were magnified in many Latin American countries by a policy of indiscriminating support to industrialization and import-substitution, mostly when it took the form of imports of machinery and equipment financed by an inflow of foreign capital, and, therefore, did not weigh in the short-run on the balance of payments. We are not against industrialization, of course, and we believe that the only strategy viable for the majority of developing countries consists precisely in promoting import-substitution <sup>x/</sup>. But in order to achieve it over a long period of years, it is absolutely necessary to choose carefully the priorities for investment, in such a way as to prevent an abrupt coming to the end of the phase of easy import-substitution <sup>xx/</sup> carried out mostly in L and E sectors. Moreover, we should like to insist once more emphatically on this point from the point of view of long-term strategy of rapid development, **import** substitution of a considerable range of L - goods is a waste of resources, as consumption of these goods should be altogether deferred. Investment into industries turning out 'luxuries' proper should be prevented instead of encouraged, whatever the facilities of payment offered to finance the imports of necessary equipment<sup>xxx/</sup> and the possibilities of

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x/ See on this point this author's book on Foreign Trade and Economic Development of Underdeveloped Countries, Bombay 1965, partly reproduced in Obstáculos al Desarrollo y Planificación, México 1967;

xx/ See for this point R. Prebisch, Cepal, Hacia una dinámica de desarrollo latinoamericano, Santiago, 1963;

xxx/ An altogether different problem is that of frequent over-estimation of import-substitution effects. If one takes into account the import requirements of the import-substituting industries and the outflow of foreign currency in form of royalties, expropriated profits, payments for technical services, etc. the net import-substitution effects may prove negligible.

achieving at least some measure of import-substitution in M - goods and R - goods /not speaking of agricultural E - goods/ carefully explored. Import-substitution in M - goods and R - goods is more difficult to achieve and may require heavy investment, but in compensation in an expanding economy there are unlimited possibilities of substituting potential imports of M and R. While going ahead with import substitution of many I - goods and some D - goods, belonging both to "essentials" and lower range of "unessentials", we would have earmarked the resources dissipated on premature or altogether superfluous investment in the production of many other L-goods and services for an earlier and more rapid expansion of M and R industries <sup>x/</sup> and creation of additional capacities to turn out E - goods and services /including popular housing schemes/. Of course, the pattern of investment should be harmonized in such a way as to make the best use of the existing resources and to avoid as much as possible the emergence of bottlenecks on the one hand and idle capacities on the other. To put it the other way round: we believe that effective planning could have prevented many Latin American countries from falling into the trap of 'perverse growth'.

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x/ Of course, both the pattern and the sequence of development of M and R industries should be very carefully studied, taking into considerations the natural endowments of the country, its position in the international division of labour, its availabilities of capital and skills, as well as the size of the market. As a rule, however, even in small and poor countries there should be room for some engineering industries, if not for other reasons as a measure to prepare future industrialization and train manpower.

### E. Minimum Conditions for Effective Planning

What are then the minimum conditions for effective planning in a "mixed economy", i.e., in an economy where a dynamic but usually small public sector coexists with a large private sector /modern and traditional/?

In our opinion they are three. To plan effectively, i.e. to be able to set simultaneously realistic targets and implementing policies with a fair probability of success, it is necessary<sup>to</sup> establish direct controls on the investment process, and on foreign trade operations, as well as to control indirectly the price-line by means of appropriate agricultural policies.

Let us discuss briefly each of those conditions.

#### 1. Control of investment

From our considerations on 'perverse growth' it results that policies for accelerated long-term growth cannot consist in simply maximizing investment. Undesirable investment i.e. investment in projects enjoying no priority from the social point of view and not foreseen by the plan hampers in the long run the process of growth and should be prevented. To this writer's knowledge there is no other practical possibility of achieving it, except by submitting private investment<sup>x/</sup> to licensing by the competent authorities, taking into consideration at least the selected line of production and the proposed localization of the new plant. In case of major projects the proposed technology should be screened in addition by a

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x/ Licensing should except, however, small investment, in order to avoid cumbersome administrative procedures, whenever the impact of the proposed investment on the national economy is small.

competent panel of experts from the point of view of choosing the best from the range of available technologies, having in view such parameters like the capital-output ratio and the import content both of the construction of the plant and of the production process. Licensing should be also extended to investment in housing and this could be easily achieved by enlarging the scope of the existing practice of control of projects from the technical and urbanistic points of view.

Now, the implantation of direct controls on private investment should go hand in hand with active policies aimed at attracting private capital to investment into projects enjoying high social priority and fitted into the plan. A whole range of well known fiscal, credit and administrative measures is called for. They should be applied in a selective and elastic way, so as to dose/ the benefits granted according to the priority enjoyed by the project and to discourage the undesirable investment <sup>x/</sup>. In spite of all these incentives, private capital may not take up, however, the investment foreseen by the plan and instead of accelerated growth, recession of the type well known in developed industrial economies would follow. The State must be ready, therefore, to supplement private investment and to finance and/or to implement the projects which are necessary for the success of the plan but did not attract the private investors. The bigger the relative share of the public savings in total savings <sup>xx/</sup> and of the public sector

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x/ And thus reduce the number of cases in which negative administrative decision on part of the licensing authorities will be called for. Such cases would arise normally only in some D-goods industries and luxury housing which top the list of investment opportunities from the point of view of prospective rates of profit and, at the same time, figure at the very bottom of social priorities.

xx/ The Government can in addition invest without inbalancing the economy to the amount of private retained savings. In countries where hoarding in form of jewellery, gold or foreign currency it is an important consideration, although the complicating factor is that of its repercussions on the balance of payments.

in the national economy, the easier this task becomes. It is so, because the public sector may be geared to the implementation of the plan, while the private sector primarily seeks how to maximize the profits of the enterprise.

## 2. Control of foreign trade

Foreign currency is the joker of the planning game, as it is always possible to make up for deficiencies of local production by additional imports. No wonder, therefore, that for the great majority of developing countries foreign currency becomes the scarcest resource, whenever attempts are being made to accelerate the rate of growth of the economy and ultimately the barrier of foreign trade imposes a ceiling on the overall rate of growth. Under circumstances, State intervention into the operation of foreign trade becomes necessary in order to guarantee the best utilization of the existing import capacity, in accordance with the plan priorities, as well as to maximize real income from exports.

The first task implies at least, either some type of import licensing or of operation of multiple exchange-rate system, continued with the screening of import prices, to avoid at least the most flagrant cases of overpricing and the ensuing outflow of resources. Direct participation of the public sector in foreign trade operations may be also called for. The scope of controls and the administrative solutions adopted are a matter for specific decisions, depending, on the one hand, on the degree of boldness of the interventionist policies pursued and, on the other, on the peculiar conditions of each country concerned, the commodity and the geographical pattern of the imports, etc. Without going into a detailed

discussion of those problems, we shall confine ourselves to three observations of a more general nature.

a/ There is lack of consistency, in our opinion, between the efforts pursued by the developing countries on international level with the aim of introducing a fair measure of intervention in world markets and the widespread belief about the pretense advantage of relying on the free play of market forces in each country's foreign trade. This idea dies hard, however, in spite of having been disproved by bitter experience of so many developing countries;

b/ The argument on the inefficiency of administrative services set up to control imports in many countries is valid, as far as the statement of facts is concerned. But the conclusion usually drawn from it that controls should be under circumstances abolished altogether is a non-sequitur. It is necessary to work out measures in order to simplify and rationalize the procedures employed, as well as to minimize the scope for corruption rather than to throw out the baby with the bath water;

c/ An important way of improving the performance of services which deal with control of imports should consist in giving up simplified and wrong criteria such as e.g. indiscriminating support to imports of all machinery without taking into consideration whether such imports will sustain desirable or undesirable investment, whether they will promote import-substitution enjoying high social priority or contribute to further expansion of the I-sector. Priorities, as far as imports are concerned, can be worked out rationally only in the context of an overall plan and no prejudice should be attached to maintenance imports as such.

Let us turn now to the second task, that of maximizing real income from exports. It implies, on the one hand, the tightening of controls on the operation of foreign-owned firms in order to reduce the margin of profits expatriated under different posts of the balance of payments /income from capital, technical services, royalties, licences etc./ and/or through underpricing of exports and overpricing of imports required for the export production.

On the other, some system of subsidizing certain exports contained with export duties on other more profitable commodities, should be devised, in order to push the volume of exports to the desirable level. It is, of course, always possible to push ahead with additional exports, which require, however, an evergrowing subsidy, which offsets the advantage of additional earnings in foreign currency. How far one should go in terms of marginal net domestic cost per unity of foreign currency earned is a matter for a delicate and important decision to be taken by the planning authorities and periodically reviewed in the light of the possible shifts in the terms of trade.<sup>x/</sup> The decision will depend, i.e., on the cost /and the physical possibility/ of stepping up alternatively import-substituting production.

### 3. Indirect control of the price-line

As stated above, we consider that the process of growth should be non-inflationary as a matter not only of economic expediency but above all of social equity. It is, therefore, imperative to keep stable the price-line for the domestic production of E-goods, the more so that it is impossible to eliminate

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x/ A similar argument holds true for the choice of foreign-trade oriented investment, embodied in the plan, i.e. of export-promoting and import-substituting projects. The gains in terms of additional exports or import-substitution must be paid for by a growing volume of investment, we move on the list of the possible projects, ranged according to their increasing capital-output ratio.

altogether the impact of negative shifts in external terms of trade. We do not believe, however, that this goal could be achieved by administrative measures, except for the rather unrealistic case of a comprehensive and smoothly working distribution system by rationing with no parallel black market. The only way out left consists, therefore, in dynamic agricultural policies, able to ensure an elastic supply of basic E-goods combined with measures aimed at reducing the pressure of demand for E-goods on part of people employed in the I-sector by curbing the rate of expansion of employment in this sector. These policies should, at the same time, promote the structural transformation of the traditional agriculture and of the anachronic relations of production with a view of improving the lot of the poor sections of the rural population and foster the expansion of the output in such a way, as to balance the supply of marketable surplus <sup>x/</sup> with the demand for it. An active agricultural policy should be, therefore, built in into the plan while constituting at the same time a condition of effective planning as such.

#### F. Policies for accelerated growth

We can now indicate a few, more specific policies which could, in our opinion step up the mobilization of domestic resources for accelerated growth. We shall deal first with

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x/ Self-consumption of the farmers should be deducted on both sides of the equation. It is likely to grow more than proportionately in the first stages of transformation of the traditional agriculture, as the first natural reaction of people who are undernourished is to eat more whenever such a possibility arises. No matter how this is likely to complicate the problem of supply of urban centers, it should be welcome as a first step towards the implementation of an important social goal.

policies aimed at improving the economic performance of Latin American countries by means of a better utilization of the existing resources and then discuss, on the one hand, ways of increasing the volume of savings and, on the other, of the marketable surplus of E-goods, which in the last instance puts a limit to the expansion of non-agricultural employment, and thus together with the availabilities of foreign currency to finance the import content of the investment process <sup>x/</sup> sets the physical constraint to the financing of accelerated growth.

1. Squeezing more from the available resources

Contrary to a widespread belief, the relative share of gross domestic savings in the GDP of many Latin American countries is quite high. In 1963-65 it averaged over 20 per cent in Peru and Venezuela and ranged from 15 to 19.9 per cent in Argentina, Brazil, Colombia, Jamaica, Nicaragua, Panama, Trinidad and Tobago <sup>xx/</sup>. Actual savings might have been even higher, if taking into consideration non-monetary investment which in some countries acquires considerable importance <sup>xxx/</sup>. Nevertheless, they do not sustain very high rates of growth, the most extreme case being that of Argentina. The high overall capital-output ratios in many Latin American reflect an undesirable pattern of investment, heavily biased towards prestige public and private construction and perhaps, an excessive concentration on infrastruc-

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x/ Deficiencies in the supply of E-goods could be made, of course, by additional imports, but this would reduce pro-tanto the availabilities of foreign currency to import equipment.

xx/ See UNCTAD, The Mobilization of Internal Resources by the Developing Countries, TD/B/C.3/28, 26 January 1967, p. 16.

xxx/ We refer here, in particular, to bringing under cultivation of new lands with hardly any capital outlay.

tural projects <sup>x/</sup>, as well as an unnecessary reliance on capital intensive technologies /building and construction at large should be once more involved here/. The latter point has been very strongly emphasised at the Symposium on Industrial Development in Latin America, held in Santiago in March 1966 <sup>xx/</sup>. While in some fields the only technology available is the capital-intensive, there are other, where careful choice should be made from the whole range of technologies which at some time have been used by other countries taking into consideration above all the local relative costs of capital and labour. There is, furthermore, need to stimulate original technological research to solve, on the one hand, problems which did not occur in other more industrialized countries and, on the other, to promote labour-intensive technical progress.

Lack of active policies with respect to the choice of technologies is closely linked with the conspicuous absence of employment targets in Latin American planning <sup>xxx/</sup>.

Measures aiming at decreasing the overall capital-output ratio should be accompanied by a stricter enforcement of controls on foreign trade and operations of foreign capital /including more radical and efficient measures to prevent the outflow of capital belonging to Latin Americans/ so as to

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x/ It happens frequently as a consequence of a peculiar development philosophy, evolved in the post-war years by the World Bank and still shared by some governments, according to which public money, both local and foreign, should be invested exclusively into infrastructure, leaving the directly productive investment to private initiative. When the supply of public funds is for some reason or other abundant too much investment may be earmarked to infrastructure.

xx/ Cf. United Nations, Industrial Development, Latin America, Report of the Symposium, New York, 1966, p. 41.

xxx/ Cf. the paper on Experience and Problems in the Implementation of Development Plans submitted by ECLA to the Committee for Development Planning, E/AC. 54/L.13, 9 March 1967, p. 25.



Table 2. H Hypothesis "B"

Growth of the economy with changes in the income distribution /capital-output ratio =  
 = 2,5, r increases from 4 per cent in  $t_1$  to over 6,5 per cent in  $t_6$  and  
 thereafter stabilizes/

	$t_0$	$t_1$	$t_2$	$t_3$	$t_4$	$t_5$	$t_6$	$t_7$	$t_8$	$t_9$	$t_{10}$	
National income Y	100	104	108,6	114,0	120,2	127,5	136,0	145,0	154,4	164,4	175,1	, 286 -
Popular consumption $C_p$	50	52	54,3	57,0	60,1	63,7	68,0	72,5	77,2	82,2	87,5	
Consumption of the elites $C_e$	40	40,4	40,8	41,3	41,9	42,5	45,9	48,9	52,1	55,5	59,1	
Investment I	10	11,6	13,4	15,6	18,2	21,2	22,1	23,6	25,1	26,7	28,5	
Rate of growth r		4	4,38	4,95	5,48	6,04	6,5	6,5	6,5	6,5	6,5	:

squeeze more resources for development from the existing volume of trade.

## 2. Increasing savings by means of income redistribution

The volume of domestic savings can be in practically all the Latin American countries substantially increased by means of a redistribution of social income. Stepping up of investment should go pari passu with a substantial increase of the incomes of the poor strata of population. The frequently alleged argument that in a poor country the relative share of savings cannot be increased short of depressing still more the low standards of living does not hold true in a society characterized by marked inequalities of income. To illustrate our point, we shall compare two hypothetical paths of growth for an economy with the following initial distribution of income.

Consumption of the elits /upper 10% per cent of population/  
 $C_e = 40\%$ ; popular consumption /90 per cent of the population/  
 $C_p = 50\%$ ; investment 10%.

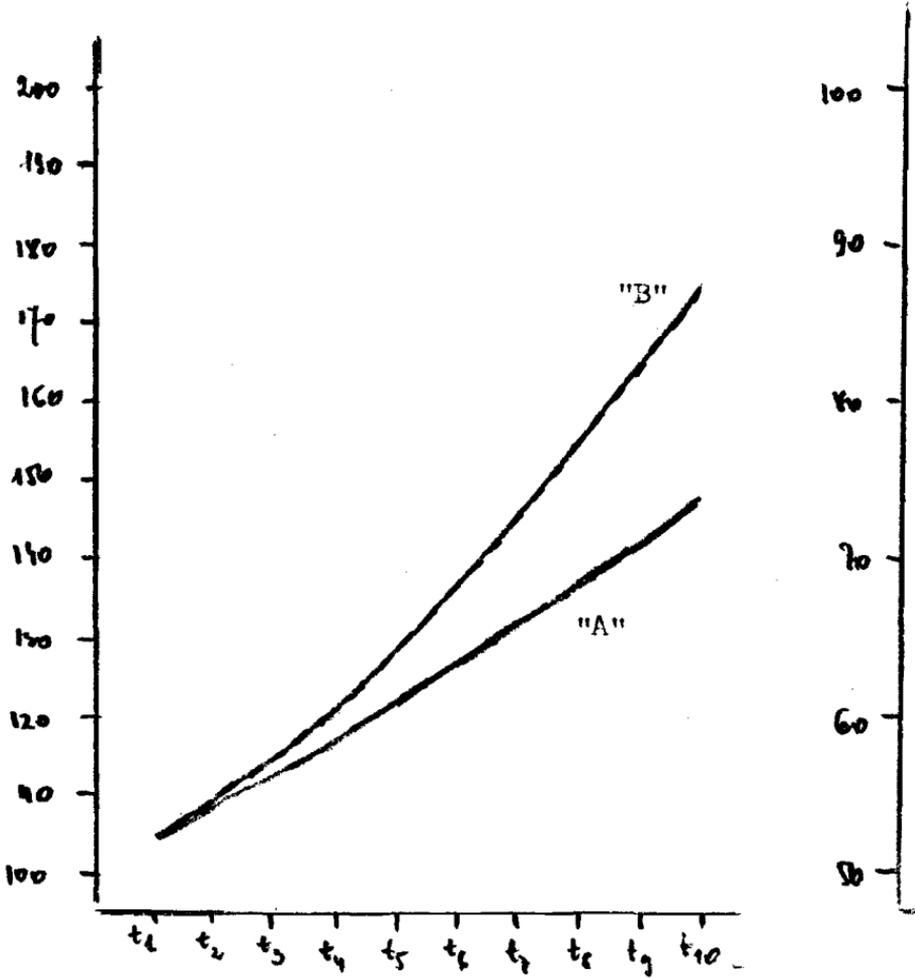
We assume throughout the exercise a constant capital-output ratio equal to 2.5.

Hypothesis "A" features a steady growth at 4 per cent per year, with a constant distribution of income /table 1/.

Hypothesis "B" starting with the same initial position assumes that the relative share of  $C_p$  remains constant throughout the whole period considered, while  $C_e$  increases for the first five years at a the rate of 1/4 of the overall rate of growth and, thereafter, at the rate of growth of the economy. The "gains" resulting from a lower rate of growth of  $C_e$  as compared with that of the economy are transferred to I. As the capital-output

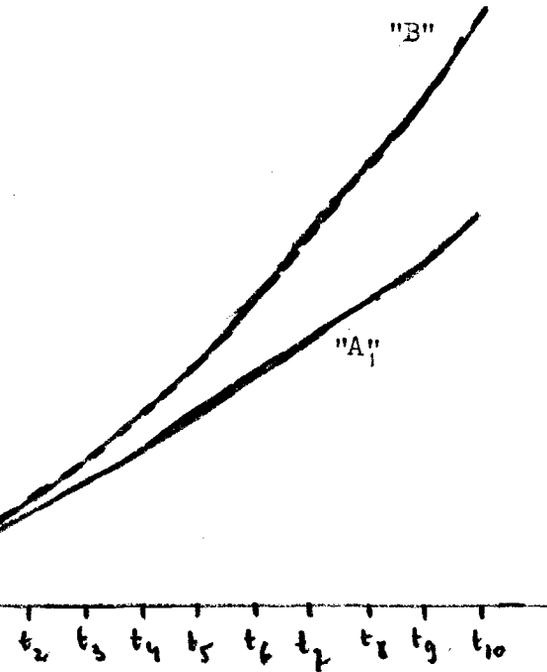


Graph € a) growth of national income Y

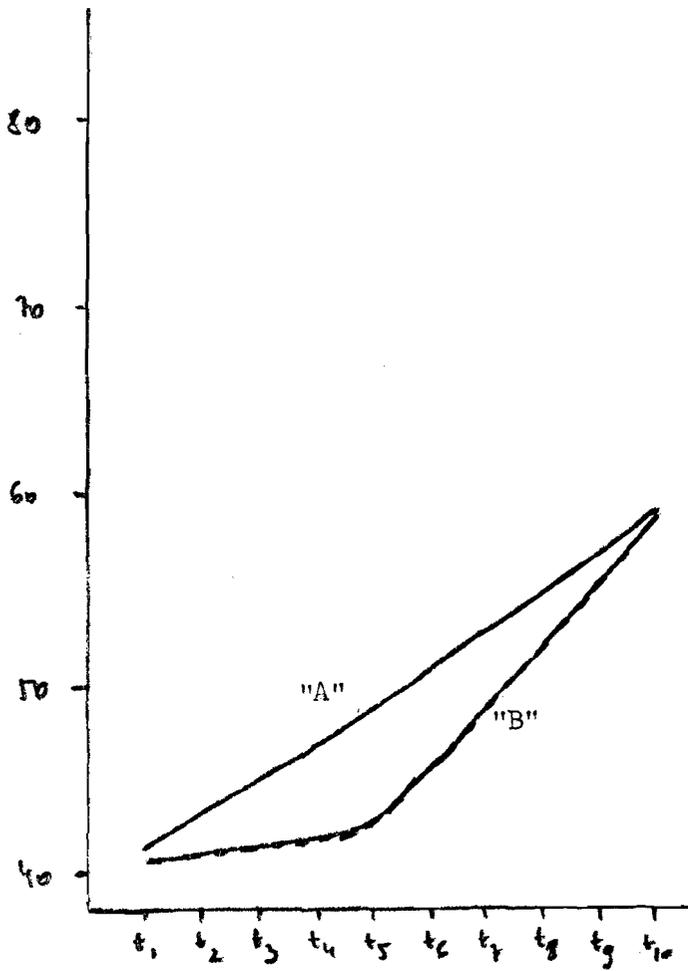


Graph 6

b) growth of popular consumption  $C_p$

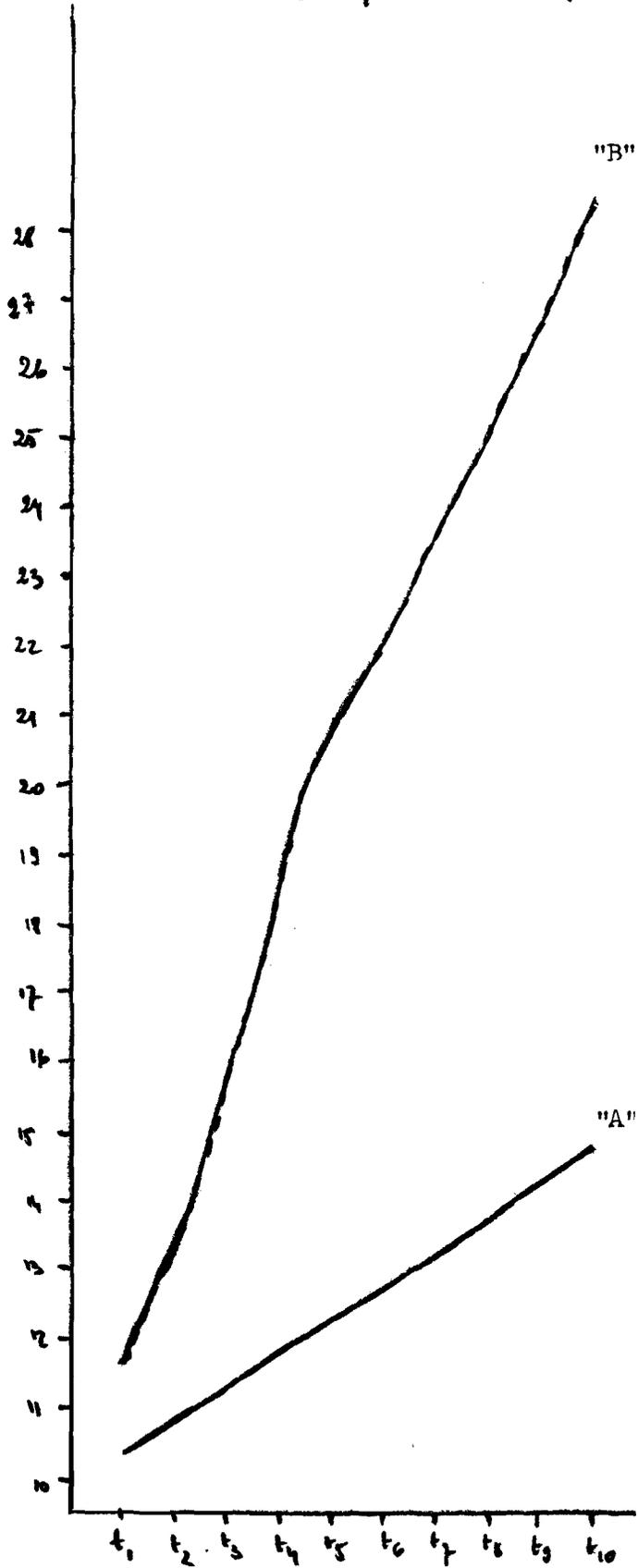


Graph 6 4) growth of consumption  
of the elites  $C_e$



-29c-

Graph 6 d) growth of investment  $\bar{I}$



ratio remains constant /and equal to 2.5 like in the previous hypothesis/, the rate of growth is stepped up and it exceeds 6.5 per cent in the sixth year / $t_6$ /, to stabilize thereafter /table 2/.

The results are compared in graphs 6a, b, c, d. Under Hypothesis "B" and  $C_p$  are higher from the very beginning and in the year  $t_{10}$   $C_p$  /as well as the national income  $Y$ / exceeds the level attained under hypothesis "A" by almost 19 per cent and increases at a rate higher by 62.5 per cent. The volume of investment in the year  $t_{10}$  is almost twice as high under hypothesis "B" than under hypothesis "A" and the only casualty has been  $C_e$ , which, however, in the year  $t_{10}$  is practically the same under the two hypothesis to increase thereafter at a much quicker rate under the hypothesis "B". Let us furthermore observe that at no time  $C_e$  ceased to increase.

The redistribution of income featured in the hypothesis "B" consists in increasing the relative share of investment from the initial 10 per cent to over 16 per cent at the expenses of the relative share of  $C_e$ . As the operation was scheduled over a period of 5 years against the background of a growing economy, no sacrifice in the absolute level of  $C_e$  was required.

Of course, bolder policies bringing about more drastic changes in the distribution of income could be envisaged. Our example as chosen, however, in such a way as to show that substantial progress could be already achieved even without postulating far-reaching political reforms by imposing relatively mild and temporary curbs not on the absolute level but on the rate of increase of  $C_e$ . Such a strategy as described by us should be therefore considered as a minimum target, which in spite of its obvious advantages still await implementation in the majority of the developing countries.

As for the specific operational measures capable of bringing about such a redistribution of income, they should consist essentially in a reform of the taxation system, combined with appropriate credit and administrative measures. There should be, on the one hand, incentives to save and invest instead of indulging into conspicuous consumption /tax exemptions and relates on income reinvested according to the plan priorities would serve this purpose/. On the other, indirect progressive taxes <sup>x/</sup> on I-goods and services, if which consists the bulk of  $C_e$ , should be imposed in such a way as to discourage such consumption while at the same time adding to public savings, to the extent to which it continues to take place. Finally, collection of direct income taxes should be improved and new taxes, imposed on such items like luxury dwellings, private motor-cars and other symptoms of wealth, which cannot be altogether concealed like the income <sup>xx/</sup>.

### 3. Some remarks on comprehensive agricultural policies

Even the most cursory but systematic discussion of this problem would exceed by far the limits of the present paper. It is necessary to bear in mind the extreme diversity of the evils affecting agriculture in different countries and even provinces of one country. We shall, therefore, limit ourselves to a few remarks prompted by the fact that the aims pursued

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x/ We have in mind progressive excise taxes, whereby articles of mass consumption /E-goods/ are either exempted or lowly taxed while there is a heavy incidence of taxes on luxuries, proportional to the degree of inessentiality of the article considered.

xx/ We shall deal with the land tax in the section devoted to agricultural policies.

by comprehensive agricultural policies should be in all developing countries the same, namely they should lead to a substantial increase in the standard of living of the rural populations, while at the same time ensuring an elastic supply of agricultural E-goods to urban areas. A natural outcome of such a situation would be an expansion of the internal market for industrial E-goods, as well as for inputs and implements for agriculture x/.

The issue boils down to stimulate the farmer to increase the marketable production, while at the same time assisting him in his efforts by appropriate technical advice and supplies of inputs. At first sight it would seem that in inflation-ridden economies price-increases should provide a strong incentive to farmers xx/. Reality is quite different, however. Price incentives do not reach the tiller, as they are intercepted by intermediaries xxx/, who, far from being interested in increasing the supply of E-goods reap additional profits from speculation investing thus a substantial portion of their earnings into expansion of stocks. No wonder, therefore, that a large number

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x/ We are convinced that the advantages reaped by the industries from such an integration of domestic economies would by far exceed all the possible gains from international integration even on most favourable /and unrealistic/ assumptions about the pace of progress of international co-operation. Although we are quite aware of the fact that a few industries cannot achieve economies of scale within national boundaries, we believe that the case has been too easily generalized and the whole issue of foreign markets played up as a more to shift attention from the politically explosive issue of internal markets and land reforms.

xx/ Elasticity of food consumer price index with regard to cost of living in the years 1952/53 - 1963/64 has fallen in several Latin American countries in the range of 1.10 to 1.20.

xxx/ We are not interested here what share accrues to rural intermediaries and how much goes to urban traders.

of small holders confine themselves to subsistence agriculture, the more so that they are frequently compelled to what amounts in practice to different forms of labour prestations on the hacienda to which they are attached.

As for the owners of bigger estates, they find it more profitable to specialize in traditional export-cultures, heavily financed and subsidized by the State and, to the extent to which they act. at the same time as producers and rural intermediaries with respect to some E-goods for the domestic market, they may well choose a policy of artificial shortages which gives them high profits.

Under such circumstances, a comprehensive agricultural policy should consist in four sets of measures:

a/ changes in the tenancy system and ownership pattern so as to free small tillers from the exploitation by landlords and give them permanent possession of land;

b/ introduction of a strongly progressive land tax which would compel owners of larger estates either to sell large tracts of land or to increase substantially their output with the double advantage of improving the supply and increasing the public revenue;

c/ drastic intervention in the commercialization of E-goods preferably by offering advantageous minimum prices to the producer, signing with him advance contracts and setting an efficient state trading agency, so as to reduce substantially the margin reaped at present by the intermediaries, by the rural merchants, landowners directly engaged in trade or big commercial firms /quite frequently foreign-owned/; measures of support to traditional export cultures should be at the

same time revised, in order to avoid situations in which expansion of low quality output which finds no outlets abroad is nevertheless profitable, as State agencies purchase the unsold surplus at handsome prices;

d/ credit policies and technical assistance should be overhauled so as to benefit not only a small minority of big farmers.

All these measures continued should inject dynamism into the hitherto ailing agriculture and give it rates of growth which would permit at the same time a substantial increase in rural consumption of agricultural goods and a considerably higher supply of the urban markets.

x x  
x

We should like to end by stating that in our opinion the so-called "savings gap" does not constitute an obstacle to accelerated growth as it can be always made for by appropriate measures of redistribution of income, at least within the range of rates of growth, which can be taken seriously into practical consideration. The difficulties will rather appear on the side of supply of agricultural-E-goods /the real counterpart to wages and incomes/ and/or of "imports gap", which even after having made the best use of all the reasonable export promoting and import-substituting measures<sup>x/</sup> will still persist, though proper measures of mobilization of domestic resources are likely to reduce the reliance of the growth process on imports<sup>xx/</sup> and, in other words, will permit to maximize the overall rate of non-inflationary growth with a given capacity to import.

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x/ We assume that all the possibilities of entering into long-term arrangements with parties abroad have been explored.

xx/ Let us emphasize in this context, once more, the connection between foreign trade and agricultural policies. Development of domestic food production provides in many countries, the most important source of actual and potential import substitution. Self-sufficiency in food need not be, however, sought for without exploring the possibilities of agricultural specialization linked with international trade.

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Policies for Plan Implementation (with special  
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ISSUES IN THE PLANNING OF TRADE AND AID

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

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## Issues in the Planning of Trade and Aid

### (a) Growth of the Developed World

1. The developed world has an output about five times as great as the developing world, and dominates the movements in the world economy. There are many more trade, finance and technological links between the developed and the developing world than within the developing world. Planners in developing countries must therefore consider whether the developed world is growing at an adequate rate. Table 1 shows the growth rates of the past decade compared with the past century. It is quite clear that present day performance of all these economies is well beyond the best historical records except in the United States. The world environment is more favourable to growth than it has ever been before. The slower growth of the United States is an exception of major importance for Latin America, because its trade dependence on the United States is very pronounced. However, the United States greatly accelerated its growth in the 1960's, and, for 1960-1965, G.N.P. growth there averaged about 4.5 per cent a year, as compared with 3.3 per cent for 1953-65.

Table 1

#### Growth of real G.N.P. in 14 Developed Countries

	Annual average compound growth rates				
	1953-65	1870-1965	1953-65	1870-1965	
Japan	9.4	3.4	Denmark	4.3	2.8
Germany (F.R.)	6.2	2.8	Norway	4.2	2.6
U.S.S.R.	6.1	3.1	Canada	4.1	3.5
Italy	5.3	2.0	Belgium	3.8	2.2
France	5.0	1.7	U.S.A.	3.3	3.7
Netherlands	5.0	2.4	U.K.	3.1	1.9
Switzerland	4.7	2.6	Average	4.9	2.7
Sweden	4.4	2.8			

2. With this important change in the United States growth rate (which is largely due to improvements in policy), it would seem that Latin America cannot now hope for much better growth performance in the aggregate from the developed world.

3. Apart from the fact that growth has been high in the developed world, there has also been a greater smoothness in the growth path in all the economies, with none of the major recessions which marred previous experience.

4. The improved performance of the developed world has been due mainly to improved policy. European Governments (and in the 1960's, the United States) tried to maintain high levels of employment and to foster the expansion of world trade. By a major reduction in macro-economic risk they greatly increased the incentive to invest. In most countries, investment levels have been twice as high as in pre-war years, and this has been the main factor on the supply side which explains the acceleration in economic growth.

(b) Trade of Developed Countries

5. The developed countries have expanded their trade very rapidly in the past decade. In all cases, the volume of imports has increased faster than G.N.P. (see table 2) and the growth rate of imports has been well above the historical average. Furthermore, the cyclical volatility of imports has been smaller than in pre-war years (see table 3).

Table 2

Growth in the Volume of Imports 1870 - 1965

	Annual average compound growth rates				
	1953-65	1870-1953		1953-65	1870-1953
France	9.0	2.0	Japan	11.6	4.3
Germany (F.R.)	14.0	2.0	U.K.	4.0	1.8
Italy	10.9	2.2 <sup>a</sup>	U.S.A.	5.7	3.0

a 1900-53.

Table 3

Transmission of Recessional Influences from Six Countries 1890-1965

	Maximum cyclical percentage fall from peak to trough in volume of imports (annual data)						
	1890-1913	1920-1938	1955-1965		1890-1913	1920-1938	1955-65
France	11.0	28.0	3.0	U.K.	3.2	13.0	2.0
Germany (FR)	5.4	40.5	0.0	U.S.A.	14.1	39.6	6.0
Italy	n.s.	53.2	7.0	World	2.7	26.8	1.0
Japan	24.8	35.1	18.0				

6. The more rapid growth in trade than in income was due to the fact that trade barriers both quantitative and tariff were being reduced in this period, payments were freed with the advent of convertibility in 1958, and the mechanism for solving international payments problems and for providing liquidity was strengthened.
7. Most of these measures to free trade and payments have had a greater impact on transactions between the developed countries than between the developed and developing world. In fact, some new barriers on imports from developing countries were created in the past decade, such as U.S.A. quotas on imports of oil, copper, lead and zinc, and restrictions on textile imports in many developed countries. In addition, many countries developed farm surpluses through protecting their domestic agriculture. Professor Harry G. Johnson has suggested that existing trade barriers in Western developed countries block about \$4.4 billion of potential exports of agricultural and mineral products from the developing countries. He has not quantified the impact of barriers to manufactured products, but he stresses that these are larger than is generally thought, if protection is measured in terms of value added. Latin America has probably suffered more than other developing areas from recent commercial policy moves in the developed world, because there has been new discrimination of the Common Market in favour of African countries which has hurt Latin American interests.
8. It has also been the case that the commodities for which demand has proved least elastic are those in which the exports of developing countries are concentrated, i.e. food and raw materials. This has meant not only a slower increase in export volume for these goods but a weaker price situation. From 1953 to 1965, export prices of developing countries fell by 6 per cent and those of developed countries rose 5 per cent.
9. Thirdly, it was on the slowest growing economies - the U.S.A. and the U.K. - that the developing countries were most dependent for their exports.
10. Thus we get a marked difference between the export experience of developed and developing countries. For 1953-1965, the average annual growth in export values for the developed world was 7.5 per cent a year, whereas developing countries export values increased by only 4.6 per cent a year.
11. It is clear from tables 4 and 5 that developing countries did relatively badly in all commodity groups except oil. In the case of manufactures the diffe-

rence in export performance is not as marked and suggests that developing countries' exports meet least effective resistance in this area.

Table 4

Composition of the Exports of Developing Countries  
in 1955 and 1965

	1965-55 Percent Change	1965 Export Value \$ million	1965 Shares in Export Value Percent	1955 Export Value \$ million	1955 Shares in Export Value Percent
Food, Beverages and Tobacco	35.0	10,370	28.4	7,680	32.4
Fuels	91.5	11,300	31.0	5,900	24.9
Other Raw Materials	18.8	8,270	22.7	6,960	29.4
Manufactures	109.6	6,350	17.4	3,030	12.8
Unspecified					
Total	54.0	36,450	100.0	23,670	100.0

Source: Monthly Bulletin of Statistics, United Nations, March 1967, p. xvi. The first row covers SITC items 0-1; the second, item 3; the third, items 2 and 4; the fourth, items 5-8. The figures exclude Greece, Turkey, Spain and Yugoslavia.

Table 5

Composition of the Exports of Developed Countries  
in 1955 and 1965

	1965/55 Percent Change	1965 Export Value \$ million	1965 Shares in Export Value Percent	1955 Export Value \$ million	1955 Shares in Export Value Percent
Food, Beverages and Tobacco	96.3	17,690	13.8	9,010	15.1
Fuels	32.9	4,320	3.4	3,250	5.4
Other Raw Materials	61.6	13,640	10.7	8,440	14.1
Manufactures	137.1	90,010	70.3	37,960	63.6
Unspecified					
Total	114.5	127,960	100.0	59,660	100.0

Source: As for table 4.

12. To some extent, recent changes in the pattern of trade have been encouraging. The slow-growing exports of food and raw materials other than oil are now only half of the exports of developing countries, whereas they were 60 per cent of exports in 1955. The slower-growing markets of the U.K. and the U.S.A. are only one-third of the export market for developing countries, whereas in the early 1950's, they were half of the market.

13. It is obvious that further liberalisation of commercial policy in the developed countries can be of great help, and developing countries should exert as much collective pressure as possible to ensure that these policies change in their favour. UNCTAD has created a forum for discussing these issues and a pressure group of the developing countries has emerged, and can be more fully exploited now that the developed world is no longer preoccupied with the Kennedy Round. UNCTAD will start on the phase of practical bargaining at its next meeting in Delhi. Developing countries will need to narrow down their objectives to those of bargainers rather than propagandists. Regional agreements within the developing world can increase their bargaining strength, and they might well be able to make some reciprocal concessions to the developed world.

(c) Trade Between Developing Countries

14. More than a fifth of the trade of developing countries is the trade they do with each other, and this is the trade which has been moving most slowly (see table 6). This is because the developing countries have a much more restrictive commercial policy than the developed world and with the exception of Central America they have done very little to foster effective regional preference systems with each other, either for payments or trade, as was done via E.P.U. and the O.E.E.C. Code of Liberalisation in the early post-war years of payments difficulty in Europe. It is obvious that developing countries should take action to remedy this situation and that large trading countries like Brazil and Argentina have a particular responsibility for taking a lead.

Table 6  
Exports F.O.B. of Developing Countries by Area of Destination

	\$ million	
	1953	1963
Total OECD Developed Countries	15,423	22,616
Sino-Soviet Group	357	1,994
Other Developed Countries	555	874
Total Trade with Developed Countries	16,335	25,484
Trade between Developing Countries	5,509	7,711
World Total	21,844	33,195

Source: Yearbook of International Trade, various issues, New York, OECD Statistical Series A. - Overall Trade by Countries.

(d) Capital Flow from the Developed World

15. In the ten years 1956-1965 there was a massive net flow of capital of various kinds from the developed to the developing world, rising from about \$8 billion in 1956 to \$11.6 billion in 1964 (see table 7). In 1965, the comparable figure was about \$13 billion. From this we should deduct a figure for unrecorded capital exports of developing countries of about \$1.5 billion, so that the net flow in 1965 was probably about \$11.5 billion. The flow of funds is still rising but it seems unlikely from present indicators that it will increase at all spectacularly. Of course, the allocation of funds to individual countries or areas can still change considerably. In 1965 the total G.N.P. of developing countries was about \$250 billion, so that their total net capital receipts were about 4.6 per cent of this. The flow is equal to about a quarter of the capital formation and imports of developing countries and also adds substantially to government resources.

Table 7

Grants and Net Lending (a) from Developed Countries and Multilateral Agencies to Developing Countries 1956 and 1964.

	disbursement \$ million	
<u>Economic Items</u>	1956	1964
Official grants from OECD Countries	2,592	3,810
Official net lending by OECD Countries	457	1,695
Official grants and net lending by communist countries	107	(525)
Official grants and net lending by other developed countries	(30)	113
Grants from multilateral agencies	58	325
Net lending by multilateral agencies	147	465
Net guaranteed export credit	395	(816)
Other net private capital from OECD countries (b)	2,553	2,284
Net drawings from I.M.F.	63	-12
<u>Military Items</u>		
Military grants from the U.S.	1,163	(960)
Military grants from the U.K.		92
Military grants from other OECD Countries(120)		(200)
Military grants from communist countries(150)		(150)
U.S. military credits (c)	8	43
Other OECD military credits	(5)	(5)
Military credits from communist countries(150)		(150)
<b>Total</b>	<b>7,998</b>	<b>11,621</b>

(a) Includes maturities of 1 year or more.

(b) Excludes French reinvested earnings outside petroleum.

(c) These figures represent gross lending.

Source: A. Maddison, "The Balance of Payments of Developing Countries," Banca Nazionale del Lavoro, Quarterly Review, June, 1966.

16. The scale of this flow was at least as large in relation to the economies of developing countries as it has ever been historically. But its composition is quite different now from what it was from 1900-13 which was the previous peak. The bulk is provided by government funds rather than private capital. A good deal is in the form of grants rather than loans. Amongst the private capital, the bulk is in the form of direct investment and the bond market is very limited.

17. The Latin American countries have received foreign funds on a scale less than average for the developing world, but the proportion in the form of private capital has been larger than for other areas.

18. One of the major consequences of this flow of capital is that it has increased the indebtedness of developing countries, and burdened them with substantial amortisation and interest payments. Latin America is the most heavily burdened area with government guaranteed debt of about \$12 billion in 1964.

19. Foreign capital has served several functions. Some of it was simply export credit designed to help the country of origin. Some was meant to supplement the savings of developing countries, some to ensure that all infrastructure projects were undertaken.

20. Latin America has had some of all of these kinds of funds, but mostly the first two kinds. Some countries in Latin America need development aid either because their level of income is very low or because they find it difficult to mobilise sufficient domestic savings.

21. The major unsatisfied need for foreign capital in Latin America in the past decade has been finance for large-scale stabilisation programmes and debt re-scheduling. In most of the post-war period, credit of this kind has been inadequate. But the attitude of the I.M.F. to Latin American problems has changed greatly in the past few years and bigger credits are now available. The difficulty in carrying this process further is the difficulty of ensuring that beneficiary countries will succeed in following reasonable policies if they get bigger lines of credit. Perhaps the best way of enlarging the credit mechanism for these purposes would be to create a Latin American monetary group with its own powers to dispose of funds - rather like the European Payments Union. This should ensure a sufficiently frank mutual appraisal of different countries' policies - as the funds would have to be shared amongst the member countries. One of the problems in such an arrangement is, of course, that the degree of development is so different and mutual

economic interdependence is so small in Latin America, that the necessary degree of co-operation will be difficult to secure.

(e) Private Capital

22. The flow of private capital to developing countries has stagnated in the past ten years. This has not mattered so much to really poor countries where foreign capital is needed mainly to create basic infrastructure and can be supplied by official aid. But private capital is most useful when it is creating new industry - whether for import substitution or for new exports, and Latin America needs it for these reasons.

23. In the past decade many developing countries have rejected this function of private capital, and some of them have expropriated foreign capital on a large scale, e.g. Egypt, Algeria, Cuba, Indonesia, Tunisia, Ceylon or Burma. In most of these cases, the reaction was against foreign capital in a more or less colonial form - mainly plantation agriculture - where the foreigner no longer had a major innovating function and was doing little to upgrade local skills. In other cases, countries have nationalised foreign enterprises which were exploiting a basic resource, e.g. oil in Mexico and Iran. Others have driven out foreign capital in this field at the innovating stage of exploration, e.g. Argentina and India. In Latin America, several countries have nationalised foreign public utility holdings but usually without raising major political problems.

24. The reasons for taking a negative view towards foreign capital have varied considerably, and some are more justified than others. However, a country which shuts itself off from foreign private investment in industry is likely to find itself in increasing difficulties in supplying its own consumers with sophisticated goods or competing on world markets. This has been a major problem in Soviet industry and is a major reason for recent large scale foreign contracts to develop the Soviet motor industry.

Table 8

Net Receipts of Foreign Private Capital 1956 - 1964

	\$ million Annual Average 1956-64
Argentina	167
Brazil	192
Mexico	226

Source: I.M.F. Balance of Payments Yearbook, vols. 13-17, Washington D.C.

25. Table 8 shows the foreign private capital receipts of Brazil, Argentina and Mexico since 1956. In spite of the fact that policy to foreign investors has not always been too welcoming, these countries have, nevertheless, done relatively well. They have received about half of the private capital available from the developed world for non-oil investment. In my view, Mexico has made the best use of foreign investment by itself often taking the initiative to attract specific foreign firms, by careful selection of projects, and through joint ventures generally supervised by a powerful national development bank<sup>(1)</sup>. However, Brazil also has used foreign capital quite efficiently.

(f) Policies of Developing Countries

26. Most developing countries suffer from very high pressure of internal demand, from inflationary price increases and from over-valued currencies. This has been a major factor which has weakened their export performance. The degree of inflationary pressure in these countries relative to that in the developed world and particularly to Europe, has been much greater since 1955 than in the first post-war decade. This happened to a large extent because development ambitions increased, many countries gambled (correctly) that balance of payments difficulties would in themselves help to generate a larger flow of capital, just as the post-war collapse in Europe helped to induce Marshall Aid.

27. As a result, most developing countries, except oil producers and the heavily aided West African countries, now have to protect their payments by import controls and other payments constraints, which are much more severe than in the developed world. On top of this, some developing countries and particularly those in Latin America, have reduced their export potential by direct fiscal or exchange rate disincentives or even by export controls.

28. It is likely that this dichotomy in the general economic situation and the nature of policy instruments will continue between the developed and developing world. The developed countries are quite willing to accept a double code of morality in commercial policy from developing countries without retaliation. However, this does not imply that the more extreme forms of payments disequilibrium are good for development in the long run, particularly if the developed countries have reached the limits of their willingness to lend, or if the induced flow of foreign capital is short-term commercial credit on onerous terms. It is clear that some developing countries have let their payments position get into

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(1) See A. Maddison, Foreign Skills and Technical Assistance in Economic Development, OECD, Paris 1965 for a further elaboration of this point.

a much greater mess than others, so that this is, in fact, the major constraint on their development. This is particularly true in the Southern half of Latin America. It is equally true of some developed countries, e.g., the U.K. and it is clear from her example that such difficulties tend to be chronic and self-reinforcing.

29. One of the major reasons for the chronic payments difficulties of some Latin American countries is that their policies have been affected by an ideology which seems to reject the virtues of integration in the world economy. The conception of the nature of the world economy has often been very pessimistic. For many Latin American economists, the great break in world economic development took place in 1930, and policies are sometimes conditioned more to the realities of the 1930's than to the 1960's. Before 1930, there was a relatively free trade world which was not too bad for the primary producer. Since then primary markets have expanded slowly, the terms of trade have worsened, and the external economy is very unstable. This vision of the world economy ignores several points. First of all, the crisis of the 1930's was not something which hit the real income of Latin America any more severely than the rest of the world. The developed countries were badly hit too and have done a great many things to prevent it recurring. The mildness of the impact of the second world war on Latin America is perhaps the main reason why the Latin American view does not take full cognisance of the changes it brought in the world economy. The regimes, social structure and economic policy of Latin America were not shaken by war in the way which occurred in most of Europe and Asia. Nor did they feel the wind of change which independence has brought in Asia and Africa. In the early post-war period, Latin America enjoyed a euphoric boom which gave a false idea of normal economic conditions, at a time when the economies of Europe and Asia were very badly damaged and had to make much more serious efforts at reconstruction. The spirit of international co-operation has been much weaker in Latin America than in Europe or Africa and harmful effects of restrictive commercial policy have not been fully appreciated in a rather nationalist environment.

30. In the post-war period, industrialisation became a major goal of policy in several Latin American countries, and particularly in Argentina and Brazil. In both countries there was a neglect of export industries, and, in Argentina, policy was much more harmful than in Brazil in this respect. In both cases export pessimism led to heavy emphasis on import substitution over a very wide range of industries, emphasis on "integration" of the economy and to creating industries with mutual "linkages." There was little thought of building industries

with a view to comparative advantage, specialisation, and to export potential. Haphazard use of protectionist devices distorted the allocation of resources and created many inefficient firms whose operations are costly to the economy. Manufactured exports were penalised in several ways by the policies of the countries themselves.

- (a) The constant pressure of inflation (see table 9) has often led to overvalued currencies which encouraged imports and discouraged exports. Exchange rate distortions were often corrected only when they had become extreme. To some extent this problem has been mitigated in recent years by more frequent devaluations.
- (b) Bureaucratic controls have grown to such an extent that many potential exporters have been inhibited. In Argentina for example, it is almost impossible to persuade a bookseller to export books, because of such obstacles.
- (c) Incentives to exporters have been weakened by various devices: 1) price controls which discouraged production and increased internal consumption of agricultural products, (important in Argentina); 2) export taxes (Brazil); 3) differential exchange rates which were unfavourable to exporters (Brazil); 4) prohibitions on exports such as was until recently the case for Brazilian meat. Here again there has been an improvement in policy in recent years.
- (d) The tax structure often has indirect disincentives to exports, e.g. the turnover taxes levied by the states in Brazil are similar to those of Germany, but a Brazilian exporter of Volkswagens would get no tax rebate for export as would a German manufacturer. But the turnover tax in Brazil might well amount to 40 per cent of the ex-works price. In Argentina there is now a three-tier system of tax rebates for exports, but there is still need for progress in this direction in Brazil.
- (e) Protectionism has been carried to such lengths (see table 10) and inflation is so extreme that relative prices have been distorted, and move erratically. This has reduced competition, impeded rational accounting, and created unnecessary inefficiency. In some cases, the tariff structure is so irrational that it has created strong disincentives to export<sup>(1)</sup>. The procedure for setting tariffs needs to be overhauled, and subjected to greater public scrutiny, and some of the more extreme levels of protection should be reduced to promote at least a vestige of competition. Policies for combatting inflation need to be resolutely pursued.

Table 9

Annual Percentage Change in Domestic Price Level (G.N.P. Deflator) 1950-63

		Annual average compound growth rate			
Chile	32.8	Yugoslavia	6.2	Honduras	1.5
Paraguay	27.2	Morocco	6.1	Dominican Rep.	1.5
Argentina	25.7	Jamaica	4.6	Portugal	1.3
Brazil	25.2	Nicaragua	4.2	Tunisia	1.0
Korea (South)	19.0	Nigeria	2.5	India	0.8
Israel	11.6	Ghana	2.5	Guatemala	0.7
Indonesia	11.4	Costa Rica	2.4	Venezuela	0.7
China (Taiwan)	9.7	Iraq	2.4	Ceylon	0.7
Turkey	9.1	Ecuador	2.3	U.A.R.	0.4
Colombia	8.9	Thailand	2.1	Burma	0.3
Peru	7.2	Pakistan	2.0	Panama	-0.1
Mexico	6.5	Philippines	1.9	Malaysia	-2.7
Spain	6.2				

Table 10

Average Incidence of Duties and Other Charges on Imports for 125 Representative Items

Argentina	131	Mexico	61
Brazil	168	Peru	34
Chile	138	Paraguay	76
Colombia	112	European Common Market	13
Ecuador	62		

Source: S. Macario, "Protectionism and Industrialization in Latin America," Economic Bulletin for Latin America, Santiago, March 1964, p. 75.

(f) Positive measures are needed to promote exports - market research, better commercial representation, export credit facilities or even temporary subsidies.

31. I have stressed the adverse impact of these policies because I think that they have suppressed a substantial amount of potential exports in Latin America, particularly from Argentina and Brazil. This suppressed export potential could provide a major buttress for more open economies and accelerated development.

Table 11

Exports of Manufactures as a Proportion of Domestic Value Added  
in Manufacturing in 1963

Peru	0.7	Mexico	12.3 <sup>a</sup>
Colombia	1.7	Canada	24.0
Argentina	2.0	Italy	28.0
Chile	3.2	Japan	28.7
Greece	4.1	Denmark	32.3
Brazil	5.9 <sup>a</sup>	Norway	39.9
Spain	6.6	Israel	40.2
India	11.6 <sup>a</sup>	Netherlands	66.9

a 1965.

32. Table 11 shows the relatively poor Latin American export performance in manufacturing compared with that of Israel and European countries.

33. The potential for higher manufactured exports from Brazil and Argentina has been revealed in the past three or four years in which policy changed, and the manufactured exports of both countries have trebled. This was due to more meaningful exchange rates, removal of tax disincentives in Brazil, and the use of export subsidies in Argentina. Persistence in and further development of these policies coupled with a sharpening of competition by a lowering of tariffs, would further strengthen their exports. Apart from this, outlook for some traditional agricultural exports, particularly meat, is now not at all bad.

## Conclusions

34. The growth of the world economy has been very satisfactory in the past twenty years, world trade had grown faster than ever and the trend in commercial policy in developed countries has been liberal. The benefits of the increased liberalism have gone mainly to the developed world, and there is scope for considerable improvement in commercial policy towards developing countries. The developing countries must keep up a strong pressure for such concessions and in the long run they will gain most from greater opportunities for their exports of manufactures.

35. The flow of capital from developed to developing countries has been high in the past decade, and most of it has been government to government aid. This flow may still increase, but probably rather slowly, because it has already greatly increased the indebtedness of developing countries, and there are obvious political constraints on the degree to which countries can increase their dependence on the outside world. It is important to increase the proportion of these funds which comes through multilateral agencies, and to give developing countries themselves greater control over their allocation. Regional organisations of developing countries should use them as an instrument to enforce mutual confrontation in matters of economic policy.

36. There is considerable scope for improvement in economic policy in developing countries. In some cases, difficulties in balance of payments have arisen largely because of mistakes in domestic policy. This is the case in both Argentina and Brazil. It is, therefore, necessary to tackle the constraints on development on two fronts. The developed countries should be subjected to constant pressure to remove external difficulties and domestic policies should come under more critical and detailed scrutiny.

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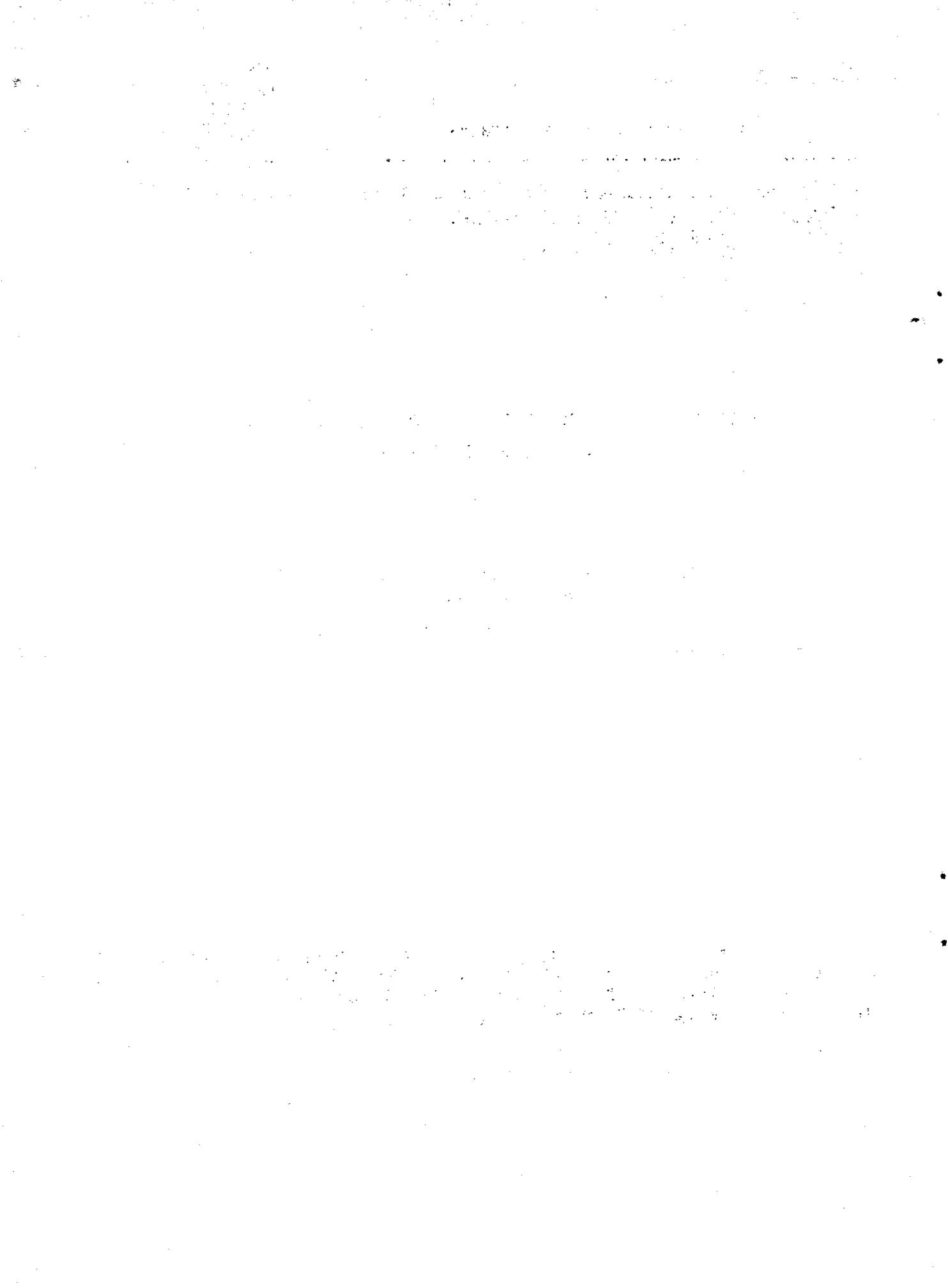
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PROGRESS AND PROBLEMS IN THE CONSIDERATION OF ECONOMIC INTEGRATION  
IN DEVELOPMENT PLANNING

by

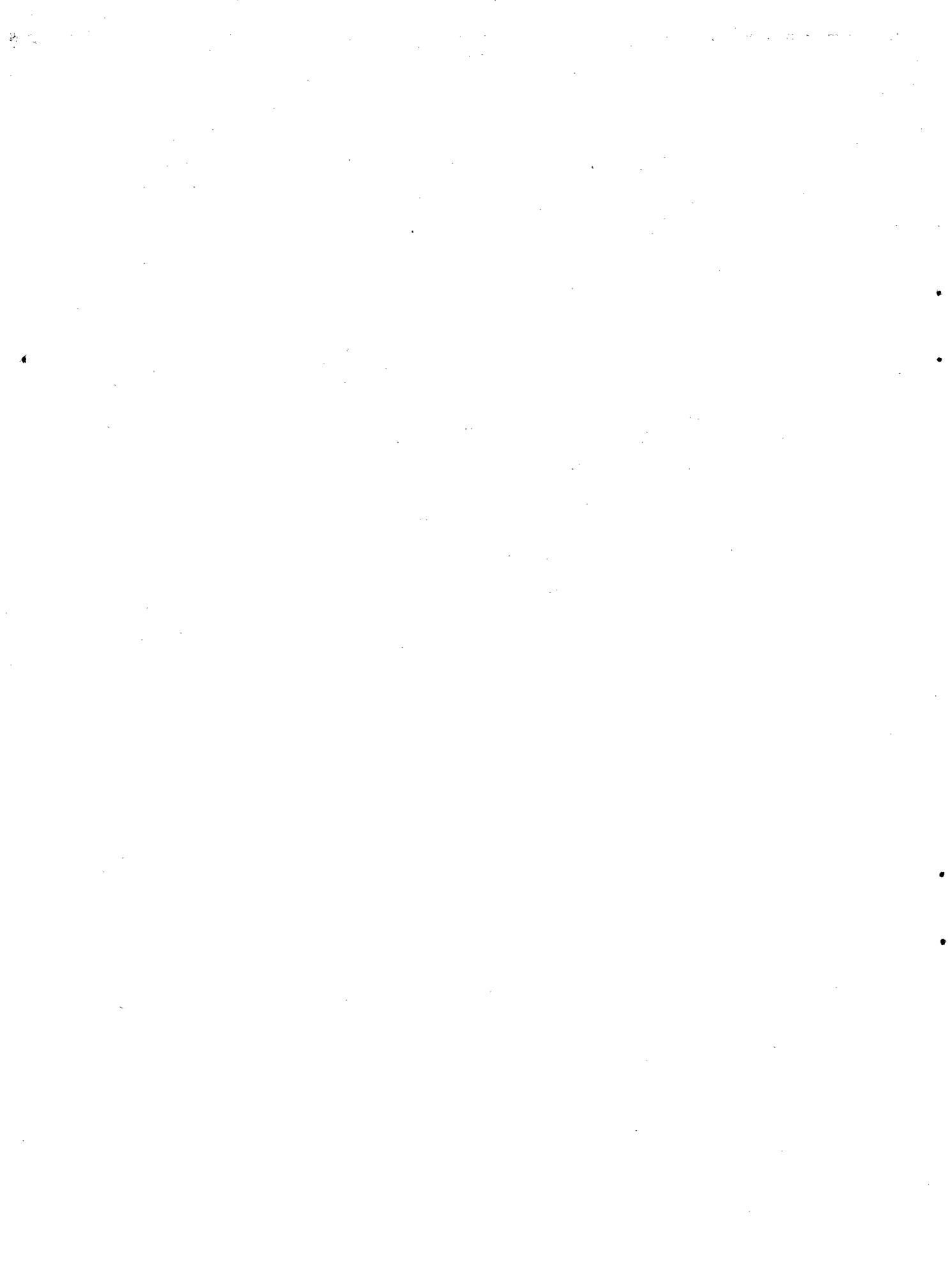
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## PRELIMINARY NOTE

At a recent seminar attended by a group of experts with extensive experience in planning in Latin America, it was stated that "... the processes of economic planning in Latin America are being carried out in isolation from the policy of economic integration on which these countries have embarked. The significance of this lies in the fact that both phenomena can exert a decisive influence on development, giving rise to a multiplicity of economic forces which dictate decisions on investment, on the location of economic activity and on implicit policies in respect of import substitution and the external sector. The directions in which these forces act will tend on occasion to be conflicting, hampering instead of promoting the purposes both of intergration and planning."<sup>1/</sup>

This document is intended to draw attention to some of the main problems that are encountered in Latin America in forging an effective link between economic integration and planning. Accordingly, section A describes briefly some of the characteristics of development planning and integration which are relevant to a consideration of these aspects; section B summarizes the efforts that have been made to link integration and development policies; section C gives a brief account of the problems and preliminary findings in connexion with means of defining and putting into effect economic planning which takes integration into account; lastly

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<sup>1/</sup> See Latin American Institute for Economic and Social Planning, Discusiones sobre planificacion, Siglo XXI, Editorial Universitaria de Chile, Mexico City, 1966, p. 133.

section D analyses in detail some aspects relating to balanced regional development.

It should be emphasized that the purpose of this document is not to state the conclusions on these matters, but rather to define some of the problems, to describe the present position in Latin America in so far as it is relevant to a discussion of them, and to present some of the means of solution which have been put forward in some cases so that they can be subjected to a scrutiny which will make it possible to clarify some of the more important of the technical aspects of this matter within the region.

## A. SOME CHARACTERISTICS OF PLANNING AND THE INTEGRATION PROCESS

In order to consider the problems inherent in the incorporation of economic integration into development plans in Latin America, it will be appropriate to single out some of the characteristics of the planning and integration processes which influence their present linkage and their prospects for the future.

During the first years of this decade, the preparation of over-all development plans started to become general practice in Latin America. At the present time, the planning process, which embraces in addition to the actual drawing up of plans the establishment of a series of mechanisms for their implementation, control and revision, is evolving fast. The same is true of schemes for the integration of Latin America. This characteristic affects the degree of co-ordination between the two processes, since neither has as yet taken definitive shape.

The acceptance which planning has gained in Latin America can be gauged by the fact that most of these countries have drawn up some type of development plan, which has made it possible to achieve a series of advances and benefits of considerable importance.

In this way it has been possible to impart a greater degree of realism, rationality and co-ordination to the economic and social policies put into effect by the governments of Latin America, and a clearer picture has been formed of existing realities and of requirements in regard to the strengthening of the external sector, capital formation, the processes of economic integration, and so on. Greater rationalization has been achieved

in plans for infrastructure, giving rise to sectoral plans (plans for road-building, electrification, etc.). Some decisions which have been made in the development of certain directly productive sectors of special importance (steel, industrial chemicals, petrochemicals, machine production, etc.) have arisen out of the plans themselves or the studies accompanying them. It has also been possible to provide the private sector with more information on the qualitative and quantitative aspects of economic policy, thus enabling it to adjust its activity to the long-term development goals of each country. In addition, experience has been acquired in respect of the application of techniques of economic prediction and plan preparation.

Nevertheless, the problems that the various countries have encountered in putting their development plans fully into effect and that have conditioned the implementation of these plans must not be disregarded. Some of these are external in character and hence outside the sphere of direct governmental influence. Such problems include fluctuations in export prices, arrangements for and dimensions of foreign financial assistance, etc. Among restrictive factors of an internal nature, pride of place must be given to the absence of appropriate machinery for co-ordination, implementation and control. On the other hand, the participation of some institutional groups - for example, employers' and workers' organizations and even the public sector - in the preparation and implementation of plans is still insufficient.

Although Latin American long-term development plans embrace all the main economic variables in the system, for practical reasons these plans have not guided all the sectors of the economy, or incorporated all the decisions

important for economic growth with the same degree of effectiveness. Efforts and achievements have concentrated principally on specific sectors, including infrastructure and certain basic industries. Achievements in other sectors, for example agriculture, have been less.

It emerges from these comments that in a multi-national scheme, it would be unrealistic to envisage a co-ordination of national plans linked with integration, which would embrace all sectors of the economy and incorporate all decisions of importance for the economic development of Latin America and the countries of which it is made up. It is relevant to point out that in terms of planning goals most of the plans which have been drawn up refer to the medium and long term. This gives them more the character of guidelines for the measures of economic policy which governments adopt. In this type of plan the broad outlines of the action needed to achieve the objectives postulated and the chief requirements in terms of real and financial resources are systematized; from this the patterns of action which must be put into effect in the short term may be inferred, so that there is some coherence between the objectives postulated in the plans and the practical action taken. The preparation of this type of plan (guiding mechanism) corresponds to the degree of maturity which the planning process is achieving. In fact, for the planning process to be effective other types of mechanism must also be in existence<sup>1/</sup> among which special mention should be given to the operational machinery of which the annual plans are one

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1/ Operational mechanisms; information mechanisms; evaluating mechanisms, etc.

component. The greater the extent to which plans of this kind are adopted, the greater the possibility of achieving coherence between the objectives postulated in the medium or long-term plans and the measures of economic policy adopted in practice.

With reference to integration, it should be noted that both the Central American Common Market and the Latin American Free Trade Zone (ALALC) - while not disregarding the greater advances achieved by the former - are still in the process of development as far as their scope and procedures are concerned.

In the case of Central America, the process has been reflected in significant advances in respect of the creation of an institutional framework, the feeling of intra-zonal trade, customs parity, the programming of certain items of infrastructure which are important to integration, etc.

Freedom of trade for an increasingly large number of tariff items, the standardization of customs charges levied on the outside world, and the operation of national fiscal incentives coincided with the existence of a capacity for industrial production within those countries which could thus be more effectively exploited. Parallel with this there was an expansion of productive capacity through new investment; a start was made on the production of certain items not previously part of the economic structure of those countries, but capacity was chiefly increased in sectors similar to those already in existence and in those with production experience, trained manpower, entrepreneurial skills, organization, etc., which made it possible to achieve increased production when adequate incentives were provided.

The continuation and maintenance of these trends might imply a greater advances in integration and development in respect of sectors producing non-durable consumer goods and raw materials, which have smaller technological requirements, and less penetration into the production of new items of more complex technology and greater capital requirements - for example, some intermediate products and producer goods - which would tend to provide an import substitution model in Central America at the regional level similar to that established by other Latin American countries, which is already showing clear signs of weakening in each of the national markets, despite the fact that in some of the countries in the remainder of the area this national market is larger than that of all the Central American economies put together. As was pointed out in a recent study by ILPES,<sup>1/</sup> it is not difficult to deduce that there may be a tendency to exhaust the positive effects of integration on economic development unless there is a regional policy designed to make adequate progress in the substitution of these intermediate and capital goods at the regional level.

In the case of ALALC it should be noted that the increase in intra-regional trade since 1961 has been, in relative terms, considerable. Nevertheless, since this trade previously represented a very small proportion of total imports, its significance in the external sector of the member countries is still small. It should be emphasized that there is an aware-

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L/ See ILPES, Centroamerica: analisis del sector externo y de su relacion con el desarrollo economico, (Central America: analysis of the external sector and its relationship with economic development), January 1967.

ness of the role that should be played by industries of a more complex nature (steel, the chemical industry, the engineering industry, etc.) and the supplementary agreements on complementation and the work on which the Advisory Commission on Industrial Development is engaged are a partial response to this. Nevertheless, progress as regards agreements for the development of specific sectors is still in the initial stages.

Similarly, attention should be drawn to certain aspects which relate to both integration processes and which are important to the matter under consideration.

(a) The Latin American countries developed in relatively great isolation from each other. This was due to the fact that they originally followed growth models which linked them more directly with the international market and later adopted a system characterized by a strong import substitution and a steady decline in their ties to the outside world. This implied not only a reducing imports from countries outside the area but also those from Latin America. This isolation favoured the establishment of relatively similar productive structures in all the countries, differing only according to availability of resources and market dimension. These factors hamper possibilities of specialization and complementation among the countries.

(b) There is a well-known and wide-spread interest in matters relating to balanced development between countries. In ALALC, this problem has been under consideration from the start, in response to the factual situation of marked discrepancy between the degrees of development of the member countries. These discrepancies are the outcome not of transitory and easily

removed causes, but rather of circumstances which have accumulated over many years, and which require the application of appropriate policies as part of the integration process.

The clearest demonstration of this imbalance is the case of the so-called relatively less-developed countries. As early as the Treaty of Montevideo, provision was made for preferential treatment for the relatively less economically developed countries, with Paraguay and Ecuador being recognized as falling into that category. On the occasion of the subsequent incorporation of Bolivia into ALALC the same was done for it. This treatment is designed to compensate for the unfavourable position from which these countries must start out in order to compete in the area.

Estimates of the consequences which the abolition of internal customs barriers might have were also studied for another group of countries which, although their development situation was relatively more advanced than that of Paraguay, Ecuador and Bolivia, could not compete openly with the more industrialized countries such as Argentina, Brazil and Mexico. This was reflected in the establishment of a category of countries with inadequate markets, which includes Colombia, Chile, Peru and Venezuela.<sup>1/</sup> The purpose of this classification is to establish special measures to stimulate their economies.

Even the most industrialized countries in the area have shown some

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<sup>1/</sup> At the meeting of Foreign Ministers of the ALALC countries held in Asuncion in September 1967, it was agreed that Uruguay should be treated as a relatively less developed country, because of the economic difficulties which it is undergoing.

anxiety over what might happen to their economic activities in the face of an elimination of intra-regional trade barriers, both as regards already existing activities and new activities of a zonal nature.

The problem of regional equilibrium has also shown up in the Central American Common Market. Honduras was recently granted preferential treatment in regard to financing, technical assistance and other matters, to give it the opportunity of making proper use of the integration industries system. In this connexion, mention may be made of Resolution 142 (CCE);<sup>1/</sup> this resolution recommends that the Economic Council should establish a technical working group within SIECA to make comparative studies as soon as possible, beginning with the industrial sector, analysing the situation and structure of the economies of the five countries and giving specific details of the stage of development of the principal branches of activity, and that, on the basis of this information and bearing in mind the various degrees of development achieved by each one, recommendations should be formulated to foster the integral and continuous balanced development of all the Central American countries.

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<sup>1/</sup> Central American Economic Integration Committee.

B. ATTEMPTS TO LINK INTEGRATION INCREASINGLY WITH  
DEVELOPMENT POLICIES

The processes of economic integration in ALALC and the Central American Common Market have developed both through indirect and trade measures and through more direct policies seeking to programme investments and assigning a greater share of activity to governments.

So far, significantly less progress has been made in both cases in the co-ordination of policies and national development plans in the adoption of programmed guidelines at the regional level than in trade measures. This fact has been influenced by circumstances and problems of various kinds, of which it is appropriate here to refer only to the technical aspects, such as those cited in Section C of this paper. However, it is relevant to point out that a growing determination has been noted to seek to co-ordinate development policies; although this determination has had to face many problems which have impeded a more effective advance, it is useful to recapitulate briefly the main demonstrations and efforts that have been made, because they show an apparently clear trend whereby the co-ordination of plans may in future come to be of considerable importance.

Latin American Free Trade Association (ALALC)

In the case of ALALC, in the Treaty of Montevideo, in addition to trade arrangements, constitutional form was given to other mechanisms designed to achieve increasing complementation between the economies of the member countries. In fact, the preamble to this instrument runs as follows:

"The Governments represented at the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries, ....Are aware that economic development must be achieved through maximum utilization of the available factors of production and better co-ordination of the development plans of the various sectors of production, according to standards which make due allowance for the interests of all members and of each individually and which compensate appropriately by special measures for the special situation of the relatively less economically developed countries." The Treaty can be interpreted as a first expression of the desire to place integration within the framework of balanced and harmonious development. In the text of the Treaty, certain principles designed to secure the co-ordination of national industrial and agricultural policies are stated explicitly, and there is a special chapter enumerating the measures which are to be taken in favour of the relatively less economically developed countries.

The determination to supplement trade policy by other provisions was strengthened after 1963. In April of that year, a meeting was held at Lima on the planning, promotion and guidance of industrial development, which started to lay the foundations for future action in regard to the co-ordination of national development policies. The chief topics of that meeting were as follows: (i) information regarding the agencies which took part in projecting industrial development policies at the country level; (ii) preliminary comparisons of demand and supply of machinery and other key products for economic growth, at the individual country level and for the zone as a whole (the sum of country level plans); (iii) comparative

examination of the instruments of economic policy used in the various countries; (iv) examination of the possibilities of co-ordination in matters of economic policy, production goals, labour methods, etc.

Although the meeting made no pretence of arriving at definitive conclusions, this first contact constituted a very positive step forward since it drew attention to the need to orient this type of discussion to the most appropriate ways of achieving increased co-ordination of industrial development policies.

Perhaps the most important result was the recommendation adopted by those present that an advisory body should be created on matters of industrial development, and the discussion of its main guidelines. The consequence of this recommendation was that ALALC's Standing Executive Committee set up the Advisory Committee on Industrial Development. A series of recommendations was also adopted to the effect that methods capable of zonal comparison should be used in drawing up development plans and that consideration should be given to the extended market resulting from the creation of ALALC.

The establishment of the Advisory Committee on Industrial Development (CADI) was designed, inter alia, to give greater force to the agreements on complementation in the manufacturing sector. CADI has done useful work towards solving problems of zonal programming both in the conceptual and methodological fields and in practice. At its first meeting, the committee approved the "bases for the formulation of a zonal policy of industrial

development", in which the concept of the "programmed location of industries of a zonal character" is established, thus defining the need for a common policy. Such programming should have as its purpose "an equitable distribution of the benefits of integration". In a more practical vein, CADI set up study groups to analyse the opportunities and requirements resulting from the inauguration and development of industries of a zonal character.<sup>1/</sup> In addition, some preliminary steps have been taken towards the adoption of a common methodology in the programming of the industrial sector.

The work that CADI has done shows its establishment to be one of the first important acts designed to give concrete shape to the aim of securing a certain degree of sectoral programming in the regional ambit.

The fundamental provisions of Resolution 100 (IV), one of the most important adopted by the Conference of Contracting Parties at its fourth session in October 1964, are met with again in Resolution 75 (III), (co-ordination of economic policies) and in the report of the Ad Hoc Committee set up by that resolution.<sup>2/</sup>

Resolution 100 (IV) "Programme of economic complementation and integration", is intended to bring about an explicit incorporation of the objectives of development into this process of integration. In addition to

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<sup>1/</sup> The studies most advanced at the present time cover the following sectors: steel, petrochemicals, and paper and wood pulp.

<sup>2/</sup> Submitted in September 1964.

embracing aspects of the harmonization of instruments regulating foreign trade, as a means of establishing the conditions necessary for the formation of a common market, it lays down directives for the manufacturing, agricultural and financial sectors, designed to secure an equitable distribution of the fruits of the integration process and to obtain fair conditions of competition.

The resolution lays down a series of basic directives for economic policy, together with a programme of action for the implementation of such a policy. In the manufacturing sector, these directives are framed in the same spirit as gave rise to CADI itself, and go into detail concerning the criteria which should guide the studies and concrete tasks which are to be undertaken in the field of industrial development in terms of its interdependence with other sectors; (ii) the important role which could be played by the agreements on complementation in the harmonious economic growth of the zone; (iii) the need for an industrial reorganization of the zone, through the establishment of fair conditions of competition; (iv) the need to attribute special importance to sectoral integration as a means of promoting the economic development of the region, and (v) the special attention which should be given to productive activities which are undeveloped or in a very early stage of development.

As far as the agrarian sector is concerned stress is laid on the urgency of co-ordinating and harmonizing the economic and production policies of the member countries, and the establishment of standards to regulate the trade in agricultural products. Various principles are also outlined which

will be able to give national decisions a more regional complexion by comparing plans, regional projections of demand, etc.

Within the institutional framework of ALALC, the Policy Councils (Agriculture, Transport and Communications, etc.), the Advisory Commissions, the Consultative Committees on management and labour problems, and the sectoral meetings, are in a position to make significant contributions to the achievement of a closer connexion between integration and national development policies.

State undertakings are making their own efforts to overcome the restrictions imposed by limited national economic frontiers, as was demonstrated in 1965 with the establishment of the institution known as the Latin American State Petroleum Enterprises Mutual Aid Association (ARPEL).

Some steps have also been taken to bring about some degree of co-ordination in aspects of short-term policy which are important for facilitating the normal advance of integration. Resolution 75 (III) and 100 (IV) contain provisions to this effect.

In addition to the agreements and resolutions approved by ALALC to which reference has been made, regional studies applicable to specific industries have also been carried out. The Advisory Commission on Industrial Development (CADI) has set up a number of study groups embracing steel, the chemical industry, the petrochemicals sector, and paper and wood pulp. In these groups, the actual conditions in which each sector is developing are analysed, as well as future plans to expand capacity which are compared with projections of regional demand. These studies have already brought out

certain supply surpluses which might be produced in the region, with consequent waste of resources and the creation of useless installed capacity. One of the aims in view with this type of study is to facilitate agreements on complementation, but there can be no doubt that they also constitute potentially important elements for a certain amount of industrial programming at the regional level. To these should be added a series of areas in which specific work is being done that is giving the integration process a physiognomy and characteristics which must necessarily be taken into consideration in projects of a regional type, and by countries, in the design of their development plans and policies.

One of these areas of study is the development of frontier zones and the exploitation of river basins, projects which require the collaboration of the national agencies responsible for drawing up development policies and other agencies of a regional character. An important part has been played by the Inter-American Development Bank in this type of agreement, both in the development of the frontier zones between Venezuela and Colombia and Venezuela and Ecuador, and in the project for the Rio de la Plata basin.

#### Central American Common Market

Within the Central American Common Market - although this too is a process only in its first stages - greater advances have been made than in ALALC towards defining a regional development policy to be taken into account both at the regional level, when the content and the form of the integration processes proper are being discussed, and at the national level, when the development policy of each of the member countries is being formulated.

From the institutional aspect, the joint meetings of the Ministers

Economic Affairs and Finance and of Economic Affairs and Public Works are worthy of mention, as are the meetings of the directors of planning bodies. In this way it has been possible to progress towards the regional co-ordination of national economic policies and towards the concept of a regional development policy.

As in the case of ALALC, the international agencies have lent increasing support to the Central American Common Market, both in the field of financing - where they contribute unmistakably regionally oriented criteria, as has been done by the Central American Bank for Economic Integration (CABEI) and the Inter-American Development Bank (IADB) - and in the field of research and evaluation, with the co-operation of ECLA and the Planning Evaluation Committee of CIAP.

In the programming work that is being done in Central America, there is a potential basis for the working out of a regional development policy. These efforts have been assisted by the work that has been done by the Joint Programming Mission.

The work of the Joint Mission has already been discussed at SIECA, at meetings of the directors of planning and at those of the Economic Council and the Economic Co-operation Committee (CCE). The agencies responsible for analysing development plans have also made some preliminary evaluations of these studies. The most successful attempts at co-ordination have been in the field of infrastructure. In the directly productive sectors difficulties have been encountered in reconciling the regional interest with the guidelines laid down in the national plans. These difficulties are reflect-

ed in a certain duplication of investment, the result of the building up of similar industrial structures.

In regard to institutional arrangements, the Joint Mission recently became part of SIECA, a measure which may accelerate and facilitate progress in the search for ways of achieving a nearer approach to a regional policy of balanced development.

The chief topic of discussion at the present time in the Central American Common Market is how to formulate a more integral approach, which shows that there is a growing preoccupation with the progressive definition and implementation of a Central American regional strategy, both in the aggregate and in the principal sectors. The intention is to translate this strategy into policies which will enable it to become more precise, thus enriching the national development policies of Central America through the increased incorporation of regional elements. For example, in drawing up development plans, there was some awareness of the role which ought to be played by regional import substitution as a means of promoting the industrial advancement and thus the economic development of the region. However, it was necessary to specify the form which this regional policy of import substitution should take and to define its stages and sequence and the problems of location, and to analyse the sectors which should be covered by the process. The problem is one of defining the regional strategy in clearer terms, taking into account more explicitly the characteristics of the regional economy as a whole, which is more than the mere juxtaposition of national economies. Relatively greater advances have been made in the field of regional infra-

structure policies than in the directly productive sectors. There is in Central America a clear awareness of the important part played by infrastructure works in promoting exchanges and in securing more balanced regional development. The governments have encouraged a number of programmes: the Central American Road Plan, which is already under way,<sup>1/</sup> the Central American Telecommunications Network and the inter-connexion and joint development of electrical power systems. Studies on these matters are at an advanced stage, although there are a number of problems arising out of co-ordination itself, such as deciding investment priorities, selecting the headquarters country (as in the case of the Telecommunications Central Exchange), drawing up project timetables, and so on.

The work of the Central American Research Institute for Industry (ICAIFI) is particularly important. This agency is intended to carry out, through the joint efforts of all the countries, a series of technological investigations adapted to conditions in the region.

This brief summary shows the advances that have been made in the direction of linking the integration processes in Latin America more explicitly with the national development policies of countries. Greater progress has been made in defining the problems and establishing appropriate institutional machinery than in incorporating directives formulated on the basis of

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<sup>1/</sup> The Plan covers the period 1965-74, and its foundations were laid through the direct action of the Ministers of Public Works with the advice of SIECA, BCIE and the Joint Mission.

these new concepts into national development plans. In this direction, the progress achieved by the Central American Common Market, though still insufficient, has been more significant than that of ALALC, which must still be described as incipient.

It should be noted that the search for ways of making effective progress in economic integration and placing it firmly in the context of national development policies has in the last two years received significant support as a result of political decisions adopted at the Foreign Ministers' level, and ultimately the level of Heads of State. The Conference of Foreign Ministers held late in 1965 dealt with a number of important points in regard to improved institutional arrangements for ALALC itself, the programme for freedom of trade, the investment programme, sectoral integration, and the establishment of a regional pre-investment fund, as well as other related matters. At the end of 1966, the first meeting of the Council of Ministers was held, as the third Special Session of the Conference.<sup>1/</sup> At this meeting, a series of resolutions was approved, of which the most important were those relating to the free trade programme (for example, the pact to establish a programmed system of lowering tariffs), the arrangements for making the Council of Ministers a permanent part of the organization, and the talks between ALALC and the Central American Common Market, as well as the approach by Bolivia to formalize her adherence to the Latin American Free Trade Association in 1967.

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<sup>1/</sup> Convened by Resolution 105 of the Standing Executive Committee.

In addition to these general arrangements, and the agreements on frontier zones and studies of river basins, a number of sub-regional agreements have been concluded which are not restricted to partial aspects but embrace the over-all economies of the participating countries. Among these agreements mention should be made of the following: the establishment of the Joint Permanent Commission of Bolivia, Paraguay and Uruguay, which took effect in June 1963, meetings of which were held in 1964, 1965 and 1966. Its main purposes are to increase trade; to approve joint national projects; and to co-ordinate their participation in the process of economic integration. Another similar though much more recent effort is the start made on contacts with the Central American countries, chiefly Mexico and Colombia. Lastly, mention should be made in this connexion of the establishment of the Pacific Group or Bloc, the origins of which are to be found in the Declaration of Bogota (August 1966) signed by the Presidents of Colombia, Chile, and Venezuela and the personal representatives of the Presidents of Ecuador and Peru; at the Fifth Conference of CIES,<sup>1/</sup> the five countries set up the Andean Development Corporation and made progress on the establishment of the Joint Integration Commission.

Sanction was given to sub-regional agreements in the Presidents' Declaration of Punta del Este, to which brief reference will be made. In any event, apart from the constitutional sanction in that declaration, it is obvious that sub-regional agreements, as well as constituting instruments for

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<sup>1/</sup> Held at Viña del Mar, Chile.

accelerating the process of integration, demand as one of their requirements for the comparison and unification of national policies, which helps to strengthen at the regional level the ties between economic integration and national planning.

The aim of promoting the integration process and increasing its development policy content was furthered by the recent declaration of the Presidents of the Americas published on the occasion of the meeting held at Punta del Este this year,<sup>1/</sup> which speaks of the need to speed up not only the processes of integration themselves but also the drawing up of the policies designed to put them into effect, such as sub-regional agreements, multi-national projects, and the development of education, science and technology.

Section C below analyses some of the technical problems that arise in attempts to link economic integration with national development policies.

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1/ 12 to 14 April 1967.

C. SOME PROBLEMS WHICH ARISE IN TAKING ECONOMIC INTEGRATION INTO ACCOUNT  
IN DEVELOPMENT PLANS

Before noting some of the problems which arise in seeking to achieve a more explicit link between economic integration and the development policies of countries, something should be said of certain aspects connected with the study of national strategies.

1. Need to redefine certain aspects of national development strategies and to co-ordinate them at the regional level

In the last few years in Latin America, there has been a gradual but increasing decline in import substitution based on isolated national markets. The difficulties experienced by many countries in trying to carry forward this process at the required rate result from increased technological complexity, and increased needs as regards capital and plan dimension for goods which are still being imported, as against the small size of the national markets. This phenomenon is more marked in the countries which have made the most progress towards industrialization, but it is also appearing in others whose progress in the development of manufacturing is more recent and whose markets are even more limited.<sup>1./</sup>

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<sup>1./</sup> See Latin American Institute for Economic and Social Planning, Integracion sector externo y desarrollo economico de America Latina, y Centroamerica: analisis del sector externo y su relacion con el desarrollo economico (Integration, external sector and economic development of Latin America and Central America: analysis of the external sector and its relation to economic development).

For these reasons, although the policy of replacing goods which are still being imported by national products continues to be pursued with vigour, careful consideration is being given to new and additional elements of development policy which will enable a previously inadequate rate of growth to be kept up and even improved. Internally, some of the structural reforms proposed seek to expand and reinvigorate the market by improved distribution of income, to increase the amount and the use made of national savings and to foster a more complete internal integration in each country, incorporating hitherto marginal sectors of the market. All this is quite apart from the important effect which such reforms may have in the social field. As regards the external sector, possibilities are being considered of diversifying exports by embracing new markets and widening the range of exported goods by including manufactures.

Thus, this reconsideration of the problems of economic development links the problems of the external sector and of external trade closely with certain aspects of industrial development and the economic policy connected with this. The difficulties which manufacturing often encounters in trying to keep costs reasonable, outworn equipment, shortage of skilled labour, and protectionist policies, are all aspects which merit increased attention.

The process of economic integration has been conceived as an important instrument for carrying out these transformations. As far as import substitution is concerned, it can make it possible for this to be carried out, from now on, on the basis of a wider market, and making use of the possibilities of specialization and complementation between countries; in the case of those regional sectors whose growth is more advanced, it introduces an

element of competition and makes it possible to rationalize and make more efficient production hitherto carried out under cost and quality conditions in many cases relatively far removed from those of the international market, because of being based on small national markets and growing up under rather high and not always adequately discriminating protection.

Since national development policies must take these facts into account, the need arises to reconsider development plans and strategies, incorporating explicitly into these plans the consequences which an integrated market will have on internal sectors and variables. It was shown in the preceding paragraph that it is necessary to redefine development policies above all in the specific case of those relatively new activities which usually correspond to the definition of dynamic industries and which replace imports. It is in this type of industry that the region plays a preponderant role on account of minimum dimension, economies of scale, technological requirements, etc.; but it also seems necessary to give increasing attention to what are often called the vegetating industries, with a view to altering their circumstances and making them more competitive within an integrated zone.

This reconsideration of development policy is by definition partial in the sense that it embraces only those aspects which are directly related to integration: the increased opening up of the national market to the region, instead of increasing isolation; a certain degree of regional specialization as a complement to the policy of substitution. Many other elements in development plans and policies would have no reason to alter.

Together with the revision of national development policies, the need is apparent for a certain degree of co-ordination on the regional scale. Three main reasons seem to support this statement. In the first place, both in ALALC and in the Central American Common Market, the achievement of greater speed, intensity and amplitude in the progress towards integration, and the positive effect of such progress on the economic development of the member countries, is closely tied to the possibility of concluding agreements on orienting the development of certain specific sectors at the regional level in order to be able to make real use of the advantages of a wider market and of specialization, and to make the external sector play a more positive role than hitherto. In the second place, anxieties about regional equilibrium require the consideration of what is being done from the point of view of the area as a whole, in order to be able to analyse the possible alternatives as regards the existing relation between the development of the whole region and that of groups of countries. In the third place, in the actual reformulation of national development policies in those aspects into which modifications must be introduced in order explicitly to incorporate integration, it would appear to be necessary to have specific ideas of what the development of the area as a whole can be, since the programmers in each country will be able to use these ideas in order to take into account in defining their own lines of internal development, the greater possibilities offered by the regional market.

The need to co-ordinate national development policies at the regional level was confirmed in the case of the Central American Common Market by the work done by a regional group which studied this problem with representatives of the countries. <sup>1/</sup> National policies were matched against the regional conclusions of the Joint Programming Mission. In a document prepared by this Mission after the meeting <sup>2/</sup> the following paragraph appears: "As a result of the discussions held between the regional group and the national groups it has been established that each of the Central American countries intends to participate simultaneously in the same lines of production. The size of the demand and the rate of development in the next ten years may permit this simultaneous participation in some fields, but not throughout industrial production, and hence the implementation of these policies would lead to excessive fragmentation of industry, limiting the possibilities of exchange between the countries and also provoking consequent diseconomies of production scale.." The document adds: ... "Present manufacturing development reflects a trend towards the process of import substitution among the Central American countries themselves, which also carries with it the danger of constricting future regional trade and distorting the processes of economic integration."

The analysis of specific projects reveals the excess of supply which results when the projects of the different countries are added together and compared with regional demand. Thus, for example, in the case of ammonia, if

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<sup>1/</sup> The group consisted of representatives of the Central American Research Institute for Industry (ICAITI), the Central American Bank for Economic Integration (BCIE), the Economic Commission for Latin America (ECLA), the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) and the Joint Programming Mission for Central America. The agreement which gave rise to its formation was concluded at the First Meeting of Ministers of Economic Affairs and Finance of Central America (Guatemala, April 1965).

<sup>2/</sup> See Bases para un programa centroamericano de desarrollo industrial, Joint Programming Mission for Central America, mimeographed document, Guatemala, 1965.

the projects envisaged in the plans are carried out, according to estimates of demand only 50 to 60 per cent of installed capacity would be utilized.<sup>1/</sup> Supply would be double demand in the case of soda. The problem is similar in regard to steel, for the total of existing projects seems excessive in relation to Central American demand. As regards petroleum, there are five refineries in the region (two in Guatemala, and one each in El Salvador, Nicaragua and Costa Rica) and plans are already far advanced to instal another in Honduras. This number of refineries seems excessive and is prejudicial to the prospects of the petrochemicals industry while at the same time raising production costs.

Thus, there are various important instances in which the possibility of surplus supply presents itself; in many others plans are being made for the expansion of production which take into account the possibility of exporting to the rest of Central America, but do not give sufficiently ample consideration to the other aspects of complementation and specialization which would tend towards a more rational use of the resources available.

In the case of ALALC, the Advisory Commission on Industrial Development has set up three study groups at the regional level: one on steel, one on petrochemicals, and one on pulp and paper. One of the reports already completed covers the steel industry, in which a regional balance sheet is drawn up for 1970 comparing demand with existing capacity as increased by the planned expansions. If these plans were carried out, the projected

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<sup>1/</sup> Not counting the supply from Guatemala which, according to a recent report, would add still another 50 per cent to regional supply. See CIAP, Informe sobre los planes nacionales de desarrollo y el proceso de integracion economica de Centro America (report on national development plans and the process of economic integration in Central America), August 1966.

production capacity for 1970 would exceed demand by about 5.1 million tons. The problems of duplication of investment and the absence of agreements on complementation are reflected even more sharply in the case of the automobile industry, to which attention has been repeatedly drawn.

The two elements noted here, the re-defining of development policies at the national level and their subsequent co-ordination at the regional level, are basic to the incorporation of integration into planning, and a whole series of problems arises in relation to them, many of which have not even been clearly identified yet, while findings directed towards means of dealing with them are even more scarce. Some of the most important of these problems will be stated below, together with certain preliminary findings in respect to them.

2. Some aspects which it may be useful to discuss

The explanation of the present lack of contact between planning and integration may well lie in the still provisional character of both as far as Latin America is concerned. As the integration process goes deeper and becomes more general, so that its effects on development become more obvious, the need to allow for integration in planning will become clearer. What is certain is that development plans, instead of constituting an element which contributes to the advance of economic integration are tending for the time being to strengthen the machinery for national development on the basis of an isolated market and to create identical production structures which are gradually destroying the specific possibilities for specialization which exist within the bounds of Latin America.

Although the reasons for this situation do not lie exclusively in the

absence of adequate procedures for the explicit inclusion in development plans of the effects to be looked for from integration and the necessary measures for obtaining those effects in fact, there can be no doubt that this lack of procedures does restrict the possibilities of advancement in this matter.

It is here that the planners have a concrete responsibility to draw up and apply such procedures, with the aim of stating quite clearly the alternatives which present themselves as regards the role of economic integration in the development of each country, and to determine adequate criteria for discussing these alternatives and making an informed choice.

Because this is a relatively new problem in the world and because there is no sufficiently clear experience in this regard, some problems relating to the way in which these matters should be dealt with, which may be usefully discussed, will be analysed below.

One of the questions which must be settled is what might be called that of coverage, in the sense of the extent to which integration ought to become a part of planning. It is obvious that for conceptual, practical and political reasons, not all the important aspects of planning can be co-ordinated. The conceptual reasons have to do with the clearly national (or domestic) content of the plans; certain sectors whose market dimension is less than a single country and whose inputs are predominantly national fall into this category. Reasons of a practical nature are reflected in the fact that even national planning is restricted in its most direct and effective action to a few major sectors, and only applies to others in a much more indirect or tenuous form.

It remains then to discuss what aspects need to be co-ordinated, or what will be the criteria according to which these areas will be chosen. It is worth mentioning here something which has already been noted in an earlier section, namely that the degree of effectiveness with which plans are applied in national programming is relatively great for certain strategic sectors and projects, and on the other hand more tenuous or indirect for many other aspects and sectors of the economy. When problems of development planning requiring the co-ordination of the policies of various countries have to be dealt with, greater difficulties arise in achieving an effective implementation of programmed guidelines in all sectors than in the purely national case. Moreover, it must not be forgotten, as has already been pointed out, that countries wish to retain a high degree of autonomy in manipulating the guidelines of a large part of their national development policies. Therefore, it would be unrealistic to expect programming carried out in relation to integration and having practical significance, to embrace all sectors of the economy and to incorporate all decisions important to the economic development of Latin America and the countries of which it is made up. It would seem to be enough to expect such programming, at the regional level, to be able to define specific guidelines to be put into effect in the development of specific sectors of strategic importance to the region or to groups of countries, that is to say, to select those areas of the economy in which, according to the arrangements which the integration processes already in operation tend to produce, it is most important to bring about co-ordination, bearing in mind the requirements and effects of economic integration. The sectors

and variables in this situation would be dealt with individually and in the necessary detail. On the other hand, the other aspects of the regional economy and their hoped for evolution could be considered in the aggregate both at the national and the regional level, purely from the point of view of forming part of the frame of reference within which the sectors or decisions which are to be dealt with in detail can be appreciated in perspective.

It would also appear necessary to ensure that the combination of sectors dealt with specifically, while not over-weighty from the quantitative point of view, is sufficiently so from the qualitative point of view to give a definite character to the policy of development plus integration which is being applied, thus making it possible to consider the principal aspects in which integration is of importance to the development of the region as a whole, and of particular countries, including, inter alia, aspects relating to balanced regional development. To this end, the combination should have a minimum critical content responding to these requirements. The question is, what criteria should be taken into account in defining at the sectoral level those sectors which will form part of this critical content. It would seem that one of the elements which ought to be considered in selecting sectors to be subject to regional co-ordination would be the import substitution factor at the regional level, which would act as a dynamic element as it did on the national scale, although now based on more rational foundations with an expanded market. Obviously, however, this criterion, though very important, is not entirely adequate. At least two reasons can be advanced in support of this

statement. This first relates to the problem of the absorption of manpower; sectors which are of the substitution type at the regional level are more likely to be capital intensive and not to absorb much manpower. In the second place, chiefly for the relatively less developed countries, the possibility can not be left out of account that these sectors may be converted into enclaves isolated from the rest of the economic system, maintaining the dual character of these economies rather than tending to integrate them internally. In connexion with the latter, it should be added that the regional equilibrium factor will always have to be part of the definition of the sectors to be co-ordinated and above all of the consideration of the situation of specific countries. In practice, the discussion of complementation agreements on the basis of one or two sectors seems to make it more difficult to combine criteria; this opens the way for the idea of the consideration of groups of projects or sectors instead of isolated projects.

It should also be borne in mind that since the present degree of development and the economic structures of the Latin American countries differ among themselves, the requirements relating to the critical content are different for each of them. A simpler, less developed economy may need a development policy which is more easily characterized by means of a small number of obvious things to be done. A country more advanced economically may have a more diversified demand and problems that are more difficult to solve by means of a few steps. Moreover, a country which has advanced to the stage of producing capital goods and which is already satisfying nearly all its demand

for consumer goods out of local production, requires a different composition for that group of sectors which are the object of a policy making use of the greater advantages offered by integration, than countries which are only in the early stages of the process of substituting manufactured consumer goods. Although there is an obvious disadvantage in maintaining the criterion of co-ordinating a small number of qualitatively important things, avoiding the possible tendency to try to co-ordinate too many, consideration of these different situations is required in making a choice of sectors.

The question what sectors should be the object of co-ordination is far from settled and progress with it is very important in order to avoid duplication of investment and even to help integration to progress more rapidly.

To sum up, the degree of depth and detail which it is hoped to achieve as regards effective results of these programming tasks at the national and regional levels must take into account that while it is possible to plan in depth for some sectors, for others it is more appropriate only to define trends or the consequences of certain general guidelines or of decisions that may be adopted in those sectors which are dealt with individually and specifically and in greater depth.

Assuming that the areas capable of being made compatible and specifically harmonized have been successfully defined, the question remains what role should be played by a general framework within which the chosen sectors can be placed. In this connexion, it should be noted that although they may be treated in a more aggregated and less specific way, it is important for other sectors and decisions which are significant to the development of the region and of

specific countries to be taken into account within the regional framework. Only in this way would it be possible to appreciate the real impact of the critical group of strategic sectors on over-all development; to discover the principal aspects of the interdependence of these critical sectors with the rest of the economy which must be borne in mind (for example, cases in which through the supply of intermediate or capital goods the development of one sectors depends on that of others), and the principal aspects of compatibility which need to be analysed to prove that certain objectives fixed for these critical sectors are feasible, in view of restrictions on the supply of foreign exchange, savings, skilled labour, etc.

With a view to making this consideration easier, it has been thought useful to consider briefly some aspects of the preparation of this general framework and of what can be expected from it. In order to make the task of co-ordinating plans easier and to enable programmers in each country to incorporate the prospects of regional integration in their development policy, it would seem necessary, in addition to the work that is carried out in each country, for a frame of reference to be prepared which embraces all the countries of the region together in which it is possible to estimate the role which can be played by economic integration in the development of the whole of Latin America; for there to be a panoramic view making it possible to envisage more clearly the problems of regional equilibrium; for it to be feasible to consider explicitly the relation which the policy of integration can have with the basic elements of the policy of economic and social develop-

ment of the different countries, and for it to be possible to discuss the principal problems of the inter-relationship in development of different sectors of compatibility at the global level of the regional economy and that of the principal groups of countries. Yet in order to define regional integration projects, it is necessary to specify some guidelines of a strategic character in the sectors most directly linked to these projects, and these guidelines must form part of the regional framework.

One of the important functions of this regional framework would be to make it possible to draw a picture of the probable future of Latin America so that the effects of a particular long-term development strategy could be evaluated, the foreseeable effects of economic integration situated within it, and the different alternatives which presented themselves for the region as a whole and for particular groups of countries given proper consideration. The important aspects which would be analysed in this way would have to include those relating to the establishment and incorporation of industrial technology appropriate to Latin American conditions, and those relating to labour in the sense of the absorption of structural unemployment and requirements for skilled workers. Another question which has been very little analysed up to now, and which merits special attention, is the development of the agricultural sector in relation to the common market. There are possibilities of specialization, at least between countries with temperate and tropical climates, which can be very important.

As well as preparing appropriate development guidelines for the key sectors and situating them within a more general frame of reference, it is

useful to look at the problem from the point of view of the location of each country within the region as a whole, in order to be able to appreciate better the impact which regional policy could have on each country.

Thus, for example, the impact of regional policy will be different according to the actual stage of development reached by each country. The consequences to the industrial structure will vary according to the degree of advancement reached in substitution. A classification taking into account the degree of development of countries, and their stage of advancement in import substitution would be useful.<sup>1/</sup> Another factor to be examined would be the scope and extent of structural unemployment in each of the different countries. This is very closely linked to the relative degree of capital and labour intensity which might be displayed by some industries such as steel, engineering and others.

The effects of regional policy observed would also differ according to the size of the market in the country in question. An association should be established here between market dimension and the regional or national character of specified industries. Thus, for some countries with small markets, the opening up of the region offers a possibility of envisaging certain types of industry which require for their operation a minimum capacity which exceeds the size of the national market. Some of these industries, at the level of the countries with larger markets, are not regional in character and have so far developed exclusively within national frontiers.

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<sup>1/</sup> See Section D below.

Lastly, it should be pointed out that it will be necessary also to determine the dynamism of the external sector in each case, and in particular that of traditional exports.

To sum up, the question at issue is one of making an evaluation which will provide criteria on the basis of which the type of specialization of each country within the region can be decided, so that integration plays an appropriate role in each situation and can be reconciled with the other components of national development strategies. such as, for example, the role of the internal market and the diversification of exports of manufactured goods outwards from Latin America.

As regards regional policy, it is appropriate to lay stress on at least one of its basic characteristics. One of its central objectives will be to co-ordinate future investments in the previously chosen sectors, but it should not restrict itself to harmonizing marginal investments, nor in the commercial field should it limit itself to negotiating production surpluses; on the contrary, what should be co-ordinated is the installation of new plant or considerable expansions of existing industries.

Apart from the matters already noted, some comments should be made regarding the intensity of the efforts which should in the course of time be undertaken towards the regional co-ordination of certain aspects of development policies. The intensity and depth of the regional policy thus defined will undoubtedly differ according to the degree of effective linkage which is being achieved and the nature of the integration measures adopted. Already, at the present moment there are appreciable differences in this respect between

the case of the Central American Common Market and ALALC. Hence it is necessary to distinguish between the co-ordination of economic policies in the case of a free trade area and in the case of a common market. This has practical importance, if it is remembered that the Declaration of the Presidents at Punta del Este states as one of its provisions that "the Presidents of the Republics of Latin America resolve to establish gradually, starting in 1970, the Latin American Common Market, which shall be substantially in operation in not more than fifteen years..." The characteristics of the co-ordination of development policies will vary during this transitional period.

If the process of integration was to be carried out chiefly in the shape of an exchange of production surpluses from specified sectors, the impact which it would have on economic structure and development would be relatively slight and it would also require a lesser degree of co-ordination of investment policies, expansion of productive capacity, etc. If, on the other hand, the process of integration were to take on more the character of a planned regional development of specific sectors, the need for co-ordination would be greater, as would the impact which it would have on the possibilities of and arrangements for national and regional development.

In any event, it can be stated that for the aggregate of countries participating in these integration processes, the design for a regional development policy will very probably gain both in depth and intensity. However, it is also necessary to bear in mind that the homogeneity observed in certain key sectors, which is a result of the way in which the substitution

process was carried out and the investment decisions that are being made in present development plans, many of which already have resources committed, as well as the present differences between countries in degree and characteristics of development, are factors which demonstrate that one of the requirements for this increasingly intensive co-ordination is gradualness, so that production structures can accommodate themselves gradually to the new conditions while at the same time national development policies can be re-oriented, which means that there will be an intermediate period which will provide an opportunity for the re-formulation of instruments of economic policy, the re-formulation of investment schemes, and so on. This necessary gradualness is related not to the substantive aspect of co-ordination, but rather to its sequential form; in no case does it mean a co-ordination of minor objectives or of excessively detailed aspects of the economies of member countries. Qualitatively and quantitatively important sectors should be present from the outset. In other words, the fact the regional policy is being adopted gradually does not mean that it is not gaining in profundity.

In accordance with what was said in another section of this paper, it would appear that the act of envisaging co-ordination not just for isolated cases but jointly for a group of sectors has certain important positive and potential effects. In point of fact, this approach can pave the way for a consideration of the problems and characteristics of different countries; taking account of the different potentialities of each one, it also makes it possible to consider more carefully problems of regional equilibrium, and certain general guidelines can be determined which will later make it possible

to deal more easily with specific cases.

Together with this problem, consideration should also be given to the fact that the extent of the co-ordination will vary in accordance with the characteristics of the sectors whose development policies are to be co-ordinated. Some sectors of the economy have relatively few connexions with others, so that their development policies can be co-ordinated in relative confinement to a localized sector of the economy. On the other hand, some sectors have such intensive relations with others, either because of the inputs which they require or because they sell to other sectors of the economy that co-ordinating them leads inevitably to the co-ordination of wider areas of the economy. Since these different sectors in turn have different characteristics as regards absorption of manpower, impact on economic structure and the balance of payments, on the process of capitalization and so on, the sequence in which this co-ordination is carried out will also be important as regards the effect which it will have on the economic development of countries with different characteristics inside the region. This problem must therefore be dealt with in the light of the guidelines fixed by the countries for the process of integration itself, and of the general guidelines for the economic development of the aggregate of countries in the region.

It would appear that in practice in Latin America, the possibilities of co-ordination have been easier to put into effect in the case of the infrastructure sectors. It should, however, be borne in mind that the co-ordination of these infrastructure investments requires a clear idea of certain general guidelines of development plus integration for the economy as

a whole which will have an effect on aspects relating to infrastructure.

The problems which must be dealt with in this matter are very varied and present themselves all through the process of transition towards the establishment of a common market, which means that it would be advisable to organise some machinery for contact and co-ordination between the planning agencies of countries so that by means of frequent contacts and appropriate studies the various problems which arise can be detected, attacked and settled.

Parallel with this, in order to facilitate the comparison of targets and development policies, and also to make it possible to carry out these studies, it seems clearly advisable to seek out methods of projections which have a certain degree of homogeneity and which will permit later comparison and also a certain uniformity in the basic data employed.

Below, in Section D, are stated some of the problems relating to balanced regional development, which, given their nature, permanently influence the decisions that are made in connexion with regional development policy.

## D. BALANCED REGIONAL DEVELOPMENT

### 1. Importance of the problem

The current situation of the Latin American countries as regards level of development, economic structure, degree of dynamism in the external sector and intensity of the effective integration achieved internally between social and regional sectors differs sharply from one case to the next. Taking the degree of advancement of the process of import substitution as a basis, a rough distinction can be made between the following groups of countries:

- (i) Countries which, in view of the dimension of their internal market, are fast exhausting the capability of the national process of import substitution as a fundamental dynamic factor in their development. This is the case with Argentina, Brazil, Chile, Mexico and Uruguay.
- (ii) Countries where import substitution still provides some possibility of growth because the bulk of the import substitutions which are relatively easy for the country to carry out have not yet been completed. Colombia and Peru are examples.
- (iii) Countries which have not yet made a full start on the process of import substitution and where there are no certain indications that such a process would be viable. This is the case with countries which are relatively less developed economically, such as Paraguay and certain of the countries

in the Caribbean which are outside the Central American  
Common Market.<sup>17/</sup>

Within each of these groups, in turn, the circumstances of each country differ. Thus, for example, in some countries the level and distribution of income is better and regional inequalities in development are relatively slight; accordingly, they can be said to have advanced further towards the completion of the process of internal integration of the various social sectors and regions of the country despite the fact that considerable inequalities still subsist in all countries. On the other hand, some countries - for example, Brazil - display regional contrasts which would mean that the completion of this process of internal integration is further off.

The situations of countries also differ with regard to the dynamism of the export sector. Venezuela, and to a considerable extent Mexico, have an export posture which enables them to operate with greater facility as regards their development process than other countries which resemble them from the point of view of advancement in import substitution and industrialization.

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<sup>17/</sup> ALALC was a classification roughly corresponding to these three groups with some variations.

The case of the countries in the Central American Common Market has special characteristics. These are countries which, according to the situation predominating there before 1950 might possibly have formed part of group (iii), but which have through integration considerably improved their prospects of development and speeded up their process of import substitution, and are now, as a group, in a situation more similar to that of some of the countries in group (ii). As far as disequilibrium in the zone is concerned, it should be noted that the countries with more industrial experience have a better supply of entrepreneurial and managerial skills, more skilled labour, a better infrastructure, etc. All these factors give them an advantage from the point of view of attracting new activities or the future expansion of those already existing, because of the external economies which ensue from them.

On the other hand, all the countries are agreed on the necessity of developing themselves and exploiting resources which, with sufficient capital and demand, could be the basis for a greater industrial growth than at present.

The fact that the countries of Latin America are in the midst of development and that there are differences between them, in characteristics and in the present state of economic growth, of the kind just mentioned, gives special importance to the consideration of problems of balanced regional development in relation to integration, since the latter should constitute a significant instrument for offering all of them better

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opportunities of growth.

There are obvious and well-known inequalities of this kind even among countries which have been national units for some time, despite the fact that they started out from more homogeneous situations. It would not be reasonable, therefore, to expect that, starting out now from situations which are already unequal, there would necessarily be a natural trend, with economic integration, for productive activity to distribute itself in a manifestly more similar form throughout the integrated zone, bearing in mind the availability of natural resources in each part of the area. It might happen that the existing dynamic zones would tend to attract a relatively larger proportion of the activity deriving from integration, as compared with the zones or countries now less developed.

On the other hand, the fact that immediately following upon integration, the Latin American countries are tending towards the establishment of a single market, cannot be interpreted solely in the sense that at the end of the period of transition there will be free movement of goods and productive factors among them; it must also mean that in each country and region there will be reasonable possibilities for the effective employment of the resources available; this does not imply that the same degree and type of development must necessarily take place in all the geographical areas, considering that supplies of productive resources

differ greatly, but it does mean that all the countries should enjoy adequate opportunities to make effective use of their productive factors in the shape of natural resources, labour and capital, and for improving the skills of their people.

## 2. Effect of the problem in the region

Both in the case of ALALC and that of the Central American Common Market, there have been concrete demonstrations of the importance which is attached to the achievement of balanced regional growth. Most of the declarations and treaties include the achievement of this goal as one of their basic postulates. In both cases, special treatment has been accorded to the relatively less economically developed countries, through the concession of greater advantages in the application of measures of trade policy, preferential flow of capital, more concentrated technical assistance, etc.

Efforts have also been made to define with greater precision the way in which the development of certain countries is to be specially fostered. These efforts have not yet led to a completely satisfactory solution and this is one of the fields in which more discussion and analysis seems to be required in order to arrive at a correct conclusion.

Given that the present problems of disequilibrium among countries are related to economic structure (infrastructure, skilled manpower, internal disequilibrium, lack of development in specific important sectors, etc.), it seems necessary that solutions should not only work in a temporary or indirect fashion, but also should seek to bring about the permanent achievement of more homogeneous conditions in the development of the different countries, transforming systems of production in order to put them in a better position to operate within an integrated zone, competing among themselves.

Development plans are precisely the instruments employed by the Latin American countries to bring about these transformations in their economic structure which are needed to allow better development. Thus, the achievement of balanced development both for the region and for the countries taken separately is a matter closely allied to planning.

The way in which the question should be dealt with still presents many problems which must be cleared up in order to make available those criteria and procedures which will match the needs that must be covered in this matter and will also be applicable to the conditions that can be expected to obtain in Latin America in the next few years in regard both to integration and planning.

This paper does not claim to reach conclusions on the way in which the problem should be dealt with, but rather puts forward for discussion certain aspects which are regarded as particularly important. Some ideas on the way in which these aspects might be appropriately broached are given below.

### 3. Some general aspects

Difficulties begin to emerge with any attempt to define what is understood by balanced regional development. There seems to be general agreement in Latin America that those simplistic approximations which propose an identical rate for the growth of production in the various countries must be ruled out. However, there is not the same consensus on the technical criteria that should be used to define balanced regional development.

One alternative which might be suggested in this connexion is that a more balanced regional development might be achieved by gradually smoothing out differences in the relative degree of development of the various countries in the region, through the more accelerated growth of the less developed. But even if this is considered to be a satisfactory criterion, the problem of defining the degree of development itself remains. Again it seems inadequate to define it simply in terms of per capita income, since the definition should also take into account elements of economic structure which are important in describing the degree of development. It is a matter, therefore, of deciding what these elements are and how they should be taken into account.

Another possible criterion for broaching the problem of balanced development in the Latin American countries would consist of offering each one the opportunity of achieving an increase

of trade with the area and at the same time a certain equilibrium in this trade.

One restricted method of defining commercial equilibrium would be ensuring that all countries had a similar amount of exports and imports in respect to the rest of the region, that is to say, a steady trade balance. However, this restricted criterion also seems unsatisfactory. In the first place, the process of economic integration may cause a modification in the flow of trade, meaning that a deficit or surplus of a particular country in respect of the rest of the area is compensated for by a balance of equal magnitude in the opposite direction with the world outside. In the second place, it should be made clear that what is important is not the existence of temporary credit balances, but the persistent trend of these balances linked to the economic structure of each country, which is what determines in the long run a favourable or unfavourable situation in regard to the balance of payments. In the third place, it should also be noted that the structure of a country's exports and imports in respect of the rest of the area and the influence which they have on its productive structure is as or more important than the size of the credit balance. Since nearly all the Latin American countries have very limited possibilities of exporting manufactured goods, integration might give them a way of beginning to make such exports within the bounds

of the region as a first step towards exporting to the rest of the world. It is not only the amount of exports which is interesting, but their composition and the fact that they are facilitating this transformation of the external sector and consequently of the basic model of industrialization and development in the countries.

The possibility might then be considered of defining balanced regional development in relation to integration, in the form of an amount and structure of the trade of each country with the rest of the area, whereby within a certain period each country would tend to have such a composition of trade with the rest of Latin America as would in turn facilitate an improvement of its internal productive structure and the operation of its external sector in relation to its national economic development. At the present moment the countries of Latin America have an asymmetric trade structure. They systematically export primary products and sell almost no manufactures abroad. They systematically import manufactured goods with a relative content of non-durable and durable consumer products, intermediate products and capital products depending on the stage of development reached by each country. This asymmetry of foreign trade seems to constitute one of the chief factors in the difficulties of development experienced by these countries.<sup>18/</sup> A classification of goods according to the sectors of production from which they come - taking into account the nature

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<sup>18/</sup> See Latin American Institute for Economic and Social Planning, Integración, sector externo y desarrollo económico de América Latina, October 1966.

of these sectors, their interdependence with the rest of the economy, their absorption of skilled labour, the dynamism with which their demand in other countries is growing, the evolution of their relative prices over time and the fluctuation of such prices, etc.- would undoubtedly serve to characterize the relative advantages which specialization in production in a specific sector for export can have for a country's economy. On the other hand, the present state of a country's economy and the possibilities and necessities arising out of it, are also elements which must be considered in discussing the alternative choices which may present themselves to different countries in respect of specialization within the regional economy. It may also be necessary to take into account that the specializations which are capable of being achieved within the region need not necessarily imply that different countries must specialize in different sectors so that they systematically produce and export goods from some sectors and not from others. Intra-sectoral specialization can permit each country to specialize in particular products which form part of a wider sector, and at the same time to import other goods belonging to the same sector, so that the goods exported have an impact on the economy not very different from that which those that are imported would have.

This last alternative might perhaps be regarded as the basic criterion - complemented by other elements of judgment - to be used in defining an appropriate concept of equilibrium. In any event, this is a question completely open to discussion which it would be very useful to examine, always bearing in mind the need to arrive at a

simple system which can be applied in the present circumstances in Latin America as regards scarcity of data and other elements of judgment.

4. The special case of the relatively less developed countries

A case of special importance as regards equilibrium in regional development is that of the relatively less developed countries. The selection of a policy deliberately designed to give them adequate opportunities of growth raises a preliminary question regarding the most suitable combination of investment in the directly productive sectors and in infrastructure.

For example, an attempt might be made to locate additional primary or industrial activities in these countries by means of the granting of credit, exchange, fiscal and other advantages, despite the fact that the differences of external economies which are caused by a poorer endowment in infrastructure would subsist. However, the application of this criterion exclusively would not seem to solve the problem completely, since as long as the elements on which external economies depend were not created, the stimulus would have to be permanent, and it is also possible that not many additional activities would be located there, apart from those enjoying this high rate of assistance. On the other hand, it may be assumed that the additional support lent to the less developed countries would last for a limited time, and that once that time was over these countries would be left to their own resources, although naturally they would be bound by undertakings of sure supply to the other countries in the area.

Another way of facing the problem would be to create within the less developed countries the conditions which are generated by external economies, so that their relative disadvantage in attracting new activities would decrease. This would demand great attention to the establishment of transport and power infrastructure, schools for the workers who would work in the new undertakings, and also a sufficiently integrated minimum industrial base bearing in mind the interdependence between the provision of raw materials and intermediate goods and the production of more industrialized goods. This way of looking at the matter seems to have the advantage, in respect of the exterior, that - if it was carried out during the period when the less advanced countries are receiving special treatment - it would ensure that at the end of this period the advantages which would have to be granted in differential form to attract new activities to these countries would be smaller and less of a burden to endure. But, on the other hand, if the less developed countries fix as the basic strategy of their development plans the installation of infrastructure in preference to the establishment of productive activities in the short or medium term, it would be necessary to consider the effects which this would have on growth in the next ten to fifteen years, in as much as investments of this kind have a smaller product to capital ratio. There would have to be added to all this the maturing period not only for the industrial investments but also for technological training and experience.

Strategic objectives and characteristics of the process of integration  
in the relatively less developed countries

The objectives and principal strategic guidelines of development within an integrated market for this group of countries can be determined on the basis of certain fundamental criteria and elements of judgment.

In the first place, it can be borne in mind that these economies represent a very small part of the total regional economy. Their participation in production, investment, foreign trade, and other economic indicators for the whole of Latin America is relatively small. This means that decisions made in respect of the participation of these countries in the over-all integrated economy will not necessarily have any appreciable effect on the rest of the economy. Recognition of this fact leads to the conclusion that it is not necessary to wait until a development policy or regional investment policy has been defined for the whole region before dealing with the situation of these countries. Working within reasonable limits, it is possible to press on now with a development policy for these countries without waiting for the policy for the region as a whole to be defined.

In the second place, it seems advisable to prepare an ad hoc programme for each of these countries, since the stage of development, market dimension, geographical location, and other basic circumstances differ appreciably from one country to the next. In addition, separate

consideration can be given to these programmes in the aggregate in order to define some general criteria or features before drawing up a single programme for all the relatively less developed countries taken together.

It would appear that this programme should embrace a specific package of projects or sectors directly linked to the integration process. Industrial, agricultural, infrastructural, manpower training and other elements would form part of this package of projects or sectors.

Without prejudice to recognition of the important role that integration can play in the development of these countries, it is necessary to bear in mind that even if there are very important advances in integration in the next few years the development of these economies will also continue to be determined by many other aspects not directly linked with the integration process. Therefore, the group of sectors and projects which form part of this policy of development in each relatively less developed country within the integration scheme, might well be small in quantitative terms, although strategically very important for the national scheme of development. The bulk of investments in quantitative terms would continue to be the object of individual decision by each of the countries.

Certainly this group of sectors directly linked to the integration process might be set within the general framework of development in each country in order to estimate the impact which the adoption

of the policy in question may have on development and the advisability of proceeding with it, in comparison to the attention which should be paid to other development needs which may also require the use of internal and external resources, and which are thus to a certain extent competing with that policy.

With respect to the composition of these aggregates or packages which would make up each relatively less developed country's policy of development plus integration, it seems appropriate to point out that it would not be necessary to limit the packages to the major import substitution sectors at the level of the region as a whole. Although items or projects belonging to the major industries (steel, basic chemical industries, metal working, machine production) may well be a part, it also seems appropriate to broach the possibilities of development of each of these countries within the integrated market by means of a wide approach not restricted to a specific group of sectors. The major substitution sectors are not always exclusively the most appropriate means towards development for countries which are still at relatively simple stages in the process of industrialization. It might well happen that a strategy mounted unilaterally on the basis of these sectors would imply the absorption of very little unskilled labour, the utilization of scarce rational inputs, a weak inducement to the establishment of other branches of production, the requirement of large investments per unit of production or export, etc., to such an extent that these sectors might be converted into virtual enclaves having relatively few links with the rest of the

economy, and as a result little impact on the over-all growth of the country, apart from that ensuing from the certainly important but insufficient act of providing the country with foreign exchange. On the other hand, other branches processing national raw materials, provided that they are given a much greater content of manufacturing activity and that they utilize more manpower, which have a relatively significant share of the market within the country itself, so that exporting will be an important supplement making possible the earlier development of particular branches of production, may have advantages in these sectors which it is advisable to bear in mind in facing the situation and the export possibilities of these countries within the region as a whole.

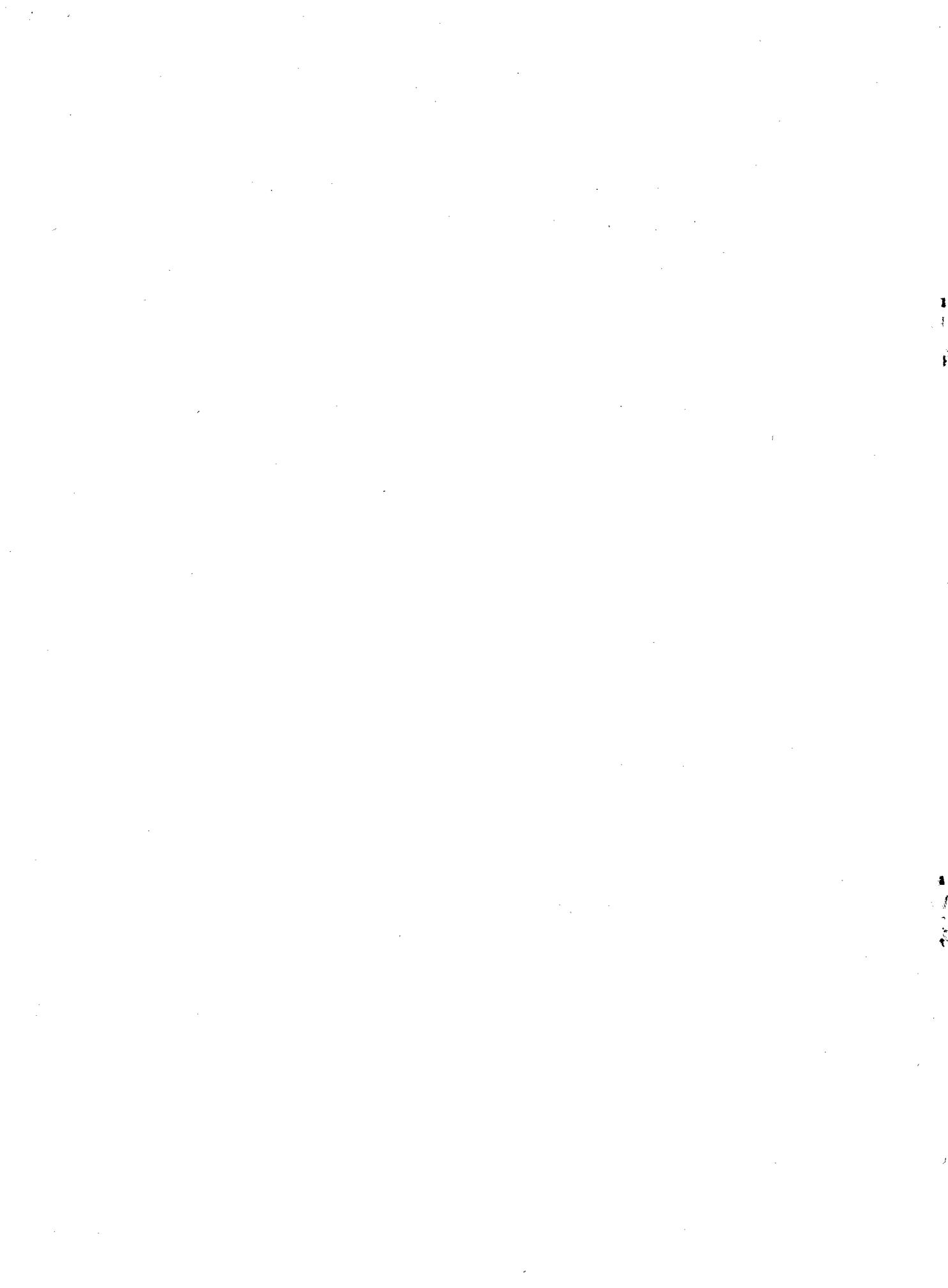
These considerations are not an exclusive but rather a complementary alternative to the first type of sectors. The degree to which they are complementary depends upon the type of considerations which have been entertained in respect of the market, employment, foreign exchange, etc., and also in the sense that these sectors have a marked regional character.

In addition to the emphasis on a specific group of sectors or projects referred to above, it also seems appropriate to consider the possibility that this policy of development within integration may be located in specific areas in each of the countries, so that it gives rise to the establishment of dynamic growth points which will provide their own impulse in the future. Geographical dispersion might possibly make investments in infrastructure more burdensome

(which might increase investment requirements beyond what the available resources allow), and in this way hamper the establishment of external economies and economies of agglomeration which would help the development of all these sectors and projects to bolster each other, making it possible to achieve a certain amount of self-generating development as soon as possible. Of course, this geographical concentration should be considered in the light of the need for the development of these points to have an indirect dynamic impact on the rest of the economy and not to be concentrated exclusively in a particular area.

The guidelines of this policy would be rounded out by applying a combination of measures relating to investment, manpower training, opening of commercial markets, creation of trade channels, and any others that might be necessary. Lowering customs duties and other indirect measures are an important part of this policy but would not be enough in themselves to implement a strategy of this kind. On the other hand, the implementation of this policy would not only appear to be the responsibility of each relatively less developed country, but also to require action by all the Latin American countries together, not only in so far as it might be necessary to adopt appropriate measures in the countries which may constitute markets for these products, but also in so far as co-operation might be required to make available the investment funds and other resources needed to put this policy into effect, and in the problem of how to establish

these criteria in greater detail and how to apply them in the process of planning the economies of the region.



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SOME CONSIDERATIONS ON LONG-TERM PLANNING  
IN MIXED ECONOMIES

by

Ignacy Sachs

This seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the organization with which he is associated.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. This is essential for ensuring the integrity of the financial statements and for providing a clear audit trail. The records should be kept up-to-date and should be easily accessible to all relevant parties.

2. The second part of the document outlines the various methods used to collect and analyze data. These methods include interviews, surveys, and focus groups. Each method has its own strengths and weaknesses, and it is important to choose the most appropriate method for the specific research objectives.

3. The third part of the document describes the process of data analysis. This involves identifying patterns and trends in the data, and then interpreting these findings in the context of the research objectives. It is important to be objective and unbiased in this process, and to avoid drawing conclusions that are not supported by the data.

4. The fourth part of the document discusses the importance of communicating the results of the research. This involves writing a clear and concise report that summarizes the findings and provides recommendations for future action. It is important to use plain language and to avoid technical jargon, so that the results can be understood by a wide range of stakeholders.

5. The fifth part of the document discusses the importance of ethical considerations in research. This involves ensuring that the research is conducted in a fair and honest manner, and that the rights and privacy of all participants are protected. It is important to obtain informed consent from all participants, and to ensure that the data is stored and handled securely.

6. The sixth part of the document discusses the importance of ongoing evaluation and improvement of the research process. This involves regularly reviewing the progress of the research, and making adjustments as needed to ensure that the research is on track and that the results are of high quality. It is important to be open to feedback and to learn from any mistakes that are made.

1. This paper draws inspiration from ideas and methods elaborated by Professor Michal Kalecki and discussed by him in the following four essays, published in successive volumes of Essays on Planning and Economic Development of the Warsaw Centre of Research on Under-developed Economies:

- An Outline of a Method of Constructing a Perspective Plan;<sup>1/</sup>
- Problems of Financing Economic Development in a Mixed Economy;<sup>2/</sup>
- Main Differences between Developed and Under-developed Capitalist Economies;<sup>3/</sup>
- Determination of the Rate of Growth of the Socialist Economy under condition on unlimited surplus of labour.<sup>4/</sup>

2. By mixed under-developed economies we understand economies having a significant, though not necessarily big, but in any case, dynamic public sector and a large private sector where co-exist elements of traditional and modern economy both in rural and urban areas. Hence a possible sub-division of the private sector into modern and traditional (often treated as household sub-sector). Wherever necessary a further sub-division may be introduced between domestic and foreign owned sub-sectors of the private sector, but we should always bear in mind that an economic system cannot be treated as an arithmetic sum of its parts (thus, e.g. the co-existence of traditional and modern sectors modifies the working of the latter).

Such mixed under-developed economies show at the same time various similarities and marked differences both with respect to socialist and developed capitalist economies. In particular:

(a) They are, like the socialist economies, supply-determined in the main, i.e., their rate of growth is limited by lack of productive capacities, with the difference that owing to institutional reasons they

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1/ Essays on Planning and Economic Development, vol.1 Warsaw 1963, pp.19-22.

2/ Essays on Planning and Economic Development, vol.2 Warsaw 1965, pp.37-50.

3/ Essays on Planning and Economic Development, vol.3 Warsaw 1968, in press.

4/ Ibidem.

usually show less capacity to overcome the bottlenecks, due to greater inelasticity of supply of food and lesser efficiency of controls on investment and foreign trade.

(b) Though supply-determined in the main they share with the developed capitalist economies the problem of insufficient effective demand for some categories of goods. Thus, side by side with difficulties arising from the fact that the supply of "essentials" grown by agriculture (i.e. staple food) lags behind the demand, so that the economy is beset by inflation and that capital goods are in short supply (mostly when limited capacity to import them is misallocated to projects with high prospective rates of individual return and low social priority), ("essentials" and "semi-essentials" of industrial origin) may be operating much below their actual capacity due to lack of demand. The same may apply to some export-oriented production (mostly to products from perennial cultures, where the ability to adjust supply to demand practically does not exist), due to inadequate foreign markets. As for industrially produced "luxuries" (mostly durables, such as motor-cars, household appliances etc.), the market composed by a small but moneyed élite is shallow but willing to pay high prices so as to attract excessive investment in such branches to the detriment of the rest of the economy. Such an expansion may generate a dangerous euphoria with respect to the state of the economy and the impact of industrialization. In the long run, however, the hypertrophy of the L-sector will affect adversely the growth potential of the economy, so that we are really in the presence of a perverse growth.<sup>5/</sup>

3. As a result of the above mentioned features the financing of non-inflationary, fairly rapid growth in a mixed economy poses three problems:

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<sup>5/</sup> Because of import restrictions in many developing countries there is considerable deferred demand for L-goods at the moment of starting home production of the same. This makes investment in L-industries still more attractive, but after some years saturation of the market may occur.

- (a) adequate supply of food;
- (b) proper handling of scarce foreign exchange resources;
- (c) equitable social distribution of the burden of investment.

The first two problems arise in all the economies, irrespective of their socio-economic pattern, but they are likely to be felt much more intensely in an under-developed mixed economy, due to the combination of high income-elasticities of demand for food and high propensity for imports on account of lack of domestic production of capital goods with institutional rigidities in agriculture and structural imbalances in international division of labour.<sup>6/</sup>

As for the problem (c), it can be easily handled in a socialist economy, where wages and prices are centrally controlled,<sup>7/</sup> while a free market capitalist economy is characterized by a clearly regressive distribution of income, so that a corrective intervention of the State is called for in order to protect the poor strata of population from excessive exploitation. In a mixed under-developed economy capitalists will try, as a rule, to get the best of the two worlds, namely a conspicuously high standard of personal consumption and a fair amount of private investment financed out of public savings accumulated at the expense of the working people and/or an unnecessary high influx of external resources. Inflation helps in achieving this aim, by reducing the real income of wage earners and increasing the profit margin of traders and industrialists. Thus, socially acceptable income policy will require as a minimum, on the one hand, putting curbs on the rate of growth of personal consumption (including investment in luxury housing) of the moneyed elites and, on the other, stepping up of public investment. Of course, inflation is ruled out.

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6/ With the exception of a small group of successful oil-exporters who quite frequently mishandled, however, their foreign exchange income by placing it in Western Banks and securities instead of promoting development in their territories.

7/ In reality the crucial political decision is that of allocation of income into consumption and investment; once it has been taken the rest consists of technicalities.

4. A reasonable solution of the above mentioned problems required effective planning and this, in turn, rests on the following three conditions:

(a) Control of investment through licensing with respect to major and medium-size projects, in order to prevent investment considered undesirable either because it does not fit into the plan or on account of wrong location. Lack of such controls and reliance on market allocation of investment will, as a rule, bring about a heavy concentration of investment in the L-industries turning out goods (mostly durables) and services (e.g. sumptuary housing) belonging to the category of "luxuries" and in regions which are already more developed than the rest of the country.

The reasons for such distortion of the investment pattern are easy to identify: on the one hand, L-industries, enjoying a most effective protection from foreign competition due to balance-of-payments difficulties and the consequent import restrictions and working for a market of well-to-do people, ready to pay ever excessively high prices for prestige goods, are likely to show rates of return to capital higher and quicker than any other investment opportunity (short of usury moneylending). On the other, new investment is likely to be located in already more developed areas which provide thus some external economies. Both these trends, if left uncorrected, will add to the lopsidedness of the economy. To the extent to which excessive investment in L-industries draws on scarce resources of the country (foreign exchange, scarce materials and skills as well as food which constitutes the main counterpart of wages), it prevents the simultaneous expansion of some other industries, turning out capital goods, raw materials and intermediate goods, as well as consumer goods belonging to the category of "essentials". Though in the short-run the expansion of L-industries may bring about an increase in the national income and add to employment,<sup>8/</sup> such pattern of growth will

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<sup>8/</sup> Entirely new industries always add to employment while factories which displace existing artisanal production may, on the whole, reduce the total employment in industries and crafts.

prove deceptive in the long-run, as it will slow down the rate of development of the industries, which to the contrary of L-industries, contribute to the "growth potential" of the country. That is why we propose to call "perverse growth" such spontaneous pattern of growth, based on market allocation of investment. As for the regional unbalances, again if left uncorrected, they will become ever more acute because the process of uneven development is a self-cumulative one. Richer regions (or urban areas) will grow richer, setting out migratory movements and an assymetrical pattern of economic inter-regional relations, which in the limiting case may turn out to be of a colonial-like nature.

Now, "negative" measures (controls) should go hand in hand with "positive" measures consisting of a reasonable policy of fiscal, credit and other incentives to the private capital, which engages into projects enjoying high social priority and of the readiness of the government to carry out through public investment all the projects included in the plan and left unattended by private capitalists, as well as those which from the very outset were meant to stay in the public sector. Public investment in public sector enterprises (as opposed to financing from public sources of the private sector) has some definite advantages, as the public sector may be geared to the implementation of plans, while the private entrepreneurs can be at best induced to do it and only to the extent to which the macro-economic interest coincides with their individual profit-seeking goal.<sup>9/</sup> That is why the policy of incentives to the private capital should be very carefully weighed, having in mind that if it becomes too expensive for the State, it pays better to expand instead the public sector.

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9/ A good instance of the evasiveness of the private sector to macro-economic considerations is that of the choice of technologies. Social cost-benefit and entrepreneurial cost-benefit criteria seldom coincide. A private capitalist may find advantageous or expedient (because such ready-made technique is offered to him from abroad) to introduce a highly capital-intensive technique in a country beset by employment problems. This will happen, either because enjoying a monopolistic position on the market, he is free to fix his prices in such a way as to get a fair margin of benefit whatever the costs of production and/or because the opportunity cost of capital to him is low, contrary to what it should be, because of a wrong government policy of incentives to private-domestic and foreign-capital.

(b) Controls of foreign trade and foreign exchange operations, including capital movements. Foreign currency is, so to say, the joker in the planning game, as practically all the bottlenecks (with the exception perhaps of the medium-level skills) can be overcome by imports so long as there is capacity to finance them. In a great many cases difficulties on account of foreign trade set out, in last instance, a ceiling to the over-all rate of growth of the economy. Under no circumstances the sensitive area of contacts between the national and world economies should be left to the free interplay of market forces. The attitude of those who commit themselves to planning in the internal sphere but yield to the pressures of the advocates of free trade in the realm of foreign economic relations is doubly inconsistent. To accept free trade means really opening the back door to the doctrine of free-market economy which is incompatible with planning, and to discourse on organization of world markets, while giving up the organization of one's own country foreign trade means putting the cart before the horses. The doctrine of free-trade has always been a weapon in the hands of the stronger against the weaker partners, not speaking of the fact that advanced industrial countries who would like to compel the developing countries to abide by this doctrine, are the first to abandon it for a beggar-my-neighbour policy as soon as they feel embarrassed by balance-of-payments difficulties.

A comprehensive foreign trade policy can be worked out only against the background of the plan and, at the same time, should be an integral part of such plan. Reliance on such criteria alone, e.g. import substitution or preference of capital over maintenance imports may lead to dangerous complications as neither import-substitution of L-goods nor new investment in the L-industries is desirable, while maintenance imports for the existing industries, turning out goods necessary to the smooth functioning of the economy should be given high priority.

To be effective such a policy must:

- operate some sort of controls on imports, preferably licensing;<sup>10/</sup>

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<sup>10/</sup> Of course, different technical solutions are possible, a multiple exchange rate system being a substitute for or a complement to selective licensing of imports.

- subject to close scrutiny and regulations the operations of foreign owned enterprises, in order to avoid excessive outflow of profits both legal and illegal (through over-pricing of imports and foreign technical services and under-pricing of exports), so as to reduce the gap between real foreign currency income and apparent foreign currency income, as registered by trade statistics alone,<sup>11/</sup>

- operate a selective system of export duties and/or (whatever the actual case) of export subsidies. We see no harm in subsidizing some exports, so long as an uncompetitive price is the only obstacle to enter the foreign market (which usually it is not). The policy-makers will be only faced with the decision of how far they are ready to go along with their subsidies or, in other words, what is the net marginal domestic cost per unit of foreign currency earned, they are ready to pay. This means weighing the advantage arising from additional capacity to import with the need of spending a greater relative share of the national income as the export counterpart to finance imports. Of course, the alternative solution, namely, saving of foreign currency by means of additional import-substituting production should be also brought into the picture. No prejudice should be attached to either of them, except that import-substitution is a safer risk other conditions being equal (i.e., the net domestic cost per unit of foreign currency earned through exports or saved through import substitution being approximately equal). Let us observe that the above argument can be easily transposed to the realm of selection of foreign trade oriented investment; all we need then is to compare the effectiveness of investment into projects which earn through exports or save through import substitution the same net amount of foreign currency.<sup>12/</sup> Such comparison between industries turning out all sorts of different goods is possible, as foreign currency provides

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<sup>11/</sup> To the extent to which the situation can be made to improve in this respect, the capacity to import of the country considered will increase, other conditions (i.e., volume of trade and terms of trade in their current meaning) remaining the same.

<sup>12/</sup> Of course, we must reduce investment outlays and current production costs to a simple index, which can be done by means of dividing the investment outlays by the "recoupment period" or the inverse of the national cost of capital fixed in such a way as to insure the full utilization of such labours for which there is adequate food supply to guarantee the planned real wage (see page 15 below).

the common denominator and from the point of view of optimization of foreign trade it is irrelevant what specific good is being sold abroad or ceases to be purchased from outside (provided it fits into the plan).

The uncertainty inherent in foreign trade operations cannot be altogether eliminated with the means mentioned above, but the national economy becomes more fit to make the best use of the opportunities offered by trade and to adapt itself to the changing conditions of the world markets. We should perhaps add here, that some degree of stability can be instilled even in foreign trade by means of concluding bunches of long-term export and import contracts,<sup>13/</sup> stipulating the volume of future transactions and the prices or the modalities of price fixation, conceived in such a way as to reduce the amplitude of their fluctuations. Governments of the parties concerned should guarantee, either directly or indirectly, the implementation of such contract if they are to become effective instruments of action.

(c) Indirect control of the price-line, (except for fluctuations motivated by shifts in terms of trade which are vis maior) by means of appropriate agricultural policies, meant to insure equilibrium between supply and demand on the market for staple-food, the main counterpart to wages. For the developed countries professor M. Kalecki proposes an administrative control of prices and freeing of wages, so that any increase in nominal wages,<sup>14/</sup> obtained by the trade unions would be tantamount to a genuine redistribution of income in favour of workers. But in under-developed countries the situation is different: so long as "essentials" are in short supply all attempts to keep the prices stable by administrative measures will prove vain and will only bring about speculation and black market. Theoretically one could think of rationing. Such form of distribution requires, however, a very smooth and integer organization and even then a reasonable supply of "essentials" per head of population, so that for practical purposes it must be ruled

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<sup>13/</sup> We insist on bunches of contracts, because package deals give scope for exchanging concessions and arriving at a reasonable distribution of gains between partners.

<sup>14/</sup> He made this point at an Italian-Polish Roundtable on Planning, held in Ancona in May 1965.

out in mixed economies, where there would be not much chance in enforcing a distribution system encroaching drastically upon the consumption of the upper classes (who also eat "essentials") while improving the lot of poor people not only in relative but also in absolute terms. The only way left out is, therefore, the one suggested at the beginning of the paragraph, namely respecting the income-elasticities of demand for "essentials" and supplying staple food in sufficient quantities to keep the prices stable. A comprehensive agricultural policy must be therefore, built into the plan combining institutional measures dealing with land tenures and commercialization (freeing the peasant from the domination of landlords, traders and moneylenders), technical assistance and investment. Utmost attention should be given to the problems of peasant agriculture. To the extent to which it is possible to activate it and to draw on its under-utilized potential, consisting mainly of reserves of family labour, with little external investment, this is the less expensive way of achieving simultaneously the treble aim of increasing the supply of "essentials", reducing the pace of rural migration to towns and widening the domestic market for industrial goods, as peasants will trade the food against industrial consumer goods, inputs (such as fertilizer, pesticides, etc.) building materials, implements and equipment. Transformation of subsistence-oriented peasant economy into a market-oriented one and its simultaneous modernization may prove to be one of the most important long-term goals, spaced over several five year plans.

5. The three conditions of effective planning described in the previous section clearly indicate that far from being a substitute for effective economic policies, as some would like to believe, planning to be meaningful requires the economic policies leading to its implementation to be embodied in it. The lesser the scope for direct action of the State through the public sector, the more difficult it becomes to frame an integrated and consistent set of policies covering both the public

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and the private sectors. An important question which arises in this connexion in mixed economies is the "degree of boldness" of the policies the government is willing to propose.

6. This being the general setting of long-term planning in a mixed under-developed economy, we turn now to the question of planning procedure. We shall be more particularly concerned with the applicability of the method evolved by M. Kalecki in the context of Polish planning and generalized in his theory of growth of a socialist economy.<sup>15/</sup> Of course, the transfer, pure and simple, of this method is ruled out because of the deep differences between mixed and socialist economies, which were already referred to. But we believe that the logic of Kalecki's approach remains valid for the case we are dealing with, though some additional issues must be taken care of. We shall, therefore, briefly describe the method, introducing at the same time the modifications necessary to adapt it to the case of mixed economies.

(a) The plan <sup>16/</sup> is to be constructed by an iterative method. Several rounds of successive approximations will be necessary to arrive at its final version. For sake of simplicity we shall describe below only one round.

(b) We begin by choosing on the basis of past performance and general knowledge of the economy a hypothetic rate of over-all growth and set to investigate the consequences of such an assumption. This rate should not be entirely unrealistic, on the other hand it should be rather high in order to expose all the bottlenecks bound to arise if it were actually kept as a goal.

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<sup>15/</sup> See M. Kalecki, Zarys teorii wzrostu gospodarki socjalistycznej, 2nd enlarged and revised edition, Warsaw, 1968 (in press). English translation of this book will be published by Blackwell in Britain.

<sup>16/</sup> Preferably, as we shall see, a few variants of the plan differing in assumptions about the degree of boldness of the Government policies with respect to income distribution and institutional action upon agriculture, as well as the prospects of foreign trade.

(c) The first, macro-economic test of acceptability of this rate is that of the distribution of income it entails between productive investment and increase in inventories on the one hand and consumption at large on the other, subdivided into personal consumption, collective consumption and social investment. We arrive at a broad estimate of the relative share of productive investment in the national income necessary to sustain the proposed rate of growth  $r$ , by multiplying  $r$  by a hypothetical capital-output ration,  $R$  estimated on the basis of past performance, general knowledge of the economy and cross-country comparisons.<sup>17/</sup>  $i$  should be afterwards corrected for the normal increase in inventories.

Obviously, the higher  $i$ , the lower the relative share of consumption in the national income ( $1 - i$ ). In a socialist economy with a fairly egalitarian distribution of income, an increase in  $i$  means for the large masses of population a sacrifice in terms of the rate of growth of consumption in the initial years of the plan for the sake of quicker growth of future consumption. In a mixed economy, however, characterized by inequalities in the social distribution of income, it is possible to conceive a strategy of growth which accommodates a high  $i$  with a reasonable rate of increase of consumption

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<sup>17/</sup> Kalecki's formula for the rate of growth reads as follows:

$$r = \frac{1}{k} \cdot i - a + u$$

where:

$r$  - rate of growth,  $k$  - capital-output ratio,

$i$  - relative share of productive investment in the national income,  $a$  - parameter of amortization,

$u$  - coefficient of improvements leading to a better utilization of the existing capacities of production. At this level of approximation we can abstract, however, from  $a$  and  $u$ , or for sake of consistency assure that  $a$  and  $u$  are approximately equal and with opposite signs so that they cancel each out.

of broad masses, at the expenses of the rate of growth of the consumption of higher income-brackets.<sup>18/</sup> This may require, however, a complete overhauling of the fiscal system and, in particular, imposing of heavy excise duties on "luxuries", strongly progressive taxes on sumptuary houses and private cars according to their size etc., as well as improving the collection of direct income taxes.

To turn back to our test: in a socialist economy it consists in deciding whether  $i$  is politically acceptable in a given country and at a given point of her history; in a mixed economy the alternative "more jam today or more jam tomorrow" loses its sharpness, but it is necessary, in compensation, to assess which income and fiscal policies would meet the double test of efficiency and social purposiveness and, then, to decide whether they are politically feasible, i.e. whether they are not too bold for the Government concerned. In particular, it is necessary to devise a fiscal system which will not permit tax evasion. Although theoretically direct progressive taxes are the most equitable, in practice they may be evaded by rich people. That is why heavy indirect taxes should be imposed on "luxuries" as already mentioned.

If  $i$  turns out to be too high, it is necessary to scale down the initial  $r$  and to repeat the exercise. We shall assume, however, that  $i$  is found acceptable.

(d) The next step then will consist in making a projection of the likely pattern of demand for consumer, investment and intermediate goods, taking into consideration, on the one hand, the assumptions made at the previous stage about the splitting of income into personal consumption, collective consumption, social investment, increase in inventories and investment and, on the other, the existing industrial capacities at the beginning of the plan, as well as projects under implementation. As for the personal consumption the choices with respect to "essentials" are pretty obvious - their consumption should be stepped up as quickly as possible in the case of developing countries -

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<sup>18/</sup> An alternative way of putting the problem is that of curbing the rate of growth of consumption of "luxuries" which are mainly consumed by rich people, while keeping a high rate of growth for the "essentials" mainly consumed by the poor strata of population.

/and, therefore,

and, therefore, "non-essentials", in particular "luxuries" should be sacrificed, in that sense, at least, that their consumption should grow at a much lower rate and that they should be taxed, to the contrary of "essentials". Of course, the projection of the likely commodity pattern of personal consumption of "non-essentials" in particular will not be entirely free from certain more or less arbitrary decisions, even though past trends in consumption, elasticities of demand, cross-country comparisons and biological standards of nutrition should be all used. We do not dispose, as yet, of adequate tools to optimize the pattern of consumption.<sup>19/</sup>

A further useful distinction will be that between "demand determined industries", where we are entirely free to choose the rate of growth of output according to our needs and will and "supply-determined industries" which for different reasons (e.g., limited natural endowments, organizational and technological problems, lack of skills,<sup>20/</sup> danger of starting too many new projects at the same time, etc.), cannot develop beyond a certain rate. We shall, of course, start by examining the "supply-determined" industries and check to what extent they meet the home demand and allow still for exports. The balance between the necessary imports and the exports from "supply-determined industries" will be covered by export surpluses from "demand determined" industries. Knowing broadly the industrial structure of the national income we can proceed with a closer analysis of investment pattern and an examination of the balance of payments.

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<sup>19/</sup> The situation is thus, distinct from foreign trade and from the choice of techniques. In both these cases tools leading to optimal solutions exist.

<sup>20/</sup> The situation in most developing countries is characterized by over-abundance of unqualified labour and acute lack of qualified manpower, often aggravated by unemployment among educated, who did not secure, however, the kind of education which makes them fit for the vacant jobs.

(e) Total investment will include projects turning out goods or marketable services for home market, foreign-trade oriented projects (which either promote exports or substitute imports) and social projects (hospitals, schools, etc.) which, however, were computed above as part of broad consumption. Considerable attention should be given to the choice of proper techniques, in such a way as to get the fullest possible utilization of the abundant resource i.e. the labour and, at the same time, the full utilization of the scarce resource, i.e. capital. This requires, in general, a policy aiming at the lowest possible over-all marginal capital-output ratio, subject, however to the following qualifications:

(i) the choice of techniques follows that of the investment pattern and several important projects will require, as a rule, highly capital-intensive techniques because alternative techniques do not exist at all. Moreover, in certain cases capital-intensive techniques may be chosen, because they require only a handful of highly qualified people which is easier to secure than a larger amount of workers with intermediate skills;

(ii) the policy of maximizing employment with a given amount of investment, is tantamount to seeking such techniques which, though very primitive, imply frequently an excessively high capital-output ratio; that is why our emphasis is on a moderate capital-output ratio with an acceptable productivity and, as a result, a not too high capital intensity;<sup>21/</sup>

(iii) labour-intensive techniques of the pick and shovel variety applicable in public works, cannot be used on a too great scale, because of the constraint of limited food availabilities which prevents excessive increase of employment at planned real wages and of organizational difficulties, as well as of the excessively long gestation period of such investment.

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<sup>21/</sup> Let it be:  $k = \frac{\text{capital}}{\text{output}}$ ;  $i = \frac{\text{capital}}{\text{labour}}$ , i.e. capital - labour - ratio

$p = \frac{\text{output}}{\text{labour}}$ , i.e. productivity. The following identity

relates these three magnitudes:  $p.k = i$ .

/As investment

As investment in modern processing industries, as chemicals, basic steel, iron, etc. will be, perforce, biased towards capital-intensive techniques, it should be compensated by the selection of labour-intensive methods in public works, construction, transport, agriculture <sup>22/</sup> and the promotion of viable small-scale industries, characterized by moderate capital-intensity. Considerable attention should be thus paid to the so called "intermediate techniques", to the borrowing of techniques which are no more applied in advanced industrial countries and to fostering of research in the field of capital-saving techniques. The example of the Vietnamese Democratic Republic points to the huge unexpected reserves, which can be put into use in an under-developed economy with surplus labour, provided enough attention is given to labour-intensive techniques and decentralization of industrial activities, while food is rationed. This example is all the more significant, because the war conditions compel Vietnamese to go to extremes. It is in a sense a "limiting case".

Moreover, special attention should be given to such problems like utilization and modernization of existing capacities, improving the supply of certain raw materials by investing into equipment, which reduces their input per unit of final product, rather than opening e.g. new mines and reducing expenditure on unnecessary "shells" of industrial equipment.

Investment should not be spread over an excessive number of individual projects, lack of concentration is likely to create organizational and technical problems, which will result into unnecessary extension of gestation periods and eventually a wasteful increase in capital-output ratio.

Criteria of evaluation of projects, used to compare alternative methods of production, should be, of course, biased against the wasteful

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<sup>22/</sup> Institutional reforms may release, as we already know, unutilized reserves existing in peasant agriculture permitting, at least for quite a considerable period of time, a considerable progress with relatively little or no external investment. On the other hand, sheer imitation has led several under-developed countries, to waste resources in mechanization of agriculture, in cases when such an investment was not justified on agro-technical ground.

substitution of capital for labour. This means that the national cost of capital should be high (or the "recoupment period", incorporated in the formula for the evaluation of the investment efficiency, low).

If we except the rather unusual case of limited supply of labour in a developing country (in which case the "recoupment period" should be fixed in such a way as to guarantee full employment), the factor limiting the volume of employment at planned real wages will be the availability of food - the main "wage-good" and counterpart of wages. If employment exceeds the limit set out by the supply of food, inflation will follow and real wages will drop below the planned level. The "recoupment period" should be chosen, therefore, in such a way as to seize all the employment opportunities subject to the above mentioned constraint.

Such criteria only serve to compare alternative methods of production of a given output.

The situation, is, however, different with respect to foreign-trade-oriented investment where, as we have already mentioned, the use-value is of no importance at all.<sup>23/</sup> We are only concerned with the amount of foreign currency earned through additional exports or saved through additional import substitution. We can thus, range all the projects, whether export-oriented or import-substituting, according to their increasing cost per unit of foreign currency earned or saved and select the best choices from the list.

(f) Theoretically it should be always possible to balance foreign trade or to achieve an export surplus to compensate the negative balance of invisibles if such is the case. But moving from the top to the bottom of the list of foreign-trade-oriented projects means selecting projects with an ever higher capital-output ratio.<sup>24/</sup> What we gain, therefore, on the side of the balance-of-payments position, is offset by an increase

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<sup>23/</sup> More exactly it is irrelevant as far as exports are concerned, as for import-substitution the only condition which should be fulfilled is that it should fall within the range of goods which must be supplied according to the plan, whether from home production or from imports.

<sup>24/</sup> Of course, the whole calculation is based on expectations with respect to the situation on world markets. It may prove too pessimistic, if conditions change favourably and terms of trade improve. But the opposite may also happen and upset the whole plan. Hence the importance of long-term agreements and contracts. Such agreements and contracts may be used also to increase foreign trade operations above the level necessary to finance unavoidable imports and to reap additional advantages from international division of labour.

in the relative share of investment in the national income. There is a point beyond, which the operation becomes self-defeating. Thus the consideration of the balance-of-payments position becomes the second macro-economic test of the feasibility of the hypothetical rate of growth. Let us emphasize once more, that this test does not apply just to foreign trade. The balance-of-payments difficulties reflect also all the internal tensions of the economy. In particular, the worse the expected performance of food agriculture (the main "supply-determined" industry), the bigger the strain on imports.

If the proposed rate of over-all growth leads to difficulties in the balance of payments which cannot be overcome, even taking into consideration the likely availability of foreign credits, the rate of growth must be scaled down and the whole exercise should start again. Of course, in the second round full use will be made of all the information collected during the first round with respect to different aspects of the economy and its bottlenecks, sectoral capital-output ratios, available techniques and even main characteristics of the major projects. The second round should, therefore, lead to a better, if not definitive variant.

7. It would seem that the method summarized above has for the developing countries several advantages, as compared with more sophisticated methods. We list those, which seem to us the most relevant.

(a) First of all, this method can be mastered by practice and does not need a staff with exceptionally high qualifications.

(b) All the difficulties and bottlenecks are identified and political choices made explicit. Even though stepping up of investment is usually possible in mixed economies without sacrificing the popular consumption - so long that a policy of redistribution of social income is politically viable, difficulties of organizational and technical nature, limitations on account of natural endowments and foreign trade position are likely to arise. The method permits to discuss them one by one and to engage the necessary dialogue with the politicians and the public opinion in a manner and a language, which make the problems understandable.

/The above

The above remarks should not be understood as an implicit rejection of mathematical methods in planning. We believe that such methods can be used with great advantage to solve all the partial problems, where it is possible to establish a homogenous goal function. In particular, it applies to the choice of techniques and to the optimization of foreign trade. As for comprehensive models of over-all optimization of the economy, their use, at present, is at best confined in actual planning to sensibility tests, quick testing of alternative options at initial stages of discussion, testing of the internal consistency of the plan after its elaboration and, last but not least, training of the planning staff. None of these applications, however, is a substitute for "pedestrian" planning, which constitutes for the developing countries the prime necessity, at least at the present stage.

(c) Macro-economic planning is integrated here with planning at the branch level and with major individual projects and the necessary link between planning proper and anticipated consideration of implementation difficulties is maintained.

(d) The method does not pretend to find the optimum optimovum, but simply to illuminate various choices and to reduce waste by "variant thinking" at all levels.

In particular, such variant thinking applies to the following:

(i) choice of the over-all strategy of growth, with particular reference to the degree of boldness of the policies of the Government with respect to income distribution, agrarian policies, etc. and their impact on the rate of growth of the economy and of the popular consumption;

(ii) choice of the pattern of consumption;

(iii) optimization of techniques to be incorporated in actual projects;

(iv) optimization of foreign trade operations.

Explicit consideration of variants and alternatives at different stages of planning and levels of the economy should reduce the scope for wrong investment and management decisions, although the best method by itself cannot eliminate the possibility of such decisions if it is not being properly applied. Hence the importance of administrative and

/organizational aspects

organizational aspects of planning. In particular, an independent agency to screen the major projects with respect to the choice of techniques should be incorporated into the planning machinery. It is all the more important in mixed economies, where the choice of suitable techniques has particular relevance due to the acuteness of the employment problem and, at the same time, is very difficult to carry out because a substantial part of investment is carried out by the private sector.

8. To sum up, let us emphasize once more that long-term planning in mixed economies presents several additional difficulties, as compared with planning in a socialist economy. Even if the three minimum conditions for effective planning are fulfilled, we must build into the plan such strategic variables as the degree of boldness of fiscal and income, as well as agrarian policies and always bear in mind that private sector can be induced or prevented to do certain things, but there will be never certainty as to whether the inducement will actually work. All this increases still more the already considerable margin of uncertainty inherent to long-term planning and widens the scope for variant thinking. Two conclusions should be drawn from this. On the one hand, time horizon should not be extended beyond 15 years, on the other, whenever possible at least two full-fledged variants of the plan should be presented: the low and absolutely realistic, and the high, somewhat more optimistic hypothesis, differing by clearly specified assumptions with respect to political variables.<sup>25/</sup> With all these qualifications, the logical approach outlined above seems to offer a suitable line of approach to long-term planning in mixed economies.

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<sup>25/</sup> Further variants can be built differing from the previous ones by assumptions with respect to the behaviour of exogenous variables, like e.g., the terms of trade. The two problems should not be mixed up, however, in order to make clear the link between the choice of policies pursued by the Government and the rate of growth of the income and of the popular consumption, which is in the long-run the the supreme criterion of evaluation of economic performance in a mixed economy.

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6. The sixth part deals with the work of the various divisions and the results achieved.

7. The seventh part deals with the work of the various departments and the results achieved.

8. The eighth part deals with the work of the various sections and the results achieved.

9. The ninth part deals with the work of the various divisions and the results achieved.

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14. The fourteenth part deals with the work of the various sections and the results achieved.

15. The fifteenth part deals with the work of the various divisions and the results achieved.

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17. The seventeenth part deals with the work of the various sections and the results achieved.

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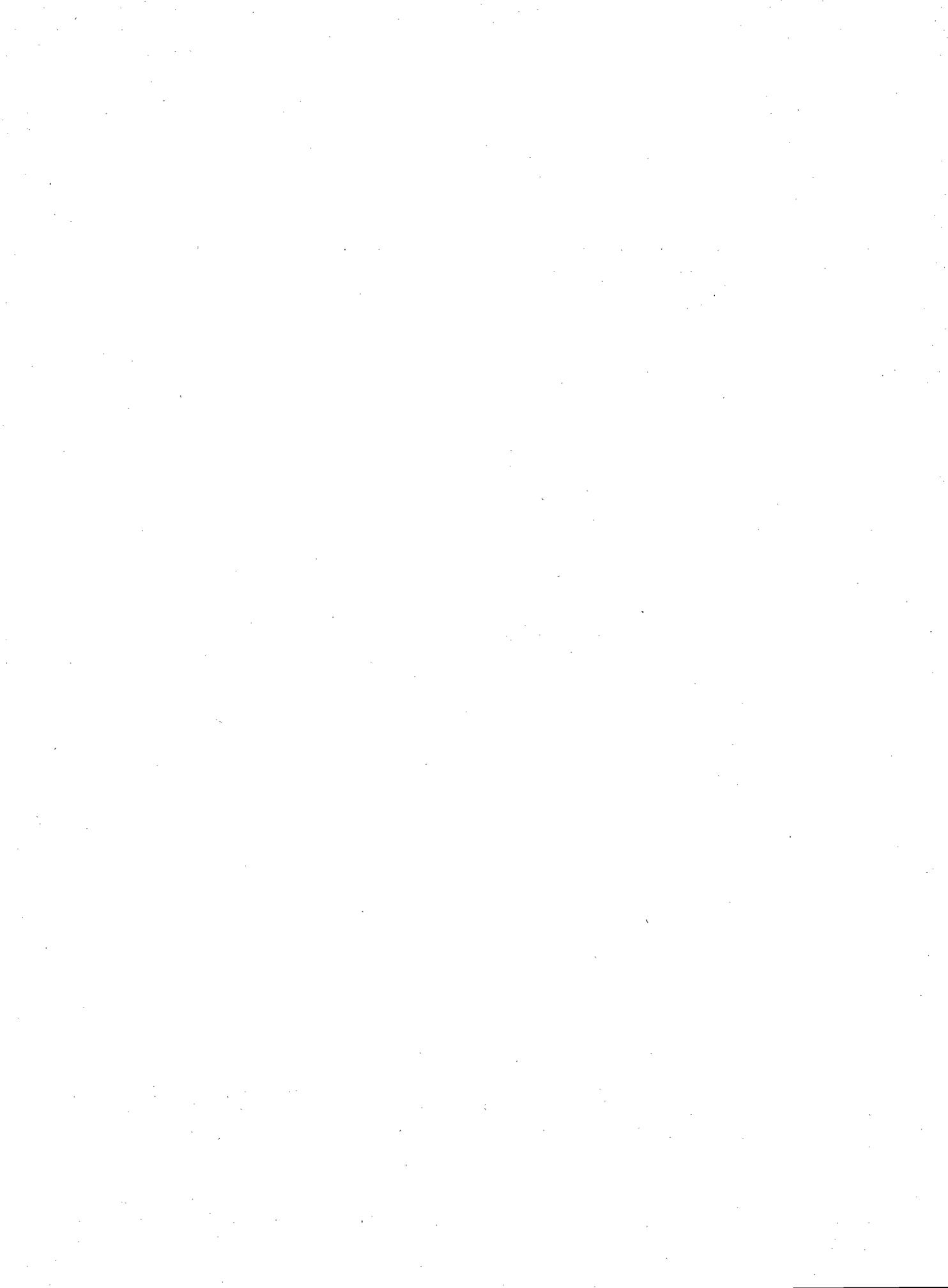
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Presidential Economic Staff  
Government of the Philippines

The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

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## PLAN IMPLEMENTATION IN THE PHILIPPINES

### Introduction

Philippine experience in socio-economic development efforts, which involves no less than fifteen national development plans, indicates a measure of disappointment in plan implementation. Over the years, it has become generally accepted that the shortcomings in the implementation of these plans were to a large extent due to a deficiencies in administration, i.e., the inadequacy of the administrative machinery to execute the government's programs of economic and social progress. Such deficiencies have created an imbalance between aspirations and performance and have constituted a major obstacle to national development.

Economic development is principally a task of private enterprise and not of government. The role of government is to be an effective and dynamic leader for growth by providing direction and leadership and the proper physical and financial support to economic development, and by rationalizing the policies under which the private sector may carry out its task of accelerating the growth of the economy. This means the creation of a favorable environment that will provide inducements necessary in terms of policies and measures needed to foster economic growth and stability.

The imperative need for the government to assert effective and dynamic leadership in economic development becomes more pronounced in a developing country like the Philippines. Growth does not depend solely on purely economic factors. Development relies, in a large measure, upon the ability of the entire machinery to gear itself to the requirements of socio-economic growth. This will necessarily require not only improvement, and possibly even basic reorganization of the administrative structure, systems, procedures, rules and regulations, but also reorientation of the administrators in their attitude towards development and the training of technical men for economic planning and project execution.

#### Organizational Problems and Reform Measures

##### The Problem of Coordination

Administrative deficiencies in plan implementation in the Philippines may be summed up in the need for an organized capability for developing and implementing policies and projects on a unified and organized basis among the multiplicity of departments, agencies and instrumentalities of the government. A major problem in the past has been the lack of coordination among these entities in plan formulation and execution. While the National Economic Council (NEC) prepared the over-all economic program of the government, the Monetary Board of the Central Bank, however, developed its own programs policies on credit and foreign exchange quite independently. The Budget Commission formulated fiscal

programs which did not necessarily reflect priorities consistent with those of the NEC's. The government financial institutions pursued their own lending programs and the regular departments of the Executive Branch carried on their day-to-day business in accordance with guiding policies and objectives quite apart from those established by other agencies.

The first concern, therefore, in the attempt to check with deficiency was the evolution of a workable system of coordination among these various agencies. Among the significant steps taken by the Philippine Government in this direction were the creation of the Program Implementation Agency and the Development Council, the filing of a reorganization bill and the establishment of the Project Execution System.

The creation of the Program Implementation Agency (now the Presidential Economic Staff) in August 1962 introduced in the government administration four vital elements, namely: (a) the emphasis on concrete planning as contrasted with the broad and aggregative planning which had characterized previous development plans that had no operational significance; (b) the introduction of project evaluation, the practice of establishing firmly the soundness, feasibility and economic merits of a project before it is funded, whether it be a public project bidding for budgetary funds or a private project applying for government-administered loans and equity financing; (c) the

introduction of over-all programming, or the channelling of available resources only to the highest priority projects and activities; and (d) a start toward improving the organization and management of principal agencies where the presence of bottlenecks serves to impede the progress of the economic measures of the government. As a staff arm of the President, the Presidential Economic Staff performs economic development planning at a level in-between the over-all aggregative view of the National Economic Council and the specialized views of individual government departments, corporations and financial institutions. It translates the over-all production and investment targets set by the NEC into complementary packages of projects geared towards achieving those targets.

The entry of foreign investors to assist domestic capital in the development of natural resources has prompted the establishment of an Investments Office within the framework of the Presidential Economic Staff. Aside from providing foreign investors with the necessary information on investment opportunities, it is responsible for coordinating the activities of all government agencies to the end that such activities will generate a favorable climate for investment.

The Philippine administrative structure has grown into such a huge and complex organism that nothing short of complete reorganization can transform it into the dynamic synchronized machinery needed to perform effectively its role in economic development. There is need, for instance, to minimize the inevitable duplication and over-

lapping of functions. This will of necessity require the integration of various agencies discharging similar or related functions. Since most of these agencies are previous creations of law, their integration can only be accomplished by legislation.

A concrete step taken by the present Administration towards this end was the certification to Congress of the passage of a bill authorizing the President to reorganize the executive departments and offices. The two-fold aim of the bill is to gear the governmental system to the requirements of national growth and to promote simplicity, economy and efficiency in public affairs. The bill is presently under consideration by Congress.

While the need for an efficient machinery responsive to economic development cannot be deferred, the revision of the existing government framework is a long and tedious process requiring comprehensive studies to justify the recasting of some deep-rooted institutions and processes. The Development Council was therefore created as a practical approach to the problem in the meantime that the long-run solution of reorganization cannot be fully undertaken. The creation of the Development Council was in response to a pressing need to establish a well-knit and closely coordinated administrative machinery within the existing institutional framework. The Development Council is intended to provide the means of facilitating program formulation and execution. Presided over by the President, the Council is composed of the Cabinet secretaries. In addition, the heads of the Central Bank, the General Auditing Office, and the government financial institutions - the

Social Security System, the Government Service Insurance System, the Philippine National Bank and the Development Bank of the Philippines - are also members. The active participation of the Legislative Branch - the Senate President, the Speaker of the House of Representatives, the Majority and Minority Floorleaders of both Houses, and the Presidents of both political parties represented in Congress - is a vital component of the Council and assures a responsiveness from the legislature in drawing up supporting legislative measures.

Early this year, a comprehensive and integrated approach to plan implementation was launched with the establishment of a Project Execution System intended to remove bottlenecks and hasten the implementation of development programs and projects. The System operates through a Projects Coordination Board headed by the President's Executive Secretary.

The Board coordinates and facilitates, in behalf of the President, inter-agency participation in program and project execution, funding and logistical support. It evaluates actual performance against planned targets, provides the President accurate information on the actual status and progress of the projects of the government at all times, and recommends to him appropriate measures to eliminate problem areas and ensure the expeditious and efficient execution of projects.

#### Strengthening Agency Planning Capability

A survey of planning procedures in some 116 agencies of the Philippine Government pointed out the need for effective planning

staffs in the operating entities. While some of these agencies did not have organized planning units at all, others needed to strengthen their planning staffs to enhance their capability to design, develop and execute sound and viable projects.

The planning and programming unit is a key factor in the rational planning and effective administration of economic development programs. This unit occupies a crucial position in a country's planning apparatus. It is the main channel of communication between a central planning agency and an operating organization. It receives information from a central planning agency about planning objectives and directives which will permit the operating organization to prepare programs and projects for incorporation into national and regional plans. In turn, it transmits to the central planning agency information which the agency requires to formulate over-all plans including the sector and subsector programs for its organization. It provides periodic progress reports on these programs to the central planning agency for inclusion into comprehensive reports covering the progress of program implementation.

Based on the survey findings, the Philippine Government conducted organizational studies with the primary objective of providing each individual agency with the requisite organization and manpower complement for rationally planning and programming its operations and thus obtain maximum results from limited resources at its command in line with national goals and objectives.

At the outset, the studies were limited to the department level. For comprehensive and balanced plans and programs in all aspects of governmental operations, it was believed the departments

deserved first attention. Eventually the rest of the 116 agencies surveyed will be studied and thus a complete network of governmental planning and programming units may be set up. Of the 11 departments, priority was given to those directly involved in the implementation of the socio-economic program: Public Works and Communications, Agriculture and Natural Resources, Commerce and Industry, Health, Education, and Labor.

#### Administration of Public Enterprises

Public enterprises or government corporations in the Philippines are instruments used by the government to achieve certain specified objectives, generally economic in nature. These corporations have been established separately from the regular government entities, bureaus and offices through special charters defining precisely the extent and limitations of their powers and operations.

The corporate form for specified government undertakings has been resorted to for the following reasons: (a) To afford greater autonomy in the conduct of operations; (b) to assure flexibility in the pursuit of objectives; and (c) to serve as manageable instruments for economic planning.

Government corporations in the Philippines are not without problems, both internal and external in nature. In some corporations, the internal problem is inappropriate staffing or lack of qualified personnel at the management level. In others, there is overstaffing of rank-and-file employees coupled with the lack of technical manpower.

Expansion in investments and corporate transactions have been hampered mainly by the absence of new sources of financing or lack of capital.

The external problems refer to the absence of an effective executive machinery to provide assistance or supervision to government corporations. Likewise, it is often the case that a supervising agency is over zealous in the exercise of its powers that its policies are not conducive to speedy action by corporations. Thus, instead of exercising supervision merely, these supervising agencies virtually control the policies of the corporations to the extent that freedom and flexibility of action are denied to the latter.

Under Philippine jurisprudence, there is no statutory policy and procedure for the liquidation and disposition of government corporations, their assets and property. This gap in legislation has unduly perpetuated the existence of some pioneering corporations which should no longer engage in the areas of economic activity previously foreign to private investors. The need for such a law becomes significant where the rationale in the creation of a government corporation is no longer present. To allow its continued existence may result in undue competition with private industries and abuse of tax and governmental privileges.

Realizing the need for reforms in order to gear government corporations to economic development efforts, the Philippines has undertaken several studies to delineate the particular problems and to suggest the appropriate solutions. Thus a technical committee on government corporations was created within the framework of the

Council of Administrative Management (CAM) to identify the problem besetting government corporations and, accordingly, to formulate or restate policies which will serve as the starting point for legislative or executive planning and implementation.

Subsequently, the Preliminary Committee for the Revision of the Administrative Code was created to complement the efforts of the CAM Technical Committee. A sub-committee for government corporations was established within the Preliminary Committee and drafted the proposed legislative measures for government corporations. The recommendations include: (a) Uniform charter for all government corporations in respect of corporate structure, personnel administration and management of framework; (b) minimum supervision by appropriate entities; (c) liberal borrowing authority; (d) elimination of the right to strike; and (e) policy and procedure for corporate liquidation.

In the meantime that these recommendations are not embodied into law, a Special Committee on Government Investments has been created to evaluate the performance of government corporations, harmonize their activities and recommend measures to protect government investments. The Special Committee is also authorized to coordinate the investment policies of all government financial institutions to obtain optimum use of available resources.

Recently the President commissioned a private auditing and management firm to undertake the management audit of various state corporations with a view to upgrading their services.

Personnel Problems and Reforms

Upgrading Technical Skills

In addition to a well designed organization structure for planning and execution, there must be an adequate supply of trained personnel strategically distributed among the government agencies and possessed of high-level skills for effecting the development of the economy and its major sectors, for designing and implementing specific capital and/or services projects that answer to the requirements of the over-all plan, for allocating resources, and for programming the funds, materials and equipment requirements of approved development projects.

With due regard for the administrative machinery requirements for manpower with technical knowledge and skills, two undertakings of the Philippine Government are significant:

- (a) Regional Public Administration Seminars - Seminars are being held throughout the different regions and provinces of the country, as well as in Manila, in order to acquaint and familiarize local government officials, and especially the civil servants, with the government's economic development program, the techniques of economic programming, and the tools for economic analysis. The main objective of the seminars is to generate economic rationality in the decision-making processes of all strata of the administrative machinery.
- (b) Training Program in Development Economics - With the assistance of the Ford Foundation, the University of Wisconsin and the University of the Philippines are jointly conducting an annual

### Reorienting Administrators to Development Requirements

Much of the burden of achieving the goals set forth in the development program falls on the public administration. As the principal agents responsible for program implementation, these key officials should be properly oriented to the requirements of project planning and execution.

Realizing the significant role of administrators in the development process, the Philippine Government undertook two major activities. In order to acquaint bureau directors with the requirements of planning and programming economic objectives, regularly scheduled group discussions were initiated to consider in more detail the role of bureau directors in development planning. This was the first time that the directors have been given, in a formalized fashion, the opportunity to participate in policy discussion and formulation. These dialogues, originally broad in coverage, were made more realistic by orienting the discussions toward the requirements of individual departments. Planning dialogues have been held with chiefs of bureaus in the following departments: Public Works and Communications, Agriculture and Natural Resources, Commerce and Industry, Health, Education, and Labor.

The Council of Undersecretaries was organized to study and implement methods to insure coordination of departmental activities. Its

subsidiary functions include instituting measures designed to simplify administrative procedures, recommending modifications aimed at the improvement of the public service, and formulating proposed legislation of internal regulations. Accordingly, the Council has become another instrument for eliminating administrative red tape and improving governmental service.

### Complementary Measures

#### Revision of the Administrative Code

A Committee headed by the Executive Secretary has completed the first draft of the Administrative Code. While the reorganization bill cited earlier is directed towards the improvement of the government structure, the revision of the Code is aimed at recasting outmoded and archaic procedures and processes presently applicable to all government agencies and instrumentalities. The new Code is awaiting enactment into law by Congress.

#### Uniform Procurement Procedures

Pursuant to a Presidential directive, a technical committee has drafted a proposed executive order establishing a uniform procedure for the procurement of supplies, equipment and non-personal services by all agencies of the National Government, including government-owned or controlled corporations.

The revision of the existing procedures was found imperative in a serious effort to minimize delays and the commission of anomalies and to prescribe uniformity in the procurement process.

The Committee has also drafted standard procedures for the disposal of government property, with the primary objective of maximizing the utilization of all government property.

Relieving the Administrative Burden  
of the Office of the President

Another positive measure intended to transform the government into a more effective instrument of national policy has been the work of a Management Audit Committee constituted by the Executive Secretary to audit and streamline the organization and procedures of the Office of the President. Recommendations of the Committee include the realignment of functions among the various units of the Office and the delegation of certain activities to the line departments. The primary consideration is to relieve the Office of the President from administrative routinary details in order that it may devote its time and attention to policy and other pressing matters of national import.

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IMPLEMENTATION OF DEVELOPMENT PLANS IN TURKEY

by

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## Implementation of Development Plans in Turkey

### I. Introduction:

1.1 Planned development efforts go back to 1930s in Turkey. After the establishment of the New Republic in 1923, two industrialization plans were prepared. The First Five Year industrialization plan was prepared in 1932-1933 and it was for the 1934-1938 period. It was a five year program for the factories to be established during this period. Industrialization Plan was prepared only for the public sector as industrialization was carried on with "etatism." The factories included in the program were established and the program was implemented successfully though no specific rate of growth was aimed at.

1.2 After the successful implementation of the First Industrialization Plan, preparations for the Second

Five Year Plan began in 1936. The Plan was issued by the Ministry of Economic Affairs in the same year. Capital goods and infrastructure had priority in this plan. The Second Five Year Industrialization Plan was quite different from the first one both with respect to the technical aspects and to the targets. In addition, The Second Industrialization Plan gave priority to different sectors and included special measures for Eastern Turkey which is a backward region of the country. The Second World War broke out before the Second Five Year Industrialization Plan was implemented, therefore the implementation of the plan was to be given up.

1.3 After the War, in 1947, "Economic Development Plan of Turkey" was prepared but it was not implemented. Unlike the past experience, the other sectors of the economy were also included within the scope of this plan. Furthermore, the plan assumed the provision of a

considerable amount of foreign aid.

1.4 In spite of the past planned development efforts, Turkey remained as a developing country. The two plans, mentioned above, were not prepared for the development of the economy as a whole but rather for bringing solution to the specific problems on certain subjects. The main aim was the creation of an industry that did not exist.

2. The Implementation of the First Five Year Plan.  
(1963 - 1967)

2.1 After the Second World War, the modern economic theory has developed, planning techniques had put forward new planning methods. Thus planning became an indispensable development strategy in many developing countries. In this sense, comprehensive planning has began in Turkey in 1960 with the establishment of the State Planning Organization.

The organization is under the Prime Ministry and it is responsible for the preparation and follow up of the Long Term Plans and Annual Programs.

2.2 State Planning Organization is composed of two main bodies. The High Planning Council and the Central Planning Organization.

2.3. The High Planning Council: This is a mechanism designed to solve the difficult problems of maintaining a balanced relationship between political and technical considerations during the preparation and implementation of development plans. It is clear that establishment of targets and selection of the instruments are political decisions, whereas judgements about the consistency of declared goals with available instruments require technical competence.

2.4 The High Planning Council is a technico-political advisory body composed of four politicians (Prime Minister or Deputy Prime Minister and three other ministers elected by the Cabinet) and four technicians (Under-Secretary and three Department Heads of Central planning organization). All the members of the Council have the same status. The High Planning Council is responsible for "assisting the Council of Ministers in determining economic and social policy goals and studying the prepared plans before they are submitted to the council of Ministers in order to check their conformity with the determined goals".

#### 2.5 The Central Planning Organization

This agency is an undersecretariat to the Prime Minister. It is composed of three Departments. Economic Planning, Social Planning and Co-ordination Departments.

The Economic and Social Planning departments are jointly responsible for the preparation of the plans. The past experience has shown that it is very difficult to consider separately the economic and social aspects of planning. Thus, these two departments have been compelled to work jointly as a single planmaking department. The Co-ordination Department is responsible for following up the implementation of the plans. This is another delicate planning problem. A systematic follow-up of the plans during their implementation is a necessity both for their success and for the evaluation and revision of the assumption on which the forecasts and targets have been based.

2.6 After the establishment of the State Planning Organization First Comprehensive Five-Year Development Plan (1963-1967) has been prepared.

2.7 The Development plans are implemented through annual programmes in Turkey. So, in addition to the

Five Year Development plans, detailed annual programmes are prepared. The main difference between medium term plans (Five-Year) and an Annual Programme as far as their contents are concerned is that while the later lists the investments projects to be undertaken during the programme year in some detail and spells out in a very precise form the policy measures in the field of finance, foreign trade and shows the distribution of total investment among alternative activities in various sectors of the economy.

2.8 Particularly in a country where public sector plays a predominant role in initiating and channelling economic development, annual programmes gain importance for implementing the plan. It is through annual programmes that economic activities are organized and resources are allocated. Annual programmes are the only reliable means of giving coherent directives to the public sector on how much to produce and how much to invest and on what time dimension. Annual

programmes are prepared every year and they must conform with the main targets of the Five Year plan.

2.9 The machinery of annual programming involves the preparation and formulation of the programmes by the central planning organization. The draft programmes are then discussed and approved by the High Planning Council. Then the Second drafts are submitted to the Council of Ministers for further discussion. The final document is therefore published as a Government Decree.

2.10 The annual programmes are to be formulated before financial budgets. As well known financial budgets are the documents through which authorization for expenditure is granted. So long as the five-year plans do not specify the individual activities to be undertaken during the planned period, national financial budgets cannot be prepared in a way which will guarantee that the targets of the plans are to be

achieved. Detailed information is presented in the annual programmes and activities are specified. The budget will therefore depend to a large extent on the information presented in the annual programmes.

2.11 As noted above the Co-ordination Department is responsible for following up the implementation of the annual programmes. In the sectors where the forecast-type of planning prevails (private sector activity), this can be done by following up the relevant economic indicators. In the sectors where target-type planning exists (State economic enterprises and other parts of the public sector) the necessary follow-up is more intricate. However, there is a need to separate the planning and follow-up functions. In the Turkish situation, the classical formula of ex. post facto reporting is adopted. The co-ordination Department receives quarterly reports from executing agencies about their performance and prepares quarterly evaluation reports in which problem areas are identified

and necessary remedial measures are indicated. The basic assumptions of the programmes are also revised when necessary.

2.12 The history of planning as a development strategy is quite recent. The practice of creating independent institutions in public sector in the preparation of development plans took place more often after the Second World War. It is a well known fact that in spite of all these efforts, in most of the underdeveloped countries, the plans do not give what is expected of them. When we look at the past experience, we see that the factors leading to the failure of the plans stem from the drawbacks in implementation rather <sup>than</sup> the technical inadequacies. This should not lead us to the conclusion that implementation is the only source of failure. But it is the most important source obviously. A technically inadequate plan may give satisfactory results if implemented successfully. But a plan of high quality technically

will be nothing more than an impressive document unless implemented successfully.

2.13 As well known, the economic and social problems necessitate rapid decision taking and innovations. These cannot be realized easily by traditional public institutions. So in many countries, often, there are frictions among the new planning organizations and the traditional institutions. This is the conflict of new and old. This conflict between the organization preparing the plan and the traditional institutions implementing the plan affect the implementation of the plan in a negative way.

2.14 As it will be pointed out below, in case of Turkey, in spite of all the measures taken, the drawbacks during the First Five Year (1963-1967) Plan period could not be removed. So at the beginning of the Second Five Year Plan (1963-1972) new measures

related to implementation were accepted.

3. The Implementation of the Second Five Year Plan  
(1968-1972)

3.1 A close follow up and observation of the implementation of the First Five Year (1963-1967) Development Plan has disclosed the existence of certain provisions and procedures in the present legislation which create obstacles and difficulties in the achievement of the targets of the plan.

3.2 To eliminate such handicaps and ensure the achievement of the targets of the Second Five Year (1968-1972) Development Plan with more precision and definiteness, and keeping in view the experience and observations of the First Plan, new Law, entitled "Law Concerning the Implementation Fundamentals of the Second Five Year Development Plan" was enacted in July 1967, and became effective in August 1967.

3.3 The aim of the Law is to achieve conformity between the content of the plan and the existing legislation and procedures. The Law gives special powers to the Council of Ministers to take necessary measures on one hand, to eliminate all obstacles and procedures handicapping the attainment of the basic targets of the plan, especially in the field of balance of payments (promotion of exports of manufactured goods and earnings from tourism) as well as the development of primary industries which constitute the bases for economic growth, and on the other hand, to provide protection and incentives for economic activity.

3.4 Under this law there is set up of a Bureau for Encouragement of Exports and Investments. This Bureau is directly under the instruction of the Prime Minister. It is at the outset to be administered by the Under-Secretary who is the head of the State Planning Organization. Each Annual Programme will specify the

priority sectors for investment in the coming year both by sectors of the economy and by regions of the country.

3.5 The Bureau will aim at very selective encouragement to industry and to exports. The Annual Programmes will define the priority sectors within the Bureau will be given powers to increase investment allowances from the present 30 per cent up to 80 per cent. Similarly duties on imports can be reduced in special cases right down to a rate of 0 per cent,

3.6 It is clear that, the government is to go to new lengths to help the private sector to expand, particularly in manufacturing tourism and agriculture. The private sector is to receive an appreciable and growing transfer of investment resources from the Central Government. This is to be through "development and encouragement funds" which are to be transferred

each year from the budget to banks and co-operatives etc. in accordance with priorities set forth in the annual programmes. The State Planning Organization which is to play a considerable part in deciding the allocation of these funds, is instructed to keep more closely in touch with the private sector and to assist and encourage the private sector to identify and carry out new investment opportunities.

3.7 One of the main features of the implementation is the enlarged functions to be given to the State Planning Organization. The State Planning Organization will be concerned with every major investment project in the private or public sectors including SEE's and local authorities. The State Planning Organization is to receive more regular information on the production and investment activities of the SEE's.

3.8 A more rapid, precise and efficient implementation of the plan may be possible as a result of all the new policies and measures brought up by the Second Five Year Plan (1968-1972).



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## PLAN IMPLEMENTATION IN IRAN

by

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## PLAN IMPLEMENTATION IN IRAN

1. Iran is at present beginning the implementation of its Fourth Development Plan which has a five year period and runs from March 21, 1968, to March 20, 1973. During the three previous plans, plan implementation has had different features, and it seems appropriate to discuss each Plan period separately, since the preparation of each Plan, and the manner of its implementation was determined by different considerations, and different objectives.

### Pre-Plan Period

2. The World War II period in Iran was characterised by the disruption of all development activity and modernization effort, as a result of the occupation of the country by the Allied Forces, while some foreign exchange reserves were accumulated.

3. After World War II the circumstances were conducive for the Government to launch a development program. It was however, recognized that the regular Ministries were not

prepared for such a task, hence after certain preliminary steps, which involved the reorganization of the existing government enterprises under a newly established Industrial and Mining Bank, and a contract with two foreign groups, one charged with the preparation of a Plan and the other for its revision, the development effort of the government took a concrete and legal form for the first time, when the Iranian Parliament approved the first Seven Year Development Plan in the beginning of 1948.

First Seven Year Plan (1948- Sept. 1955)

4. The First Plan Law envisaged the allocation of certain revenues to the Plan Organization, especially from Oil and foreign and domestic borrowing, and a certain pattern of expenditures, between agriculture, transport and communication, industries and mines, and social affairs.

5. While there were continuous discussions and revisions of the original recommendations, the first two years were spent on establishing the organization that had to carry out the Plan and reorganizing the industries which the new Plan Organization inherited from the former Industrial and Mining Bank.

6. Nationalization of the oil industry in March 1951, and the resulting financial difficulties, slowed down the execution of the Plan considerably. With the resumption of oil revenues

in 1954 and especially 1955, it was realized that the altered circumstances called for a new Plan. Thus the First Plan came to an end in September 1955, when the Second Seven Year Plan was launched.

Problems of Implementation During the First Plan

7. In addition to the economic and political difficulties which seriously hampered the implementation of the First Plan, which by the way, was a Plan more in name than in content, the basic problems of the period were those of a government inexperienced in development activities, with very little information and statistics on the national economy and its potential, staffed by employees traditionally feeling themselves responsible for keeping the status quo rather than promoting change, and with practically no technical personnel of its own.

8. It was in this context that the major effort of the government was directed towards making an overall survey which had to be contracted to a foreign group, reorganization of the government enterprises, and the establishment of an organization with a progressive outlook.

Second Seven Year Plan (Sept. 1955-Sept. 1962)

9. The Second Seven Year Plan Act called for "increasing production, developing exports, preparing public necessities within the country, developing agriculture and industries, discovering and exploring mines and subterranean resources, improving and completing means of communication, improving public health, fulfilling certain operations designed for the development of the country, raising the educational and living standard of the people and improving living conditions..." The Plan Organization, was again put in charge of the implementation of the "Plan".

10. For carrying out the above general aims the major and an increasing share of the oil revenue was earmarked as Plan Organization revenue, and allocations were made to different sectors for the implementation of broad programs in these sectors. There was however, no attempt made for the coordination of these programs with each other or with the activities of the private sector, and no quantitative targets were set. The Plan therefore was primarily an allocation of certain funds for broadly defined programs to be carried out by the Plan Organization.

Implementation of the Second Plan

11. The original allocation to the Plan Organization for the seven year period was around \$920 million, and was later increased to \$1100 million, which were to be met from a certain

share of the oil revenues. However, due to unforeseen events, the Plan had to be carried out in a substantially modified form.

12. The first problem arose from the fact that because of the favoured treatment received by the Plan Organization in being able to spend large sums without having to comply with the complicated and binding disbursement regulations of the other Ministries, these latter were more and more alienated especially because some of them also carried out certain development activities on a much more limited scale, without having the same freedom of action.

13. This caused a perpetual struggle between the Plan Organization which was trying to keep its originally allocated share of the oil revenues, and the Ministries, which were clamoring for a bigger share. This resulted finally in the reduction of the Plan Organization share, which had to substitute foreign borrowing for the shortage.

14. The second problem was due to the unforeseen increases in costs of projects, and the addition of new projects. Presumably, some of the new projects were introduced as a result of political pressure, others because they were considered more important than those originally undertaken. It might also be due to the fact that under the conditions of that

period, obligating funds for development projects was one of the ways for avoiding the transfer of these funds to the Ministries for their current expenditure.

15. Another feature of the Second Plan was the fact that due to the scarcity of technical knowhow in the country, the preparation and execution of most important and big projects which constituted the major part of the whole Plan, were contracted to foreign consulting engineers and firms. At the same time, there was no prior local knowledge of unit costs and criteria by which the original offers made and actual expenditures could be judged against work accomplished. As a result, in the course of implementation, the cost of certain projects increased by as much as two to three times the original estimate.

16. Due to the above factors, a revision of the program became imperative by the second half of the plan period. The criteria for this revision were to continue and complete major programs and projects already initiated, especially those for which international obligations were contracted; to eliminate many projects not yet initiated although some of them had considerable merit, and to phase out some of the others, and finally to emphasize to a larger extent the manpower training programs and preliminary surveys and engineering studies needed for the preparation of the Third Plan. It had become apparent that the shortage of skilled manpower was a major bottleneck in the

optimum exploitation of the created physical assets, and the lack of proper surveys and engineering studies resulted in rather expensive mistakes in the process of implementing the programs and projects.

17. The burden of the created obligations, the reduction of the Plan Organization revenues, due to financial difficulties, and the elimination of many small but quick yielding projects, precipitated an inflationary **pressure** and a depletion of foreign exchange **reserves** and forced the government to adopt a stabilization program. These events which could not leave the private sector unaffected culminated in a rather serious recession during the final 18 months of the Second Plan, from which, irrespective of substantial government effort, the economy recovered only after about another 18 months of the Third Plan.

### Conclusion

18. The experience of the Second Plan in Iran, seems to me, is to be judged not in terms of what was ideally possible, but whether better practical alternatives existed at that particular period. The alternatives to having one more or less autonomous and newly created and staffed government body with a clearly identified revenues and relatively free from usual bureaucratic procedures, was to have a comprehensive budget and each Ministry responsible for implementing its part of the program. It is my

feeling that the traditional attitudes of Ministries and the binding regulations would have seriously hampered the development effort, and the actual arrangement was the quickest way of introducing the necessary dynamism into the government administration. The resulting tensions between Plan Organization and the other Ministries was most unfortunate, but practically unavoidable.

19. The alternative for starting several big and expensive projects contracted to foreign firms was to scatter the available resources throughout the country on small projects for which no administrative machinery existed.

20. Thus, while some mistakes were made and some resources wasted and the recession by the end of the Plan, under the circumstances was most unfortunate, the physical development achieved, the experience gained, the deficiencies discovered and the challenge created for other Ministries to participate actively in the process of development was well worth the cost.

Third Five and a Half Year Plan (Sept. 1962- March 1968)

21. About half way through the Second Plan an Economic Bureau was created in the Plan Organization for staffing of which, the best available Iranian economists were recruited from all over the world to be assisted by a group of foreign experts (Harvard Advisory Group) and the Ford Foundation. Its main assignment was the evaluation of the Second Plan and the preparation of the Third Plan.

22. After a thorough study of the existing situation and long discussions, it was decided that time was ripe for bringing about certain major changes, both in the approach for the preparation of the Plan, and its implementation.

23. While the available information and statistics were still far from sufficient or perfect, and some rather independent government enterprises were **powerful** enough to avoid coming under the overall umbrella of a national plan, it was nevertheless decided to adopt a comprehensive approach to the Third Plan. Thus an overall rate of growth for the economy and some major sectors was established, targets were set for employment and the production of certain basic commodities, and allocation were made for different activities in different sectors. Also an estimate was made of the expected investment by the private sector. At the same time, rather than the Plan Organization

preparing the development program independently, as was the case in the Second Plan, the Ministries and other public executing bodies were asked to participate actively in the preparation of the Plan.

24. As to the implementation of the Plan, despite the fact that many Ministries were still far from being properly staffed and equipped for taking full responsibility for the execution of the development programs, it was decided that the time had come for their active participation. Under this new approach the Plan Organization was still responsible for the completion of the projects started during the Second Plan but the new programs and projects were to be executed by the respective ministries.

25. There could be no doubt that some time was necessary before this new arrangement would start functioning normally. In fact for the first 2 years of the Third Plan, public development activities were falling short of the available resources. However, ministries were learning fast and by the end of the Third Plan, their capability of undertaking important development programs exceeded the most optimistic expectations.

26. In addition to the completion of the unfinished projects of the Second Plan, the Plan Organization was charged with the approval and coordination of Third Plan projects submitted by Ministries and agencies, within the annual Plan appropriation. This was done by an "Executive Committee" consisting of the

Managing Director of the Plan Organization and four other members, after the submitted project or program was studied and recommended by the appropriate section in the Plan Organization.

27. For coordinating economic policy, a "High Plan Council" chaired by the Prime Minister and composed of the Managing Director of the Plan Organization, the Minister of Finance, The Minister of Economy, the Governor of the Central Bank and three high level economic personalities was established.

28. For further strengthening the position of the Plan Organization for the coordination of development activities, and their direction towards the Plan objectives, not only a certain share of the oil revenue was again allocated to it, but it was given the responsibility of the control and coordination of all foreign loans, and in 1965, the function of the preparation and submission of the development budget was transferred from the Ministry of Finance to the Plan Organization and a new wing called the "Central Budget Bureau" was established.

### Conclusion

29. Under the new arrangement, although the development fever was somehow slow in catching the Ministries, after the second year, it spread so fast that by the end of the Plan, not only there was no need for pushing Ministries to come up with new ideas and submit development projects, but if anything,

the Plan Organization was to play a restraining role.

30. As to the private sector, its dynamism matched that of the public sector, with the result that in the last three years of the Third Plan, the economy progressed at an average annual rate of over 10 per cent in real terms, exceeding substantially the overall objective of the Plan.

31. It must be pointed out also that the very important and far reaching social reform, including a land reform, carried out at the beginning and throughout the Third Plan by His Imperial Majesty, played a most important role in changing the passive attitudes of the majority of the population, re-directing private savings into productive activities and creating the dynamic outlook in the society, so indispensable for the success of economic and social development.

32. The introduction of these reforms necessarily altered some of the originally planned targets and the relative emphasis put on different sectors. Contrary to the opinion expressed by some planners that once a Plan is drawn, any reorientation is to be avoided, it seems to me, that if the **changing** circumstances justify it, the reorientation is not only desirable but is necessary. However, one must bring about a new consistency in the whole Plan, and while putting a new emphasis on some sectors, be aware of the cost in terms of the objectives of the other sectors, otherwise there is a tendency of doing too many things at

the same time, or doing things inconsistent with each other.

33. The most effective mechanism for allowing these adjustments and preventing serious misdirections in my opinion is an annual evaluation and the preparation of annual programs which have not been adopted systematically in Iran as yet.

34. Another deficiency existing at present is the lack of a systematic mechanism for project evaluation in the context of the planned targets and its economic justification in so far as better and cheaper alternatives for achieving the same targets might exist.

35. To sum up the whole experience of Plan implementation in Iran in one general conclusion, I would say that there is no best way of preparing and implementing a development plan. The existing conditions in each society and economy and the stage of its development should determine the approach to be adopted. Also, it is practically impossible to avoid mistakes in the process of development. These mistakes are often worth their price if they are not repeated. Most fortunate are those who learn their lessons from the mistakes of others, and most unfortunate those who forget their own mistakes and repeat them too often.



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**PLAN IMPLEMENTATION IN ISRAEL**

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

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A. PLANNING IN ISRAEL

1. Israel - a country of rapid development

During the hundred years of modern Jewish settlement in Israel, and especially during the last twenty years since the establishment of the State of Israel, the Israeli economy has developed at a rapid pace. Between 1955 and 1966 the Gross National Product increased at an average annual rate of 9 percent. The agricultural product grew at an annual rate of 10 percent, and the industrial product 11 percent. The total value of exports has grown from 145 million dollars in 1955 to almost 900 million dollars in 1967. The industrial exports increased in that period at an annual average rate of 26 percent. Gross capital formation has grown at an average rate of 25 percent. In the same period the population increased at an average annual rate of 5 percent.

It is the considerable increase of the G.N.P. and the capital imports which enabled this expansion of exports and capital formation to be accompanied by a substantial and continuous rise of the standard of living. Private consumption per capita has risen at an annual rate of 5 percent, while public consumption per head increased at a annual average rate of 2 percent.

The economic development has been accompanied by significant achievements in the fields of health, social welfare, etc. Most important was the outstanding quantitative and qualitative achievements in the field of education. In the last twenty years, the number of pupils in elementary schools increased almost fourfold, in secondary schools eightfold, in vocational schools twentyfold; and the number of students in the Universities multiplied fifteen times.

2. Development and Planning

Was this process of rapid development an outcome of a comprehensive economic planning? The accomplishment of a significant number of projects in various fields in a relatively short time could not be achieved without a certain amount of planning - defining and setting targets, drawing up necessary short and medium range operational plans, preparing operative tools and controlling the execution. However, this was not comprehensive and general planning, formed and coordinated by a central planning

\* This paper represents the personal view of the writer only, and does not reflect the official attitude of the Ministry of Finance.

authority. Central planning could not catch up with the dynamic developments which took place in the major fields of economic and social activities. On the other hand, facet and project planning have developed considerably, concentrating in specific fields and subjects, and gained significant achievements in planning and implementation. Coordination of various plans and their implementation was carried out in the Treasury, which is the central economic ministry in Israel. The Treasury, through its tools of economic policies and governmental budgets, coordinates the various development projects according to a scale of preferences. Israel being a "mixed economy" where the government-owned sector and the private sector operate side by side, the impact of the Treasury is enhanced, by its direct control in some important fields of economic activity.

It is very difficult to answer whether under Israel's specific conditions, lack of central planning was a serious inhibitive factor to its economic development, or maybe, that the absence of the scrutinizing and restricting effects of central planning, enabled faster development. It can be that a more comprehensive outlook, and greater coordination among the various projects, could bring about more efficiency and possibly decrease, to some extent, the inflationary pressures, accompanying the process of development. However, during the first years of Israel's statehood, probably the urgency of the immediate needs and the momentum of the development process were too pressing to be chained in the complying and complicated framework of overall planning.

### 3. Stages in the development of economic planning

The ideological background of the ruling elite in Israel created a positive attitude towards central planning. The call for overall planning was voiced since the early years of settlement in Israel, and was reinforced whenever grave economic problems arose, or development projects were unsuccessful. The first attempts for planning made in 1950 did not leave much trace, as it was basically an overall plan, which was not translated into detailed recommendations.

In 1953-1955 a department for economic advising operated in the Prime Minister's office, which was headed by well-known foreign economists. This department, too, concentrated mainly

on the day-to-day problems, and on examination and criticism of current government policy. This critical aspect of its work, together with lack of understanding of the institutional structure of the Israeli society, created problems of communication between the foreign experts and the economic leadership, which finally brought an end to the department, before it managed to complete the anticipated economic plan.

#### The Economic Planning Authority

In 1962 the Economic Planning Authority was established within the framework of the Treasury. Its assignment was to prepare a five-year plan, in coordination with other economic ministries. In 1963 the E.P.A. was transferred to the Prime Minister's office, with the hope that the prestige and authority of this office would contribute to inter-departmental cooperation, and increase the Authority's influence on the implementation of the plan. A ministerial committee for planning, headed by the Prime Minister, was set up, in order to decide on political, social and economic objectives and their order of preference, to give instructions to planners, regarding quantitative targets, and to decide in inter-departmental disputes. A professional committee, comprised of the heads of economic and planning units in the various governmental departments, was established to ensure the coordination between the national plan and the physical and facet planning in various fields.

In 1965 the first draft of a five-year plan (1965-1970) was prepared by the E.P.A. This draft included critical reviews on various subjects and sectors, accompanied by macro-economic forecasts, and followed by general recommendations regarding the required policy. Although the plan was supposed to be based on sectorial projects worked out in the concerned ministries, these plans were not detailed enough and were not ready for actual operation. The plan was not adopted officially by the government or the ministers' committee for planning. It had rather a cold reception by the ministries concerned, and was severely criticized in the Treasury. Some of the plan's targets were disputed, the possibility of its implementation under the prevailing conditions of social and political uncertainty were doubted, and some of its policy recommendations were rejected.

Nevertheless, although the first plan has never been

approved, it had a far-reaching impact upon government economic thought and planning in the years to come.

After a pause, the E.P.A. started to prepare a second five-year plan (1968-1972), together with an outline for a ten-year plan. While the establishment of the E.P.A. and the preparing of its first plan was spurred by the fear of forthcoming crisis, due to the fast-increasing deficit in the current account of the balance of payments, the timing of the preparation of the second plan was mainly determined by the recent deflationary situation, which prevailed during 1966-1967. This plan will also serve as a working paper for the international conference of businessmen and economists, which is due to take place in Jerusalem this year.

#### 4. Factors favouring the existence of central planning in Israel

A number of economic, social and political aspects of the Israeli economy create a favourable atmosphere for central planning.

- a) The targets of the Israeli society are numerous and sometimes contradicting, while the constraints within which they have to be achieved are severe. This calls for an effort of co-ordination and planning.
- b) Israel is a small country which, in a way, is easier to manage. This gives plan implementation a better chance to succeed.
- c) Israel enjoys stable and relatively strong governments. In spite of a great variety of political parties, identity of purpose is shared by the population.
- d) The weight of the government is considerable in many important economic activities, which enables it to have a direct impact on implementation of planning.
- e) A great part of the economic leadership is of socialistic background, and so consider central planning as a part of their political credo.
- f) Israel has considerable reservoirs of highly-trained professional manpower, which can undertake both planning and its implementation successfully, with only a limited reliance on foreign technical aid.

## 5. Factors inhibitive to central planning

In spite of the existence of several prerequisites, central planning did not in the past reach the implementation stage. Some of the major reasons for that are accounted for as follows:

- a) One of the reasons for limited achievements of central planning is perhaps the mere success of the facet planning, accompanied by rapid economic development. This caused many policy-makers to consider central, long-term planning as a superfluous, or even a detaining factor.
- b) During the process of development, those engaged in partial planning and groups identified with its implementation tended to act as pressure groups. Their interest was to perpetuate the existing situation, as they were apprehensive that central planning might cut into the economic power concentrated in their hands.
- c) The existing coalitionary structure of government in Israel tends to reinforce these centrifugal tendencies. Ministries being headed by members of political parties, resistance may be expected to any effort of central authority trying to impose its plans on the relevant ministries, inasmuch as such an imposition means loss of political and economic power.
- d) During the first stages of planning, basic necessary statistics were lacking. This created difficulties for both planning and for controlling its implementation. However, recently, considerable progress has been made in this field.
- e) The supply of experienced manpower for planning, from the school system and from immigration, great as it was, did not answer the growing needs. The first class of Israeli educated economists graduated from the Hebrew University only in 1952. Today there are three universities which supply most of the demand for junior economists. But the supply of senior and experienced economists is still far from sufficient, as demand for them has grown considerably lately, since management, both in the public and private sectors, became more and more demanding for economic trained staff. The higher fees of the private sector and the satisfaction stemming from decision-making powers in many of the economic positions in

the governmental sector, attracted many economists; the E.P.A. found it difficult to compete on these grounds, and found difficulties in manning its staff.

- f) The location of the E.P.A. in the Prime Minister's office was designed to increase its influence and prestige. There was also an implicit hope that the Prime Minister, Mr. Eshkol, as a former Minister of Finance and being close to economic matters, will back up the E.P.A. However, political and defence problems have claimed most of his attention and pushed aside problems connected with central planning and its implementation. The detachment of the E.P.A. from the centre of economic decision-making jeopardized its chances of becoming the most influential factor in plan implementation.
- g) Besides these structural obstacles there exist major external factors, which tend to make central planning difficult. In Israel's special conditions, the uncertainty regarding some external factors raised doubts as to the meaning of planning itself. Far-reaching and unexpected fluctuations in the scope of these factors had in the past caused disruption between planning and implementation. Among these factors one could count the following:
- 1) Immigration. Its scope and composition, as regards the country of origin, age, cultural and social background and profession, vary significantly from year to year. Its scope is determined by external factors - the possibilities, pressures and desires of the Jews in the Diaspora to leave their countries and come to Israel. Immigration is a major factor determining the extent of investments, especially in residence building and social services, and the extent of inflationary pressures created in the process of development.
  - 2) There is also a considerable element of uncertainty in capital import, which has financed about 60 percent of total investments in Israel. It also has a decisive weight in financing the government development budget and the scope of private and public consumption. However, the volume of capital transfers to Israel is determined to a great extent by political decisions taken abroad, by the

situation in the international finance market and by psychological and business factors which determine the inflow of funds from Jewish communities abroad.

- 3) The defence factor introduces a far-reaching element of uncertainty. A significant part of the manpower is tied up with defence. The financing of defence expenditures cuts into the foreign-exchange reserves, and reduces budgetary funds available for development projects. It is also the major reason for a high level of taxation, and sometimes even necessitates inflationary financing. Security conditions affect the flow of investments from abroad, and also tourism which is an important foreign-exchange earner.
  
- h) The rapid economic development in Israel was possible due to the availability of foreign exchange reserves and of a manpower reservoir with technical and scientific qualifications. The affluence in manpower and foreign exchange enabled the parallel realization of projects in various fields - agriculture, industry, water utilization, housing, mining, education and the economic infrastructure, without planning in detail the allocation of the factors of production. Some decision-makers therefore considered it sufficient, at the initial stages of the development process, to determine broad preference groups, without classifying each project on a detailed preference scale.
  
- i) While a process of professionalization of the civil service has taken place, there are, among policy-makers in the government and other economic organizations, many persons with pioneering background, who reached their present positions due to their achievements in the practical economic and political activities. Many of them having limited academic background, lack the experience of abstract thinking. It is only natural for people with such a background that their attitude towards the analytical and academic originated techniques for decision-making and their applicability to policy-implementation, would be sceptical. Moreover, many of them remember their encounters and arguments in the pre-statehood days with the British Mandate economists, who applied economic reasoning in order to prove their hostile

policy - especially regarding the economic capacity of Palestine to absorb immigration. Also, Israeli economists have often appeared as conservative and sceptic critics of the country's pace of development. The fact that many development projects succeeded, in spite of pessimistic predictions of economists, reinforced the tendency among these policy-makers to regard economists as theoreticians detached from reality, whose ideas should be considered with doubt and suspicion.

## B. THE PLANNING OF FACETS AND PHYSICAL PLANNING

Facet planning in Israel is both a basis for and competes with central planning. This competition is not only on budgets and manpower, but also on the place of seniority. Facet planning enjoys the backing of powerful government ministries and departments and the support of some bodies in the private sector. It is interconnected with the implementation activities, and has gained an independent standing which its sponsors prefer not to share with the E.P.A.

The idea of planning was already prevalent before statehood, but the establishment of planning centres began only at a later period. Even today facet planning is not on a uniform level, and coordination between plans in different facets is still wanting.

We cannot in this paper review all facets in which planning takes place. We shall only mention planning activities that were carried out in the building industry, in transportation and telecommunication. There is a "Manpower Planning Authority" in the Ministry of Labour. Long-range statistical planning is carried out by the Central Bureau of Statistics, etc. etc.

We shall review, in some detail, only planning in some of the most important sectors:

### 1. The Planning of Agriculture and Water Utilization

There should be no doubt regarding the connection between planning activities and the great achievement in the field of agricultural production, for the local demand and for exports. Today Israel is about 90 percent self-sufficient in food products, and agricultural exports increased in the last ten years in a yearly average rate of 10 percent.

Agricultural planning existed already in the pre-statehood period and was carried out by the Jewish Agency.\* At that time it was mainly in the nature of physical planning, and aimed to determine the location, scale and type of the settlement, and the products to be produced. However, the decisive considerations at planning were political, strategic or ideological. The economic considerations of supplying the demand for agricultural products came in second or third places only.

Great importance was attached, in this stage, to the occupational reshuffling of the newcomers and their transformation into professional farmers. Farmers were to become the basis of a new occupational pyramid (as against the upside-down pyramid, which was typical of the Jewish population in the Diaspora, where the basis consisted of traders and people of the free professions). Special attention was given to the creation of co-operative settlements of various kinds. The latter enabled the settlers to realize their social egalitarian aspirations, answered the security problems and eased the process of overcoming the economic and social difficulties of pioneering life.

Only after the establishment of the State and the mass immigration following it, the need of an economic approach to agricultural production became more acute. From then on agricultural planning adopted the goals of ensuring the supply of domestic demand and of increasing exports. With the increased agricultural production, the necessity of planning got further emphasis, due to appearance of surpluses. Agricultural planning reached an efficient and sophisticated level, both in planning and in its implementation, utilizing agricultural and economic know-how, and using modern analyzing techniques and computers.

In recent years Israel established an extended system of technical aid in the field of agriculture, sharing its experience with several developing countries in Asia, Africa and Latin America.

Planning and control on the execution in agriculture is done by the "Centre of Agricultural Planning" which is located

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\*The Jewish Agency is an instrument of World Jewry to assist in the absorption of new immigrants in Israel.

in the Ministry of Agriculture. Its plans are discussed and approved by the "Planning Board", which is headed by the Minister of Agriculture, and in which the government, the Jewish Agency and the organizations of the settlers are represented. Marketing boards, managed by the Ministry of Agriculture and the settlers' organizations, control production and carry out the price and subsidizing policy. A special governmental company is in charge of all agricultural exports, except the export of citrus fruit, the main agricultural export product, which is managed by a special Marketing Board.

The planners use economic, administrative and legal means to achieve compliance with the plan, like allocation of land and of water quotas, fixing of production schedules for some products, financing of investment and turnover capital, fixing minimum prices and giving subsidies to products, to production factors and to exports.

There are a number of reasons which may explain the success of planning and its implementation in this sector. Because of historical and ideological reasons, agriculture was the first sector to receive massive public support, in the form of investment funds and picked manpower. Many of the farmers are ideologically inspired to devote themselves to agricultural work. There is a nucleus of highly educated men who are well prepared for experimentation under scientific guidance. The pioneering spirit of the founding generation, and the complete lack of any binding tradition in agricultural work, made them and their followers to be open to changes and to the adoption of innovations. The universities and research centres provided the necessary know-how and skilled manpower for research and a superb instruction service. High protective customs enabled agriculture to develop without having to face a considerable foreign competition.

The semi-arid conditions of Israel forced a considerable amount of effort to be directed to the planning of water utilization. This has gone through the stages of local and regional planning up to a national master plan for utilizing all water resources. The National Water Carrier, which carries water from the sources of the Jordan River in the north to the arid south, is the climax of activities in this field. The planning is done by government company "Tahal". The carrying out of the

plans is done by another government company - "Mekoroth". The use of water is controlled by the Water Controller of the Ministry of Agriculture. One should also mention here, that several experiments of water desalination, according to locally invented processes, are taking place. A plan for water desalination using atomic energy is also under study.

## 2. Planning in Industry

A first attempt to consider the industry problems on a basis of long-term planning was made in 1957. In 1958, a department for planning was established in the Ministry of Commerce & Industry, and in 1960 it published its first five-year plan for 1960-1965. A second plan was published in 1964, for the 1965-1970 period.

However, actual development far exceeded the plans. In comparing the plans and their realizations, close correlation is found when comparing the aggregate figures for the whole industry. But descending to sub-industries and specific products, the correlation between plans and reality is much lower. This may be due to the fact that while the development of agriculture was very much a result of detailed planning, industry developed, owing to free enterprise and play of market factors.

At the beginning, planners attempted to prepare specific investment projects to be proposed to investors. This system had very little success, since few investors were interested in projects prepared by government officials. In the second stage, planners concentrated on analyzing economic feasibility of various industries, in order to recommend several of them as "preferred industries", i.e. ones which may be expected to compete successfully both in domestic and foreign markets, at a reasonable exchange rate, and without need for a prolonged protection by high custom barriers. The preferred industries were to be based mainly on utilization of know-how and the highly trained manpower, in which Israel has a comparative advantage, rather than on the utilization of natural resources, which Israel lacks. New industries are aimed at being export-oriented, as the domestic market for industrial products is fast approaching its saturation point.

In due course, the prevailing view considered government's task to be in preparing the basic conditions for the development

of industry. This was to be done by constructing the infrastructure, and by creating the administrative and economic conditions which will assure the profitability of investments in industry, while leaving the task of investment itself mainly to the domestic or foreign private investors.

The criteria according to which investments were given the status of "authorized investments", which enjoyed several advantages, are: a) investments in export-oriented or import-substituting industries; b) investments in development areas. In order to encourage these investments, a "Law for the Encouragement of Capital Investment" was legislated. To an "authorized investment," this law promises cash grants up to 33 percent of the investment in machinery and equipment; alleviation in direct and indirect taxes; and assures foreign investors of the right to convert and repatriate their profits and capital. Authorized investors are also eligible for long-term credits - up to 60 percent of total investment - at favourable conditions. The total of grants and loans may add up to a maximum of 80 percent of the total investment.

An "Investment Centre" managed jointly by the Ministry of Finance and the Ministry of Commerce & Industry, was established for the implementation of this law. The contacts with potential foreign investors are made through the "Investment Authority" whose representatives are seated in the main business centres of Europe and America. These two bodies are about to be merged soon.

Investments in infrastructure, in public services, or in fields to which the private capital is not attracted due to political or economic risks, geographical distances or the enormous capital outlay requirements, are undertaken by the government either directly, or through government-owned companies.

### 3. The Policy of Population Dispersion

The dispersion of population, from the dense centres to development areas, received specific attention almost in all development plans. This policy is designed to achieve political and defence goals, although their economic price may be higher than their economic benefits. The major means of its implementation was the direction of the new immigrants to

development areas, by offering them preferred housing conditions and immediate government-sponsored employment. However, lack of permanent employment and a lower standard of social, educational and cultural services, create a negative internal emigration balance. It is only due to the direction of immigrants that development areas increased their weight in total population, from 21 percent in 1958 to 31 percent in 1966.

In order to create new jobs, investors in the development areas are offered special concessions, such as allocation of land at convenient terms, supply of industrial buildings and the necessary infrastructure, cash grants, tax-exemptions, credit, etc. At present, about 23 percent of total industrial capital stock is concentrated in these areas, as against only a few percent in the '50s. 55 percent of the number of approved investments since 1962 have taken place there. In 1966, 75 percent of the amount of authorized investments was in development areas. Government also supports the building of sport and cultural centres and subsidizes cultural performances there. The allocation of funds from the government to local authorities per inhabitant, is five times as large as that in the populated areas. However, due to smaller local taxation possibilities and higher overhead per capita expenditure, the service level is still lower than in the central areas. The lack of professional manpower, especially physicians, aggravates further the situation.

## C. THE GOVERNMENT BUDGET AND DEVELOPMENT PROJECTS

### 1. The Treasury and its position

The question as to who should be in charge of controlling, coordinating and implementing development plans, is still under discussion in Israel. The solution will not be decided upon by theoretical considerations, but rather by the actual concentration of power. The rapid development process, which began long before the establishment of the E.P.A., demanded only a relatively small amount of planning and control, which was carried out in several economic ministries. The overall coordination of plans was done by the Treasury, through its Budgeting Department. It seems that, in the near future, the Treasury will remain the key factor in converting plans into

programmes for action.

In the last ten years the government Budget amounted to 29 percent of the total resources of the economy, and in 1967 it reached 28 percent. As the government Budget activates additional public and private budgets, its overall impact on the economy is even larger.

It is in the financing of capital formation that the weight of government is most important. In 1957-1966 the development budget financed 31 percent of total gross investments, varying from 46 percent in agriculture and water utilization, 45 percent in transport, 34 percent in resident housing, to 26 percent in industry. The share of government-owned companies in capital formation (not included in the above-mentioned figures) was 17 percent in the period 1959-1966.

## 2. The Budgets Department and long-term planning

During the last several years a five-year plan of public consumption is prepared by this department, and is revised every year. In coordination with the Budgets department, specific plans are prepared in various governmental departments, especially regarding investments in infrastructure and in public services.

Budgeting plays an important role in the introduction of systematic and rational thinking into the process of decision-making in government departments. Ministries are required to submit their proposals for budgets, specifying detailed aims, examining alternative ways of achieving them and enumerating the long-term effects of proposed expenditures. Recently, the Budgets department, together with the inter-ministerial efficiency committee, initiated the introduction of staff units for budgeting and system analysis in various economic ministries. Special courses, at university level, were organized to acquaint leading civil servants with modern techniques of budgeting and system analysis. Some successful attempts were made by several economic ministries to prepare long-term master plans according to system-analysis techniques, like plans for development of towns, ports and the road system. The importance of these plans is in directing the various factors to long-term planning, way of thinking, while ensuring beforehand the coordination between planning and its implementation.

Most of government expenditure is directed to achieve

social goals, while economic considerations come second. In the last ten years, 80 percent of this expenditure was directed to public services, and agriculture/ and to residence housing. Only after these came transport and communications, and industry, the share of which decreased consistently. This policy reflects the recent governmental views that direct activity in industry should be left to private entrepreneurs, while government's responsibility is to take care of investments in the necessary infrastructure and to ensure a favourable economic atmosphere for investments.

### 3. The National Budget

An annual National Budget is prepared jointly by the Research Department of the Bank of Israel (the central bank), <sup>the</sup> E.P.A. and the office of the Economic Adviser in the Ministry of Finance.

Its forecasts are designed to provide an annual translation of long-range plans. The first draft of the National Budget is submitted to the Minister of Finance in August, and serves as a working paper for determining government expenditure and the economic policy for the forthcoming year. Its final version is submitted to the Parliament together with the government budget in December.

The Budget's forecasts are not based on existing trends alone, but attempt to evaluate the effects of government policies on the economy, under the assumption that the government activity will be carried out in full, to achieve the desired effects. Generally speaking, these forecasts did realize, though more by pointing out the general direction of the economic development rather than its exact magnitude. The incomplete execution of various government policies, and the intervention of unexpected exogenous factors, are usually the causes for deviations of real developments from forecasts.

Until the preparation of long-term plans by the E.P.A., several five-year forecasts were prepared in the Treasury. These forecasts supplied the macro-economic estimates required for the formulation of long-term economic policies and for facet and project planning.

## SUMMARY

In conclusion, it may be said that although planning did not keep pace with economic development, it is well established in economic thought and practice in Israel today. So far, planning in Israel meant in first place facet and project planning. The extent of planning was determined by the specific conditions and the stage of development in each facet. Coordination among the different partial plans is still wanting.

Up till now, coordination was done mainly through the budgets department of the Treasury. The E.P.A. is still in the stage of crystallization. It is difficult to foresee if the strength it might accumulate in the future, will be sufficient to establish it, not only in an advisory capacity, but also enable it to acquire a standing in implementation of overall economic planning.

The delay in introducing central planning may be explained by the pressure of day-to-day problems, and by the doubts of some policy-makers regarding long-range central planning - especially in the face of uncertainty in some important external factors, such as immigration, capital import and the security situation. However, it seems that today, more than in the past, the necessity of introducing comprehensive central planning is becoming more and more recognized. The complexity of goals facing the Israeli society and economy, the increased necessity to weigh the economic advantages of new projects, the growing links with foreign factors in all aspects of economic activity, and the increased complexity of modern technical and administrative processes - all call for more coordination between various development projects through planning.

Finally, let us express some doubts bothering many who have to do with planning. It is a fact that Israel has developed significantly without central planning; and it is still unclear whether the lack of planning was an inhibitive factor, or was it the opposite. A developing country seldom has enough professional manpower to operate both central and facet planning. In its first stages of development, it usually lacks the necessary information for overall planning. The desired general targets are, in a way, self-evident, and the level of sophistication needed is relatively low. Institutional

opposition is usually smaller towards facet-planning. Often this kind of planning can contribute more to the solution of urgent problems. Therefore, it might be preferable to attach more attention towards facet-planning, in the initial stages of development. It seems, therefore, that "planning of the planning" and the allocation of planning resources, should be the first steps to be undertaken.

There should be no illusions as regards the advantages and shortcomings of planning. There is no contradiction between planning and development; however, the exact nature of the interdependence between the two has not yet been proven. Planning is only one of the instruments for advancing the process of development, but cannot, on its own, assure its achievement. Therefore, we have to beware that planning should not come instead of development activities themselves. Development without planning is still preferable to planning without implementation.



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PLAN IMPLEMENTATION IN ~~INDONESIA~~ PAKISTAN

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the organization with which he is associated.



The purpose of this paper is to attempt a brief survey of Pakistan's implementation of her development plans. Plan implementation as a subject is so vast that all the details cannot be covered in as short a paper as this. For this reason we shall concern ourselves only with the most significant aspects of implementation by limiting our discussions to a few major areas. Relevant data for the purpose of our discussion were collected from various Planning Commission documents, publications and internal research work and various office Memoranda of the Planning Department of the Government of East Pakistan.

2. Pakistan faced innumerable social and economic problems immediately after obtaining political freedom<sup>1</sup> in August 1947. The areas now included in Pakistan were formerly under the British who did not follow a policy of balanced economic development for the Indo-Pak sub-continent; in fact, these areas served merely as hinterlands for the great economic centres now situated in India. Roads, railways, agriculture, industry, education, port facilities etc., were probably the most backward in these areas. To add to this, after partition, Pakistan faced serious problems of disruption of normal trade and commerce, absence of economic commercial and financial institutions, a big refugee problem along with other unsettled issues in the economic, political and defence fields. However, the new nation made a determined effort<sup>2</sup> for achieving economic progress by overcoming these difficulties in an exceptionally short period.

3. A Development Board was established and undertook its task in 1948 to formulate a realistic framework of policies to achieve economic growth and as a result a six-year development programme was launched in 1950 with the assistance of the Colombo Plan. This programme envisaged an expenditure of Rs. 2,600 million with a foreign exchange component of Rs. 1,400 million.

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1. Newman, K.J. "The Dyarchic Pattern of Government and Pakistan's Problems", Political Science Quarterly (New York) V9175, No I March 1960. pp 94-108.
  2. "Pakistan's Progress", Far Eastern Economic Review (Hongkong), Vol 28, No.23, June 9, 1960, pp 1161-1220 (special issue on Pakistan).

An Economic Council under the Chairmanship of the Prime Minister was made responsible for the implementation of the six-year development programme. Unfortunately, implementation policies could not be effective due to non-availability of capital goods as a result of the Korean war. To tackle the situation a two-year development programme was launched as an emergency measure in 1951 with a heavy bias towards rapid industrialisation. Later, a Planning Board was established in 1953 which drafted the First Five Year Plan (1955-60). The First Five Year Plan was launched in 1955 and experience gathered in implementing this plan was later used for " the formulation of schemes and projects, initiation and execution of plans, resource estimation and projecting, budget and plan co-ordination, exhibition of development items of the budget in accordance with an agreed concept of development expenditures and streamlining and sanctioning procedures" to formulate and implement the Second Five Year Plan (1960-65) and the Third Five Year plan (1965-70).

4. The First Five Year Plan was implemented with considerable difficulty due to lack of an infra-structure, political instability<sup>4</sup>, inadequate mobilisation of resources, and absence of a dynamic private sector. There was an overall short fall of 30% in the investment target and the national income rose by 13% as against 15% proposed in the plan in the face 12% increase in population.

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3. Khan Aftab Ahmed. "Planning Organisation of the Government Structure in Pakistan" - paper read in conference on Development Planning organised by CENIO in Tehran in May 1962 page 31.

4. Callard, Keith, Political Forces in Pakistan, 1947-1959, New York, Institute of Pacific Relations, 1959.

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Real implementation started in 1958 after the October Revolution. The plan, after 1958, witnessed a rapid increase in the production of consumer goods and created the necessary infra-structure which later helped the implementation of the 2nd Five Year Plan. The reasons for 13% short-fall in implementation was analysed by Albert Waterston<sup>5</sup> as bad weather, unfavourable terms of trade, decrease in export earnings, increase in implementation cost due to rise in world prices, slower rate of commitment of external aid and "injudicious and often incompetent utilisation of external and internal resources and non-observance of the discipline of the Plan"<sup>6</sup>. These difficulties are of course normally experienced by any country in implementing her first plan. But inspite of these unmistakable progress was achieved in industry, power and agriculture. By far the most important achievement was that the first plan created the necessary climate for economic growth in a developing country like Pakistan and served as an instrument for "diagnosing administrative, organisational and other problems and testing alternative solutions"<sup>7</sup>.

5. The Second Five Year Plan (1960-65) was formulated with the experience in implementing the First Five Year Plan and became more realistic so that in 1965 it was hailed for achieving a high rate of economic growth and thus becoming a remarkable success<sup>8</sup>. By implementing this plan Pakistan increased her national income by 30% compared to the plan target of 24%. Investment level rose to above 18% of the GNP and export earnings increased at the rate of 7% as against 3% proposed in the plan. Development expenditure exceeded plan targets of Rs.23,000 million by 25%. Industrial production increased by 15% per annum and for the first time agricultural growth exceeded the population growth in the country. The overall economic growth was more than 5% as may be seen from the table below :

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5. Waterston, Albert, Planning in Pakistan, the Economic Development Institute, International Bank for Reconstruction and Development, chapter 4.

6. Planning Commission. Objectives of the 2nd Five Year Plan, page 2.

7. Waterston, Albert. Planning in Pakistan, page 71.

8. Report of the Conference of Economists to discuss the Third Five Year Plan. Organised by the Harvard University, Boston, USA, March 21-31, 1965.

**TABLE I****GROWTH TRENDS DURING THE SECOND PLAN PERIOD**

(Annual percentage increase over the previous year : 1959-60 prices)

Year	All Pakistan	East Pakistan	West Pakistan
1960-61	4.8	5.8	3.9
61-62	5.5	6.2	5.0
62-63	3.5	0.1	6.6
63-64	7.9	11.0	5.1
64-65	4.8	3.0	6.4
1960-65 (average pound rate)	5.3	5.3	5.3

Source: Government of Pakistan, Planning Commission.  
The Evaluation Report on the Second Five Year Plan  
(Karachi, 1960).

6. The Second Plan, therefore, was implemented with resounding success and so emboldened the Pakistani planners that the 3rd Plan was formulated with high optimism and looked forward to economic development over the next 20 years forecasting the rates of growth to make Pakistan self-sufficient in all respects as may be seen from table 2 below:

**TABLE 2**  
**ANNUAL RATES OF GROWTH (1950-85)**  
**(1959-60 Prices)**

	1950-60	1960-65	1965-70	1970-85
	(actual)	(actual)	Planned	Projected
<b>1. Gross National Product</b>				
All Pakistan	2.5	5.3	6.5	7.5
East Pakistan	1.9	5.3	7.0	8.3
West Pakistan	3.1	5.3	6.0	6.5
<b>2. Per capita income</b>	0.2	2.6	3.9	4.8
<b>3. Sectoral growth rates</b>				
Agriculture	1.3	3.4	5.0	5.8
Manufacturing	7.4	8.8	10.0	10.3
Services	3.5	6.9	7.2	7.9

Source: Government of Pakistan, Planning Commission,  
The Third Five Year Plan, (Karachi, 1966).

7. The ability to attain these rates of growth will essentially depend on the character and degree of implementation of the 3rd Five Year Plan and the subsequent plans. The economy, however, is ready<sup>9</sup> to translate these high hopes into physical realities. Pakistani planners believe that a strong economy is the essential pre-condition of successful implementation. The economy of Pakistan is today much stronger than before. There is a firmness in the growth of the GNP as it includes a much larger contribution of the non-agricultural sectors. The administration is able to mobilise additional resources internally as is evident from the fact that the Second Plan was implemented with 32% aid component as against 50% proposed in the plan. The economy has also shown proper resilience by being able to absorb the strains put by the war in 1965 and the postponement of aid commitments in the same year.

8. Implementation of the 2nd Plan in the Government financed sector was 95% and exceeded plan targets in water and power, transport and communication and health sectors. The implementation in other sectors was slightly behind but a dynamic private sector came forward in agriculture, manufacturing and mining, education and the housing sectors so that " the plan implemented surpassed in almost all respects as it was formulated originally"<sup>10</sup>. A general idea may be formed by the sectoral distribution of expenditure during the 2nd plan given in table 3 below :

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9. Wilcox, Clair. "Development Planning & Programming in Pakistan in Economic Development Planning Hagen, Everett, ed 1963.

10. Mr. Said Hasan, SQA., Deputy Chairman, Planning Commission, Final Evaluation of the Second Five Year Plan (1960-65) December 1966.

**TABLE 3**  
**SECTORAL DISTRIBUTION OF THE DEVELOPMENT**  
**EXPENDITURE IN THE GOVERNMENT FINANCED SECTOR.**

(Rs. Million)

Sector	Plan Allocation.	Estimated expenditure (1960-65)	Percentage implementation
Agriculture	2,515	1,856	74
Manufacturing and Mining	1,910	1,627	85
Water and Power	4,140	4,341	105
Transport & Communication	2,725	3,072	113
Physical Planning & Housing	1,885	1,666	88
Education and Training	955	913	96
Health and Medical Services	370	400	108
Social Welfare Services and Manpower and Employment.	120	75	63
<b>Total</b>	<b>14,620</b>	<b>13,950</b>	<b>95</b>

The short-fall in some sectors in table 3 was made up by the private sectors whose development expenditures far exceeded the targets as may also be seen in table 4 below:

**DEVELOPMENT EXPENDITURE IN THE PRIVATE**  
**SECTOR DURING THE SECOND PLAN**

(Rs. million)

Sector.	Second plan target.	Actual estimated expenditure
Agriculture	905	3,400
Water and Power	250	
Industries and Commerce	3,660	5,300
Fuels and Minerals	550	550
Transport and Communications	1,325	1,600
Physical Planning and Housing	1,525	2,510
Education and Training	100	150
Health and Medical services	65	80
Social Welfare Services		
<b>Total:</b>	<b>8380</b>	<b>13,590</b>

9. Implementation experiences have revealed that major factors affecting implementation are the requirements of correct and bold decisions in key policy matters<sup>11</sup> and institutional reforms<sup>12</sup> organised by the executing authorities of the Provincial and Central Governments under the watchful eye of President Ayub Khan who said in Friends Not Masters "My task, as I saw it, was to set up institutions which should enable the people of Pakistan to develop their material, moral and intellectual resources and capacities to the maximum extent". Most important of these were the creation of the National Economic Council in 1962 as the supreme body to take economic policy decisions, the EC/NEC in 1963 for supervision of correct project preparation, allocation of resources and recommendations of policies and the establishment of the Economic Co-ordination Committee of the Cabinet in 1965 for consideration of urgent economic problems and co-ordination of economic policies. Planning Cells were established in different Departments and Ministries of the Provincial and Central Governments for co-ordinating development programmes. The Planning organisations were strengthened by recruiting adequate qualified staff with an additional Chief Secretary in each province as the Chief Executive and Co-ordinator and of development activities within the province. Mass participation was considered essential for success of development plans and therefore the Basic Democracies were organised to formulate and implement development programmes of local significance. Necessary autonomous bodies<sup>13</sup> were also established to implement, with vigor and dynamism, development projects in relevant sectors. Accounting procedures were improved to ensure speedy disposal and a revised system of financial control and budgeting through the Annual Development Programme incorporating the annual phasing of the development plan was introduced.

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11. Galbraith, J.K. - Comments on Pakistan's Second Plan (mimeographed).
  12. Newman, K.J. - "Pakistan's Preventive Autocracy and the Causes", Pacific Affairs (New York) Vol.32, No.1 pp 18-33.
  13. Prakash, OM. "Industrial Development Corporations in India and Pakistan", The Economic Journal (London) Vol.67, No.265 pp 40-48.

Full use of the technical assistance programmes of advanced countries were made along with establishment of advanced institutes of public administration and rural development in both the wings of Pakistan to raise the level of technical skill and public administration. These organisational and institutional reforms have significantly helped to increase the absorbing and implementing capacity of the country.

10. Implementation of the 3rd plan became complicated due to the problems created by the Indo-Pak war, postponement of consortium meeting in 1965, slowing down of foreign aid and an un-precedented spell of bad weather. These led to the disruption of the time schedule for realising the annual targets making it necessary to re-examine<sup>14</sup> the development plan and fit it into a realistic implementation plan. Pakistani planners found that implementation would be possible by mobilising additional resources internally, changing sectoral priorities and annual phasing of the expenditure thus narrowing down the gaps between gross and net allocations. Revised outlay of the plan was accordingly made and is given below in Table 5.

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14. Planning Commission - Evaluation of the First year of the Third Five Year Plan, May 1967.

.../...

**TABLE 5**

**Revised Regional Outlay of the Third Plan**

(Million Rupees)

Field of Development	Govt. financed sector			Privately financed Sector			Total Govt. financed & privately financed sector
	East Pakistan	West Pakistan	Total	East Pakistan	West Pakistan	Total	
1.	2.	3.	4.	5.	6.	7.	8.
1. Agriculture	2,299	1,816	4,115	2,100	1,900	4,000	8,115
2. Water & Power	3,660	4,387	8,047	100	550	650	8,697
3. Industry	2,432	1,081	3,513	3,800	4,500	8,300	11,813
4. Fuels and Minerals	325	267	592	300	450	750	1,342
5. Transport and Communications.	3,280	3,431	7,711	2,100	1,800	3,900	10,611
6. Physical Planning and Housing.	1,364	1,113	2,477	2,350	1,650	4,000	6,477
7. Education	1,308	1,066	2,374	200	100	300	2,674
8. Health	631	544	1,175	20	20	40	1,215
9. Social Welfare	50	40	90	20	20	40	130
10. Manpower	51	35	86	10	10	20	106
11. Works Programme	1,200	620	1,820	-	-	-	1,820
<b>Total (Gross)</b>	<b>16,600</b>	<b>14,400</b>	<b>31,000</b>	<b>11,000</b>	<b>11,000</b>	<b>22,000</b>	<b>53,000</b>
<b>Less expected shortfall.</b>	<b>-</b>	<b>-</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,000</b>
<b>Total (Net)</b>	<b>-</b>	<b>-</b>	<b>30,000</b>	<b>11,000</b>	<b>11,000</b>	<b>22,000</b>	<b>52,000</b>

.../...

11. The Conference of Asian Economic Planners in Bangkok<sup>15</sup> laid great emphasis to the need of Annual Planning as an instrument of Plan Implementation. In the third year of the Third Five Year Plan Pakistan became aware of the great role that Annual Plan can play in implementation of Development Programmes by introducing "planning flexibility, adaptation of the implementation programme to the changed circumstances, policy co-ordination and project evaluation". Pakistan now is formulating the Annual Plan for 68-69 to bring out the inter-relation between different sectors of activities, both public and private, and to consider the impact of Annual Development Programmes to pin point crucial areas of decision. The Provincial Planning Departments are now making searching analysis to assess the role of the Annual Development Programme as a consumer of domestic and foreign inputs, its capacity to generate real income and stimulate present and potential demands for enlarging product activities of the private sector. Pakistan thus is trying to solve the problem of co-ordination between the public and private sectors and stop their working at cross purposes. A suitable annual planning technique incorporating annual development programme in close co-ordination with the budgeting activities as an instrument of plan implementation is thus in the process of being evolved in Pakistan.

12. We have indicated earlier that the Third Five Year Plan had to be revised due to circumstances beyond Pakistan's control. One important decision during the revision was to mobilise more resources internally for financing quick yielding programmes according to revised priorities by intensive use of available facilities. Policies similar to this are considered to be essential for successful plan implementation. The Annual plan will include flexible policies for directing larger flow of resources to the investment channels, optimum allocation of resources for the set priorities, ensure necessary price stability and manipulation of market forces to avoid unfavourable situations as pointed out by Prof. Gadgill "where planning proceeds without a policy frame"

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15. Major obstacles in plan implementation. ECAFE Conference of Asian.

work<sup>16</sup>. The Annual Plan will thus allocate resources for implementing projects according to the revised plan strategies which are<sup>17</sup>

"(a) Attainment of self-sufficiency in food by 69-70 (b) emphasis on quick yielding projects (c) quick completion of ongoing projects (d) higher exports".

13. From what has been said so far, we find that Pakistan is trying to evolve a successful system in which means and policies of implementation can be systematised and co-ordinated. How far the attempts will be successful can be judged only by developments in the near future. We shall now discuss some major issues in implementation which Pakistan is trying to resolve.

14. A major problem is the need for preparation of correct estimates for areas where proper statistics is lacking. Estimates on private investment, foreign exchange component of projects, income distribution and domestic saving are usually not exactly reliable. Because of this it is sometime difficult to recommend proper policies to combat a specific problem. It is, therefore, possible that private investment may not be forthcoming, at the desired rate, specially in East Pakistan, to fulfil the plan targets unless proper policies based on correct knowledge are framed to induce the Investors. Lack of fuller knowledge of foreign exchange requirement sometime distorts the projection of domestic saving or foreign assistance needed for executing development projects. This problem is being tackled by strengthening the Research organisations and development of meaningful Statistics.

15. Balanced implementation according to set priorities sometime is not achieved inspite of the best efforts of the implementing authorities. Sectoral implementation sometimes become distorted due to unforeseen circumstances as happened during the last three years in Pakistan. Assuming the present situation to continue progress of implementation of the Third Plan in East Pakistan may be expected

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16. Gadwill, DH. Economic and political weekly, Feb. 1967 page 253-264.

17. Plan performance, Sector review and current economic situation paper prepared by the Planning Deptt. Jan. 22, 1968 page 1.

to be as in the following Table compiled by Dr. Petkovic<sup>18</sup>.

**TABLE 6**  
**FINANCIAL PROGRESS IN THE IMPLEMENTATION OF THE**  
**THIRD PLAN IN EAST PAKISTAN**

Sector	Revised allocation of Third Plan	% upto 30.6.68	Implementation	
			Forecast for 2(1) subsequent years.	TOTAL
1. Water	1960.0	47.8	37.2	85.0
2. Power	1550.0	60.2	43.6	103.8
3. Agriculture	2121.4	36.9	50.6	87.5
4. Industry	2414.4	40.8	50.3	91.1
5. Transport and Communication	2261.3	35.4	49.9	85.3
6. Physical Planning & Housing	1008.4	38.9	42.7	80.9
7. Education and Training.	1238.2	36.0	52.3	88.2
8. Health	561.6	45.7	43.3	89.0
9. Social Welfare	40.0	28.0	25.3	53.3
10. Manpower & Employment	46.0	36.5	34.7	71.2
11. Works Programme	1200.0	32.9	NA	(32.9)
<b>TOTAL:</b>	<b>14401.3</b>	<b>41.3</b>	<b>( 42.8)</b>	<b>(84.1)</b>

(1) For the years 1968.69 and 1969/70 only the schemes started up to 30.6.68; in brackets incomplete figures.

18. Miodrag Petkovic, general economist, UNDP Economic programming and projection project - a paper on public development expenditure in East Pakistan 1965/66-1966/70 progress in financial implementation.

.../...

16. It may be seen that the average implementation is expected to be 84.1 percent. Even though this will be a great achievement in absolute terms, the Government is trying to devise proper policies to fulfil the targets in the public sector and inducing the private sector to participate in the implementation efforts as in the 2nd Plan. Conscious reliance on the market forces, reduction of direct control of foreign exchange, a system of tax incentive and bonuses, selective import liberalisation etc., perhaps will be undertaken to induce large private investment to bring in increased inputs and irrigation facilities in agriculture and to produce more inputs necessary for the Food Self-sufficiency Programme, utilisation of indigenous raw materials, better utilisation of existing capacities and additional investment in the case of industry. Besides a progressively greater role will be played by the Basic Democracies to continue mass participation in the development efforts of the country by not only building local infra-structure but also participating in productive activities like Thana Irrigation programme and sale and distribution of fertilizer and other agricultural inputs.

17. In selected fields, project execution also has not been very satisfactory as due care was not taken by the sponsoring agencies to prepare the projects which occasionally were wrongly conceived abinitio or conceived on assumptions which later proved to be wrong. In certain cases, cost of execution increased excessively due to general rise in prices both at home and abroad, difficulty in procurement of materials or shipping due to the Vietnam War and the blocking of Suez canal, adverse terms of foreign aid, ill-disciplined enthusiasm of sponsoring agencies to show favourable benefit-cost ratio as well as the use of bad design or technology. In such cases the net result was that it reduced "Project formulation and Planning to a state of mockery"<sup>19</sup>.

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19. Haq, Mahbubul. The Strategy of Economic Planning, Oxford University Press, 1963. P 193.

Some illustration on cost increases are given below :

TABLE 7

(Million Rupees)

Project	Original cost	Final cost	Percentage Increase
Ganges-Kobadak(Kushtia Unit)	20	198	890
Kurram Garhi Multipurpose project.	10	76	660
Teesta Barrage Project.	99	405	309
Karnaphuli Multipurpose Project.	254	489	93

Source: The Strategy of Economic Planning by Mahbubul Haq - P 193.

18. The Sponsoring Agencies are devoting serious attention to proper project formulation to tackle such problems. At present all agencies are required to conduct feasibility studies and report to the Government in the prescribed PC-II form. This knowledge is used to prepare the actual scheme by the sponsoring agencies in the prescribed PC-I form which later is examined by the Planning Cell of the controlling Department. The scheme then comes to Planning Department after clearance from the Planning cell where it is submitted to exhaustive scrutiny by the officers of the Planning Department who, if satisfied with the preparation of the project, submits it to Provincial Planning Authority for approval. The provincial Planning Authority may approve the project finally if the cost is less than Rs.50.00 lacs and the recurring cost is less than Rs. 5 lacs otherwise the project is forwarded to Central Development Working Party who make their own appraisal and recommend the project for approval of the Economic Committee of the National Economic Council. The execution of the project can start only after the approval of the Economic Committee of National Economic Council or in special cases with the special permission of the Chairman, ECNEC.

19. The Planning organisations have been directed to keep a large portfolio of approved projects for execution as soon as finance becomes available.

This large portfolio of the project offsets the disadvantage of delay caused for processing a project for final approval and also enables the sponsoring agencies to select projects according to higher opportunity cost. Planning groups have been organised for different sectors in the Planning Department of the Provinces to co-ordinate inter-departmental Planning and sponsoring of projects. High powered Standing Committees also have been established for co-ordinating activities of the public and private sectors.

20. Irregular offers of pledged external assistance greatly affect timely implementation of development programmes. We have earlier referred to the postponement of the pledging session of the Consortium in 1965 as a major factor which forced the revision of the Third Plan. As a result of this revision the relative ratio of the foreign and domestic financing was brought down to 53%<sup>20</sup> of the Plan expenditure and even then the estimated actuals of foreign aid were much less during the first crucial year of the 3rd Plan as may be seen from the following table:

**TABLE 8**  
**FINANCING OF DEVELOPMENT EXPENDITURE 1965/66**

	(Million Rupees)	
	Revised Estimates.	Estimated Actuals
<b>A. Domestic Resources†</b>		
Revenue Surplus	782	29
Net Capital receipts	630	433
Bank borrowing	210	1364
Sub-total(A)	1622	1768
<b>B. Foreign Resources:</b>		
Project and Technical Assistance	800	781
Non-project assistance	800	554
PI-480	200	100
Sub-total(B)	1800	1435
Total Resources(A+B)	3422	3203
Domestic resources as a percentage of total:	47	55
Foreign resources as a percentage of total:	53	45

20. Planning Commission: Evaluation of the First Year of the Third Plan P. 132.

\* Owing to the sizable shortfall in foreign financing, the domestic resources financed 55 percent of the reduced programme, instead of 47 percent expected earlier.

Source: Planning Commission.

29. Irregular pledges of foreign aid not only slow down inflow of capital goods and spares and thus force the executing authorities and private investors to use up inventories which ultimately result in under-utilisation of capacities, maintenance of a big buffer stock of food grains and a general rise in prices. Again foreign credit offered by the aid giving countries are mostly of tied nature which ultimately tend to distort priorities of the development programme and increase the cost of execution. A study of this aspect was made and a few illustrations of excessive costs incurred by Pakistan due to the tied nature of the credit are given below :

**TABLE 2**

**INSTANCES OF HIGHER PRICES UNDER TIED CREDITS  
IN CASE OF PROJECT ASSISTANCE.**

Sl. No.	Name of the Project.	Lowest quotation from tied source (country)	Lowest quotation in international bidding (country)	Percentage difference between tied sources and international bid
1.	Eastern Chemical Plant	Japan	U.K.	73
2.	Hard Board Industries	Japan	Germany	123
3.	Khulna Rice Mill	Japan	Germany	120
4.	Village Electrification and Power distribution	Italy	Belgium, Germany, Yugoslavia, Japan, Sweden.	63
5.	Table Salt Manufacture Plant	France	Germany, U.K.	74
6.	Baluchistan Collieries	France	Germany, Japan, U.K., Czechoslovakia, Denmark.	87
7.	Nylon Twin Plant	U.S.A.	Germany	61
8.	Karachi Shipyard and Engineering Works.	U.K.	Germany	57

22. This problem is being tackled by Pakistan by a systematic attempt to programme external aid by inviting international bids, introducing flexibility in procurement by using own cash resources and judicious programme of foreign assistance by diversification of both project and non-project assistance. Internationally also the Consortium and non-consortium countries are being persuaded to appreciate the difficulties and offer more soft loans by reducing interest rate, increasing the repayment period, and covering part of the aid by grants.

23. Pakistan has gained considerable experience in formulating and implementing development plans. This experience encompasses factors that have favoured or impeded implementation some of which have been discussed in the foregoing paragraphs. Implementation is a continuous process and no effort for successful implementation will be rewarding unless right actions are taken to do the needful at right places in right time. Repetition of failures, however small, can be avoided only by self-criticism, continuous objective review and remedial actions. The President of Pakistan has strongly defended this attitude as a condition for successful plan implementation:

" If the past has not produced what was hoped for, no good will come from blinking that fact. Better far to find out where the error was and how it can be corrected. Some factors which led to unsatisfactory performance were outside our control; others were well within it. Both must be recognised as such, examined carefully and assessed critically. Self-knowledge remains for the nation, as for the individual, the first step in wisdom"<sup>21</sup>.

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21. Quoted by Alber Waterston from the objectives of the Second Five Year Plan, Pt: Planning Commission.



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PLANNING IN KOREA

by

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This seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations.

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## I. General Background of Korean Economy

Immediately after the World War II, Korea was divided into two parts, southern half being left with predominantly agricultural economy. To make matters worse, most of industrial facilities in the southern half of the peninsula was devastated during the Korean War of 1950-1953.

The development of Korean economy since the conclusion of hostilities can be divided into three main periods, each period featuring its own characteristics.

The period 1954-1957 can be called recovery period from the war damage. During this period, GNP registered an increase of 5.2% per annum, mainly owing to the heavy inflow of foreign aid from the United States. Industrial production increased at a rate of about 19%. However, exports declined at an average rate of 9.4% and this period was characterized by post-war hyperinflation, the rate of price increase averaging nearly 42% per annum.

It was then realized by the Government that severe inflation would adversely affect a steady growth of economy in the long run. The policy makers devoted much of their attention to the stabilization of economy by such means as, for example, Financial Stabilization Program.

Through implementation of policies for economic stabilization, the increase rate of price was held down at a rate

of about 5% per annum during 1958-1961, which we may call a stabilization period. However, the strong enforcement of stabilization program had been somewhat responsible for decline of GNP increase rate from the 5.2% of previous period to 4.3%, and the increase rate of industrial production from 19% to about 10% during the same period.

In order to overcome such stagnant rate of economic growth the Government launched First Five-Year Economic Development Plan (1962-1966).

Korean economy attained 8.3% growth on the average during the First Plan period, far exceeding the original target growth rate of 7.1%. At the same time, the economic structure was also modernized in many respects. For example, in 1961, the agricultural sector was responsible for nearly 44% of that year's GNP, but by 1966 the share had declined to 38%. On the other hand, the proportion of GNP originating in mining and manufacturing sector rose to 20% in 1966 from 15% in 1961. This is an indication that Korea's rapid development during First Five-Year Plan period was mainly based on a rapid industrialization.

Agriculture, forestry, and fishery sector during the same period attained 5.5% real growth on the average while population grew at a rate of 2.7% per annum and thus this

sector has contributed to alleviating food shortages and supplying raw materials to the manufacturing sector.

The production level of mining and manufacturing industries had doubled during the five years. For instance, coal production rose by 2 times, fertilizer production by 2.7 times, cement by 3.6 times, and plywood by 7.9 times. Petroleum production, which did not exist in 1961, reached 2 million kl in 1966.

In social overhead and service sectors, 52% growth was achieved during the five year period. In particular, the installed capacity for power generation and transport services doubled, and communication services were increased by 2.4 times.

Another characteristic of the First Plan was a rapidly expanding volume of external transaction. During this period, commodity exports increased nearly 6.3 times, thereby reaching a level of 250 million dollars in 1966. Moreover, the proportion of manufactured goods in commodity exports had increased to 62% in 1966, as compared with only 22% in 1961. The facts that the investment and production growth in manufacturing sector had been rapid, and that the export structure shifted strongly toward manufacturing goods explains a large part of the rapid growth of exports.

Accompanying this rapid economic growth and trade expansion, the foundation for economic stability has been strengthened. During the earlier years of the First Plan period, the price level rose considerably due to desires for development in excess of the ability to expand capacity, but starting from last half of 1964 the price level began to stabilize, due to strong implementation of a stabilization program which includes long-term as well as short-term price stabilization measures. In 1965, the price level increase slowed down to 10% and in 1966 it slowed even further showing stability.

## II. Formulation of the Second Five-Year Plan

Having been encouraged by such remarkable achievement during the First Five-Year Plan period, the Government of Korea launched the Second Five-Year Plan (1967-1971).

Of course the Second Five-Year Plan was formulated mainly under the responsibility of the Economic Planning Board. But it should be noted that not only the concerned ministries, but also academic and business circles participated actively in the task of formulating the Second Plan.

Contrasting to the formulation of the First Plan, which employed relatively simple technique, due to time limitations, inadequate statistical data and insufficient planning technique, the Second Plan has been developed with more sophisticated methods, using three basic approaches, namely, aggregate, sectoral and project program, and also utilizing improved and expanded statistical data and experience.

### 1. Aggregate Plan

EPB prepared preliminary targets of the plan based on extensive analysis and review of the past national income series. Three models were tested against past time series, and finally one was selected for projection purpose.

### 2. Sectoral Plan

Sectoral plan was developed by means of inter-industry input-output technique. Input-output tables of

both 1960 and 1963 were first converted to 1965 prices and basic materials for sectoral model were projected as follows:

a. Final Demand Projection: Sectoral private consumption was projected on the basis of demand elasticities for all goods and services calculated from the data in the household income survey. Government consumption estimates were based on relative composition of government expenditures. Exports and competitive imports were estimated by the export-import sub-committee, and ad hoc working groups.

b. Estimation of Productive Capacity: Estimates of productive capacity were based on (i) surveys of capacity conducted by KRB and Medium-Industry Bank, and (ii) actual 1965 sectoral outputs divided by the sectoral rates of utilization of capacity which were estimated from the Industry Committee.

c. Estimate and Adjustment of Technical Coefficients: Capital coefficients were estimated on the basis of the industrial profiles. Import coefficients were, adjusted in the light of import substitution effects, price and technological changes.

d. Projection of Output and Investment: Interindustry demand coefficients, in inverse matrix form, were applied to the estimated final demand to project sectoral outputs. Thus, the gap between the present sectoral productive capacity and the projected output could be estimated and by

applying capital coefficients to the deficient capacity, investment requirements were derived.

e. Non-competitive Imports and Employment:

applying import and employment coefficients to output, non-competitive import and employment were projected.

3. Investment Program

Project proposals submitted by concerned ministries and private organizations were reviewed initially by the EPE and were further reviewed by the industrial subcommittees for economic and technical feasibility.

a. Agriculture, Forestry and Fishery Sector:

Agriculture, forestry and fishery subcommittee studied food grains demand and also calculated rate of return on major investment projects.

b. Mining and Manufacturing Sector: The mining and manufacturing project evaluation committee reviewed the project proposals submitted by various ministries and private organizations. Particular attention was devoted to productive capacity, demand and supply, balance of payments, and employment. The proposals were reviewed by the industrial subcommittee in the light of sectoral model projections and the capital-output ratios and intermediate demand-to-output ratios from the industrial profiles.

#### 4. Overall Coordination of the Plan

All the preliminary draft plans thus prepared by EPB and expert committees were referred to the Second Plan Deliberation Joint Meeting and the Second Plan Consultative Council Meeting for review and adjustment. This was done to obtain maximum consensus of concerned ministries and people. At the time of the plan formulation, it was realized that maximum consensus of the concerned ministries and the public was an absolute prerequisite to successful implementation of the Plan.

##### a. The Second Plan Deliberation Joint Meeting:

The joint meeting members were concerned ministers, Economic and Scientific Council members, the Planning Coordinator, and representatives from USOM, and foreign advisory groups.

##### b. The Second Plan Consultative Council Meeting:

This meeting was consist of vice ministers of concerned ministries, vice presidents of important banking institutions, representatives of economic research institutes, academic, journalistic and technical fields.

### III. Main Features of the Second Plan

To expedite further growth of nation's economy and thereby to lay a foundation for attainment of self-supporting economy, following targets were set up for the Second Plan period.

1. The emphasis will be placed on attainment of food self-sufficiency;
2. The basis for accelerated and diversified industrialization will be broadened by promoting such industries as chemicals, machinery, and iron and steel;
3. Further improvements in the balance of payment situation will be made by achieving a 700 million dollar level of exports in 1971;
4. Population increases will be restrained as much as possible by promoting family planning, while at the same time maximum efforts will be made to increase employment;
5. A substantial increase in national income will be realized; and
6. The level of technology and productivity will be raised by the promotion of scientific and management skills and by the improvement of manpower resources.

Total investment requirements during the Second Plan period amount to 980 billion won, of which 377 billion won (1.4 billion dollars) will be financed from overseas sources and 603 billion won from domestic sources. While the share of foreign savings to GNP will be decreasing from 6.6% in 1965 to 5.5% in 1971, that of domestic savings will be increased from 6.1% to 14.4% during the same period. The increase of domestic saving from 47.8 billion won in 1965 to 168.4 billion won in 1971 implies marginal savings ratio of about 30%.

#### IV. Implementation of the Plan

As stated in Korean Plan Document, that "rapid development through appropriate policies and actions, in the absence of a good plan, is preferable to slower development resulting from ineffective implementation of a good plan," it is firmly believed that only effective implementation of the plan can bring about desired results with regard to economic development.

In Korea, the final responsibility for plan implementation and administration rests on EPB, but actual execution of the Plan is primarily the responsibility of appropriate ministries. Since the Minister of EPB concurrently holds the portfolio of Deputy Prime Minister, he is in a better position to coordinate various policy measures among the concerned ministries. However, it should be noted that major policy measures in the field of economic matters are discussed at the Council of Economic Ministers, which is chaired by the Minister of EPB.

An Investment Coordination Committee and Working Committees for Project Development, consisting of representatives of EPB and the appropriate ministries, establishment of which was conceived during the period of plan formulation, are now being realized and contributing towards more effective implementation of the plan.

Annual budget is the most significant single economic instrument for implementation of the medium term plan. Therefore, a budget must be prepared within the framework of economic development plan. However, it is most likely that there might arise a gap between the projected figures in the medium term plan and actual performance of the economy. Formulation of policy measures for effective implementation of the Plan must be also flexible enough to reflect changing economic conditions.

To prepare annual budget within the framework of the Plan and to make it reflect changing economic conditions, the EPB develops each year Overall Resources Budget, reviewing past performance of the economy, setting public and private sector goals, projecting total available resources, determining appropriate investment and consumption magnitude, programming sectoral and project programs, and formulating necessary policy measures to attain annual plan targets.

In the 1967 Overall Resources Budget, estimation of GNP, investment requirements, domestic and foreign savings, etc was made. Needed policy measures for attainment of annual goals were also formulated in the field of public finance, public as well as private investment, foreign trade, price, population and employment.

The Overall Resources Budget is formulated in Korea to harmonize annual budget with development plan. Consequently, the preliminary version of the Overall Resources Budget

must be prepared by the end of February to be able to be used in drafting the budget guidelines, and the final version is prepared by the end of June to be used as guideline in preparing the budget itself, Export-Import Plan, Financial Stabilization Program, etc.



**Development Planning**

**and**

**Plan Implementation**

**in**

**China**

**by**

**Arthur Nathan**



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**DEVELOPMENT PLANNING  
AND  
PLAN IMPLEMENTATION IN GUYANA**

by

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The seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

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Figure 1.	Guyana Coast from Urinoco to the Amazon.
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## INTRODUCTION

The purpose of this short paper is to introduce in a very general way the problem which confronts the Government of Guyana in its efforts to provide a full life for its people. The Government is a young one, so is the nation; the Government's work is therefore doubly difficult. Nevertheless, with a clear objective, an unswerving determination, a practical analysis of the nation's capacity, and a knowledge of its support both internal and external, it is possible for the goal of a full life to be achieved within a decade.

The best approach to achievement is by a planned economy; but, what is a planned economy? Indeed, what is planning? The message intended in this paper is the introduction of unified effort and teamwork in the development process. The whole will always be a composite of many parts, - all of the parts; and the corollary is that no part can be more important than the whole. In Guyana's case, the whole is the nation.

Planning for this developing territory must be total. It must weld all specialisations so that the expertise of each discipline is integrated in the national planning effort. Experience has shown that the Guyanese character with its basic ingredient of tolerance is one that will permit a high degree of scope for the concept of national planning on this basis. Already fully recognised in the Caribbean, there is belief that Guyana's concepts could be useful elsewhere.

## BACKGROUND

### HISTORICAL BACKGROUND

Guyana is located on the northern coast of South America. It achieved nationhood on 26th May, 1966 and has made distinctive progress in nation building and development, despite the setbacks and shortcomings with which all new nations are confronted.

Except for Amerindians, whose forefathers were the earliest inhabitants, its population is formed of the descendants of people from other lands - traders and settlers from Europe, labourers from Africa, Madeira, China and India, as well as numerous strains of mixed offspring resulting over the years. English, besides being the official language, is necessarily a common language as only Amerindians and Indians can now use their mother tongues to some effect.

Guyana may be divided into three regions - a low-lying coastland, a mountainous region far inland to the west and south, and an intermediate region of hills with plains or savannahs. Despite its area of 83,000 square miles, its population is less than 700,000 persons and has the structure shown in Appendix 1. The average annual rate of population increase is about 3 per cent. Approximately 67 per cent of the nation is under 30 years old, and by natural increase the population should reach about 1m persons in 1980.

The climate is most pleasant, being sub-tropical on the coast and tempered by north-easterly trade winds; in interior districts however, it can be damp and humid. Mean coastal temperature is 80°F, while there is an average annual rainfall of 90 ins. Rainfall is of particular importance in land development because it is possible to experience as much as 65 ins of rain in two months, and even 8.32 ins in one day. It is obvious that a flat coastland below high tide level, which is subject to such conditions, requires special measures of water control and storm drainage.

The early history of the country is indefinite. It is not clearly known whether the Guiana Coast was sighted by Columbus when he visited the western hemisphere in 1498, or whether Diego De Ordaz of Cortes settled here in 1531. It is known, however, that in 1581 the

Dutch had established what Schomburgh called "the earliest appreciable attempt at colonization". Here emphasis lies on the word "appreciable" because traces of earlier European efforts were found by the Dutch; and it is also known that Pedro De Acosta, who attempted a settlement in 1530, was driven off by Caribs. Guyana is a portion of the Guiana Coast which is divided into several units, each being administered by a different nation.

It has been said that the name Guiana is of Amerindian origin meaning "land of waters", but this too is doubtful since some historians believe that it was derived from the name of a river east of the Orinoco. Be that as it may, the Guiana Coast is that portion of country 1000 miles in extent between the deltas of the Orinoco and the Amazon on the northern shoulder of South America (see Figure 1). The territory, formerly known as British Guiana, occupies 270 miles of the Guiana coastline and extends inland for a depth of 510 miles. It lies between the parallels  $1^{\circ}10'$  and  $8^{\circ}40'$  north latitude and the meridians  $51^{\circ}30'$  and  $61^{\circ}30'$  west longitude.

Emancipation in 1834 was the most notable event of that century. Great numbers of Africans left the sugar estates where they provided slave labour, and in their new found freedom, created villages and new communities on land which they purchased. This action unwittingly led to the subsequent creation of local government administration which has continued to the present time. European sugar planters, as a result of the exodus of labourers, were forced to introduce immigration schemes and the earliest immigrant labourers came from Madeira in 1834, Germany in 1835, the West Indies in 1836, India in 1838, Malta in 1839 and China in 1852. Several "importations" were made, but only Indian immigrants were found suitable for the strenuous conditions prevailing at that time; and this labour force was increased therefore in subsequent years. The others were either sent back home, like the Maltese, or they turned their attention to trading and shopkeeping. It was in this way that the population structure of Guyana evolved.

## PHYSICAL BACKGROUND

Available evidence seems to prove that the last cycle of coastline changes was the result of an alteration in relative levels of land and sea. Uplift caused the formation of a wide foreshore covered by sea at high tide and dry at low tide. The foreshore, comprising mud mixed with some sand and shell, had a gradient flatter than its natural angle of repose; this led to the gradual building up of a natural continuous embankment of sand and shell except for those openings where rivers discharged into the sea. All areas behind the embankment would become flooded at high tide and silt, deposited at slack water, promoted the slow growth of salt marshes and tidal forests. This vegetation encouraged further accretion by slowing down currents and causing larger deposits of silt and other material in suspension. When the level of the foreshore reached ordinary high water the rate of accretion became appreciably slower. Figure 2 shows a natural sand barrier with a higher level on the landward side as a result of tidal deposits. The total depth of these marine and estuarine coastal deposits vary from 300 ft deep near Punta Playa in the west to 1500 ft deep near Corentyne in the east. Coastal soils are very fertile and form the basis of the country's agricultural economy of sugar and rice. Protection of the coast from erosion by the sea, flooding by storms and overflowing from rivers or conservancies is therefore a major exercise in hydraulic engineering.

In the development of agricultural coastal land, - the most populous part of the country - three basic requirements must be met:

- i. Protection of a region from floods due to external sources;
- ii. Removal of storm water from rainfall within the region;
- iii. Provision of irrigation to cultivated fields and water supply to pastoral areas.

The mountainous region far inland to the west and south is largely undeveloped but has very extensive mineral and forestry resources. There is also a considerable potential of hydro-electric power. Its development will depend on:

- i. Detailed surveys of available resources and feasibility studies for the promotion of projects.
- ii. Communications to the coast and to the adjoining countries.
- iii. Well planned schemes for settling large populations.

The intermediate region with its sandhills and plains or savannahs is just as complex as the coastlands. The sand hills erode easily when clearings are made, and the soils, - largely silica, - have not yet yielded their secret of potential agricultural development to Guyana's research teams. The plains or savannahs are so low lying that seasonal rains flood them for months thereby cutting off communications by road or trail during those periods.

Its development will depend on:

- i. The development of successful agricultural, pastoral and forestry techniques for utilising the sand hills.
- ii. All-weather communications.
- iii. Effective flood protective works for plains and savannahs.
- iv. The most stimulating pattern of land tenure.

## NATIONAL PROBLEMS

The most severe problem in Guyana is that of unemployment. It has been estimated that about 16 per cent of the labour force is unemployed. This problem is aggravated by an annual influx of between 7000 and 9000 school-leavers who join those who are already in search of work. In a working population of about 203,000 persons this is not an insignificant number.

There are of course those problems associated with physical national need such as housing, school places, shortage of cultivable land, inadequate communications of all kinds, a need for medical facilities and the lack of a stimulus for industrial development. Underlining all of these are the frustration caused by a shortage of money and the confusion caused by an uncertainty of cultural values.

The picture would be utterly pathetic had there been little on the credit side; but, there is much on the credit side. Guyanese are a literate people. About 85 per cent of the total population is literate; and there is not the problem of dialects. English as a common language serves this nation of many peoples effectively. There is also a sense of discipline, and fairplay; which, generally speaking allows the nation to examine in a national manner the proposals put to it for its development. Finally, there is an attitude of restraint which characterises the nation so that, broadly speaking, volatile situations depend to a large degree on preparatory excitation.

This is the existing pattern. Development planning must be exercised within this context. Ideas of growth, prosperity and human happiness must encompass all communities in the country; - even the smallest ones. Development planning in Guyana, if it is to be successful will require therefore an integration of social, economic and physical ideals; - a synthesis of the ultimate resources of not only the environment but also of the people.

The Guyanese nation has caught the vision of their own powers, and a significant advance can now be made on the basis of the thinking of the people. The nation is ripe to implement development planning.

## DEVELOPMENT PLANNING

Professor Sir Arthur Lewis draws attention to the difference "between sound national budgeting in economic and social terms on the one hand and theoretical long-term national development planning as it is often encountered". In his book on Development Planning at page 16 he points out that

"Extrapolations of mathematical models based on questionable statistics for debatable base periods seem to have a way of going wrong, even when it is possible to find economists who agree with each other. Furthermore these long-term projections have been of little or doubtful value and frequently have proved harmful by directing attention to the theory of economic development at the expense of its practical implementation."

He expresses the views that -

"Sound governmental planning consists of establishing intelligent priorities for the public investment programme and formulating a sensible and consistent set of public policies to encourage growth in the private sector."

This is the concept Guyana is introducing in its development planning process; and since planning connotes teamwork on the broadest possible base, the nations planning agency is assuming with greater emphasis the initiating and co-ordinating role required of it.

## THE NATION'S PROGRAMME

Guyana's legislature has approved a seven year development programme for the period 1966 to 1972. This programme includes the following twenty five major targets:-

1. To provide as many jobs as soon as possible all over the country.
2. To increase the productivity of labour by training and in other ways.
3. To give each farmer sufficient land to maintain himself and family and to assist him with improved credit and marketing facilities, information, training and in other ways.
4. To complete existing land development schemes, to start new ones and to execute the first stages of the Mahaica/Mahaicony/Abary and Canje drainage and irrigation schemes which will make vast new areas of land available.
5. To assist fishermen to build new trawlers and to improve their methods.
6. To develop new crops and industries and so reduce dependence on sugar, rice and bauxite and to substitute wherever possible local goods and foodstuffs for imports.
7. To carry out a thorough investigation and stock-taking of the resources by means of aerial mapping, hydro-electric power surveys, geological surveys and surveys of water resources.
8. To ensure that the best possible use is made of the forests and that new forest industries are developed.

9. To ensure the rapid development of the mineral resources.
10. To assist with the rapid development of new industries by providing tax concessions, advice, credit, training, etc.
11. To provide electricity for the villages and to increase urban electricity supplies so as to meet the needs of expanding industry.
12. To improve coastal roads and to build new roads into the interior and to give access to land development schemes.
13. To cut the Berbice bar and channel so as to hasten economic development in that area.
14. To build a modern airport at Atkinson and to improve aviation facilities in the interior.
15. To provide complete telephone coverage of the country.
16. To provide equal educational opportunities for all regardless of race, religion or social class.
17. To provide 30,000 places in all-age schools and 10,000 places in secondary schools and to train 300 teachers annually.
18. To start construction of buildings for the University of Guyana and to establish Technical Institutes in Essequibo and Berbice.
19. To organise, expand and modernise the Health Services on a three-tier basis so as to provide a country-wide network of health centres, district hospitals and a new reference hospital in Georgetown.

20. To improve existing pure water supplies and to provide new supplies including supplies in the interior.
21. To assist in the provision of houses by helping with the development of land, the guarantee of loans and through self-help schemes.
22. To foster the self-help and co-op movements as main instruments of social and economic development.
23. To implement the Marshall Report so as to provide local government for the entire population.
24. To integrate Amerindians into the Guyanese community through a comprehensive programme of social and economic development including the provision of schools, health facilities, training, community development schemes and improvement of interior communications.
25. To maintain law and order and the security of the country through the expansion and training of the Police Force and the establishment of an adequate Defence Force.

The Development Programme is estimated to require nearly G. \$295 million. The nation believes that it can borrow as much as G \$195 million of this money, - at a combination of hard and soft loan rates - and still remain credit-worthy. The programme envisages therefore G \$100 million in soft loans and G \$95 million in hard loans of which about G \$50 million it is expected will be raised locally. There is the hope that the outstanding G \$100 million could be raised by grants.

Considerable difficulty is being experienced in keeping to the projected levels of financing inasmuch as foreign aid requires a certain degree of local financing before it can be taken up and used effectively. Moreover, Aid Donors find it more attractive to tie their aid to projects, some of which cannot give the momentum which is required in the present circumstances.

It is imperative therefore that capital expenditures be related to projects of the highest national priority, and that careful plan implementation ensures their being completed satisfactorily. This requires co-ordination between all related agencies from the date of the proposal until the date of its use; very often carrying over into the subsequent maintenance period.

A summary of the proposed capital expenditure in the 1966 - 1972 programme for both non-revenue and revenue earning projects is given at Appendix 2. This may be compared with the allocation of development expenditure in earlier years at Appendix 4.

## **IMPLEMENTATION**

After goals have been set in an approved plan, the process of implementation and regular review commences. In Guyana, implementation is achieved by the executive work of Departments, Corporations, Boards and Authorities all operating within various sectors under the control of the nation's Cabinet. Cabinet meetings are held each Tuesday and all matters involving capital expenditures are examined previously by an economic sub-committee of the Cabinet which meets every Monday.

The country's annual budget is framed within the context of the overall development plan, and is related strictly to the revenue anticipated from local sources and to the anticipated level of foreign aid. The latter includes financial assistance, technical assistance, training, and gifts in kind such as locomotives, aircraft and so on.

It is the function of the Ministry of Economic Development to examine all aspects of plan implementation and plan review in order to advise the Cabinet on the progress of the plan. Because this is so vital and controversial a position, the Ministry comes within the portfolio of the Prime Minister and occupies a central co-ordinating position. Ideally the Ministry of Economic Development adopts an expansive outlook and it works most closely with the Ministry of Finance which has its own Minister. Planning ideas and proposals for capital projects do not stem only from the Ministry of Economic Development. These are encouraged and indeed requested from all executive agencies; they are studied by the Ministry, and the Cabinet is advised on the effect such proposals will have on national growth. The country's interest, therefore, becomes one of the criteria for plan implementation. This can be done better by a planning agency working at the centre and overlooking the total picture, than it can be done by a particular Ministry or individual department.

The system is practical and seems simple but difficulties are always existent, the greatest being ensuring that all executive bodies understand and accept the concept. This is never easy and the situation is not improved by varying enthusiasm and efficiency among executive bodies. This difficulty is being overcome by a continuous campaign directed towards teamwork; the spirit of working together is further enlivened by bringing together at the start and during the project all of those whose contribution is important. This is done by ad hoc committees and working parties on which the Ministry of Economic Development plays a leading role.

Another major difficulty in plan implementation is the pace of development set by those working at political level. The internal stresses of a newly independent country necessarily require speedy short-term projects which may not be in harmony with long-term proposals, and also the execution of expensive long-term surveys and studies which may consume money urgently required for remedial short-term projects. It is at this juncture that compromise becomes important and adjustment must be made between the political and the administrative, between the means and the objective. It is here that the team-approach can be most valuable.

Other difficulties experienced in plan implementation are:-

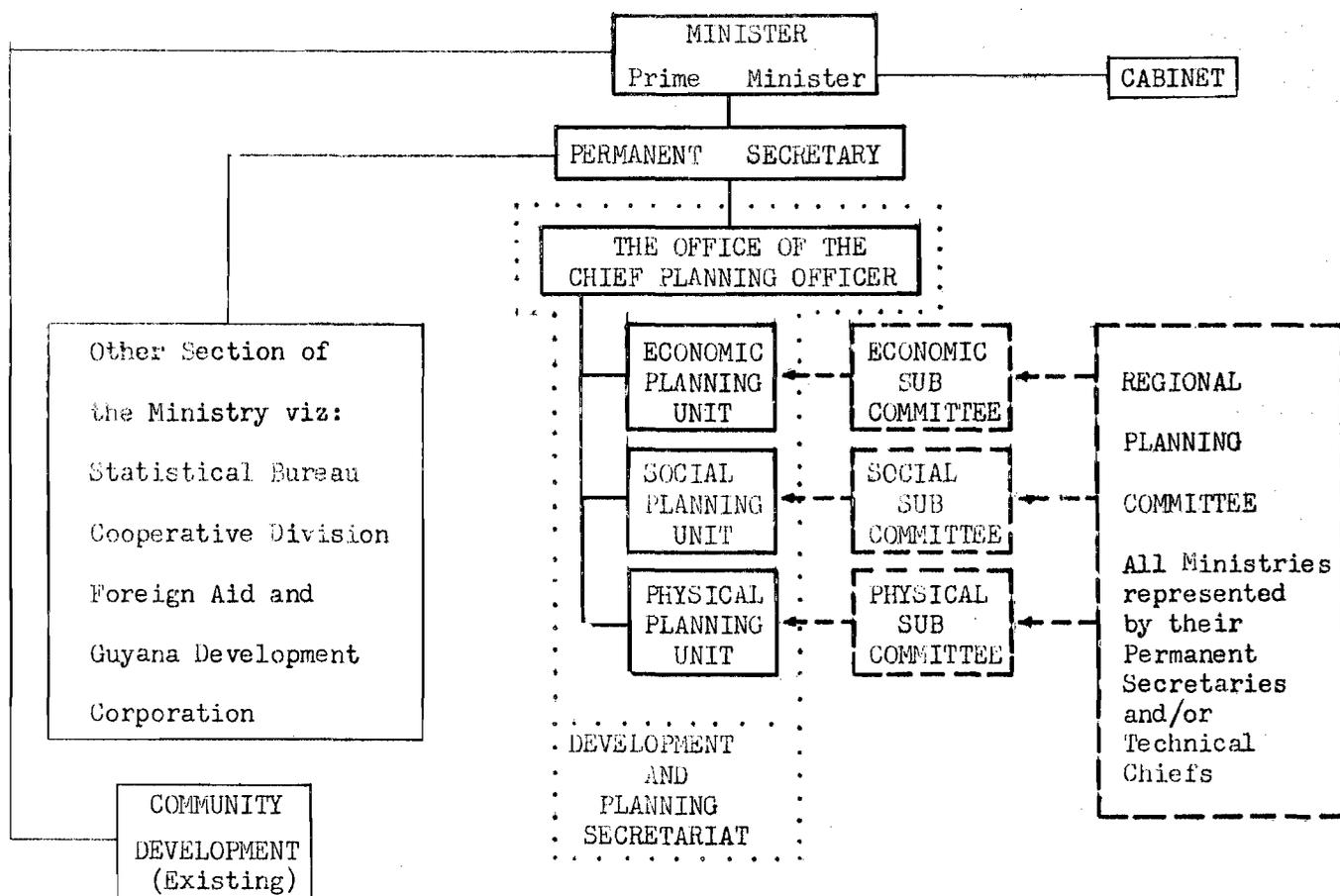
- i. Obtaining a sufficiency of finance and having obtained it, of spending it effectively and without waste.
- ii. Recruiting personnel with the necessary skills and retaining them.
- iii. Securing equipment of certain kinds.
- iv. Amending legislation which is out of date and which puts a brake on the development process.
- v. Obtaining progress reports of the desired kind, and with the speed and regularity with which they are needed.
- vi. Keeping planning thought continually ahead of the country's movement, so that this movement is guided by sound governmental policies.

As shown in the historical and physical background, Guyana is large country with vast resources, and a relatively small population, relatively small because its population is largely confined to the alluvial coastal belt depending principally on an agricultural economy. Despite the fact that the overall density is 8 persons per square mile, the density on the developed coastland is 350 persons per square mile. It is obvious therefore that while improving the coastal economy, attention must be turned to the speedier development of the hinterland. These are special problems, but there is no doubt that the Planning Agency as being developed in Guyana is geared to examine them and suggest practical proposals.

The country has a national plan; what is now being considered are regional and local plans all fitting into the national seven year master plan. In order to achieve this, a United Nations

Team visited Guyana during 1967 and has suggested a restructuring of the Ministry of Economic Development by the adding to it of a Physical Planning Unit and a Social Planning Unit and renaming it the Ministry of Development Planning. These ideas are very attractive and are now engaging the attention of Government. They are shown diagrammatically on the chart on the next page. Appendix 6 sets out the present governmental organisation and emphasizes how important it is that the large complex of executive agencies be discouraged from working in isolation and be encouraged to implement planning proposals by teamwork.

**DIAGRAMMATIC ORGANIZATION CHART**  
**for a proposed**  
**MINISTRY OF DEVELOPMENT AND PLANNING**



Suggested standing membership of sub-committees

Economic Planning

- . Finance
- . Bank of Guyana
- . Credit Corporation
- . Development Corporation (Industry)
- . Trade
- . Agriculture
- . Natural Resources

Social Planning

- . Labour and Social Security
- . Education
- . Home Affairs
- . Community Development
- . Housing
- . Health

Physical Planning

- . Agriculture/Natural Resources
- . Works and Hydraulics
- . Communications
- . Housing and Town and Country Planning
- . Community Development

## CONCLUSION

The skills required for the development of a young country are not self-co-ordinating, therefore effective means for their unification requires to be a principal part of the organisation of central government. Despite advances in science and technology the nation's resources cannot be satisfactorily developed until each skill shows a willingness to work towards the common purpose of development. In effect, to see the country, its resources and its problems in their entirety. Democratic governments are committed to finding appropriate tools with which to achieve this.

It is now clear that the initiative must come from central government in order that the nation's energies may be stimulated towards sound economic growth. Its policies need to be those which will give incentive to local authorities, public corporations and to the private sector. Some degree of control is inevitable, but if the policies of development are expansive and a realistic appraisal of the Development Plan is regularly made, then the government becomes both informed and strengthened in its difficult task. In this way it wins respect and obtains increased support from both public and private participants.

Implementation of the development plan in Guyana has received impetus from government's policy of working at the grass roots. Ministers and senior officials often meet the people in their own communities to explain ideas and to see the effect of new policies. Government works closely through local groups, and considerable community responsibility is created by the introduction of self help methods wherever possible. In Guyana, schools, houses, small stalling, health centres, access roads, and community buildings have all been built by self help. The lesson learnt on each of these projects is that people are still the most important factor in development, and when persuaded to think in terms of a common purpose can make surprisingly successful contributions.

Development Planning techniques will vary in different countries because of differences in political and administrative structures; it will be influenced further by the degree to which the economic, social and physical planning processes are integrated. Nevertheless, if development planning is to achieve its purpose then it cannot be compartmentalised but must be able to examine objectively all aspects of resource development, and to bring unification of skills in that examination.

The theme of this paper was one of development through teamwork. It considered the main purpose of development being an effort towards providing a full life for the nation and improving the human environment. Although Guyana was used as a setting to introduce the theme, yet in all democratic countries people aspire to a full life and governments work ceaselessly towards providing one. But there is another question, equally fundamental. Does the improvement of the human environment really enhance human lives? And can it be said that material progress invariably produces good? What is the correct national appraisal of development progress as distinct from development planning? The question may be answered differently by different groups. However there will be the underlying spirit of the nation in each answer. It is very important therefore that governmental policies ensure that this spirit enjoys freedom and that all citizens, through the planning process, are also taught and encouraged to respect and preserve the freedom of the spirit.

## APPENDIX I

## POPULATION OF GUYANA SHOWING ETHNIC GROUPING - 1964

<u>Group</u>	<u>Sex</u>	<u>Number</u>	<u>Total</u>
Indians	Males	162,190	320,070
	Females	157,880	
Africans	Males	97,070	199,830
	Females	102,760	
Mixed	Males	37,860	75,990
	Females	38,130	
Portuguese	Males	2,870	6,380
	Females	3,510	
Chinese	Males	2,230	3,910
	Females	1,680	
Europeans	Males	1,130	2,420
	Females	1,290	
Amerindians	Males	14,760	29,430
	Females	14,670	
Total	Males	318,110	638,030
	Females	319,920	
Births - 1964 (provisional)		25,393	
Deaths - 1964 (provisional)		4,945	
Infant Mortality - 1963			55 per 1000 live births.

## APPENDIX 2

SUMMARY OF PROPOSED CAPITAL EXPENDITURENON-REVENUE AND REVENUE EARNING

<u>NON-REVENUE EARNING</u>	<u>CAPITAL</u>	<u>ADDITIONAL RECURRENT</u>	<u>7 - YEAR TOTAL</u>
Agriculture	G\$ 2,115,000	G\$ 5,998,000	
Fisheries	597,000	397,000	
Forestry	2,930,000	440,000	
Sea Defences	14,000,000		
Air Survey	3,000,000		
Hydrometeorological Survey	899,000	1,400,000	
Geological Service	410,000	1,050,600	
Roads	37,800,000		
Technical Training	830,000	4,620,000	
Civil Service Training	100,000	560,000	
Education	11,314,000	23,675,000	
Local Government	1,235,000	1,922,800	
Fire Services	520,000	1,018,000	
Community Development	2,255,000	1,225,000	
Cooperatives	700,000		
Amerindians	918,000	85,000	
Police	1,735,000	1,435,000	
Prisons and Probation	3,513,640	1,430,000	
Public Buildings	6,103,000		
Health and Sanitation	13,729,882	440,000	
Urban Land Development	1,450,000	280,000	
<u>Miscellaneous</u>			
World Food Programme	400,000		
Technical Assistance	1,200,000		
Rice Combines	500,000		
Vehicles and Equipment	6,700,000		
Independence and Queen's visit: Memorials, Parks, etc.	1,300,000		
Information Service	300,000		
Resettlement Schemes	4,000,000		
Guyana Defence Force	12,000,000		
Guyana Youth Corps	2,000,000		
Sub-Total	<u>G\$ 134,554,522</u>	<u>G\$ 45,975,800</u>	

## APPENDIX 2 cont'd.

<u>REVENUE EARNING</u>	<u>CAPITAL</u>	<u>ADDITIONAL RECURRENT 7 - YEAR TOTAL</u>
Agricultural Credit	G\$ 3,000,000	G\$
Agricultural Investments	8,000,000	
Industrial Investments	12,000,000	
Forest Plantations	3,347,000	
Timber Manufacturing Plant	273,000	
Drainage & Irrigation	40,110,000	700,000
Land Development	3,175,000	
Transportation Survey	250,000	
Railways	1,950,000	
Shipping	5,345,000	
Harbours & Stellings	6,430,000	
Berbice Channel & Feasibility Study	8,200,000	
Civil Aviation	2,423,000	900,000
Atkinson Field Terminal etc.	2,680,000	
Post and Telecommunications	9,218,000	
Industry and Tourism	4,050,000	2,675,000
Guyana Marketing Corporation	575,000	
Electricity (Surveys)	5,000,000	
Guyana Electricity Corporation	8,750,000	
New Amsterdam Electricity Works	250,000	
Printery	440,000	
Rural Water (including Interior)	5,543,000	
New Amsterdam: Water Supply and Drains	210,000	
Urban Land Development	9,999,000	
Housing	8,749,300	700,000
Official Housing	2,880,000	
<u>Miscellaneous</u>		
Loans to Local Authorities	1,250,000	
Bank of Guyana: Building	1,500,000	
Bank of Guyana: Capital	1,000,000	
Loan to Electricity Corporation	1,000,000	
Loans to Students	2,100,000	
Sub-Total	159,697,300	4,975,000
Brought Forward	134,554,522	45,975,800
Grand Total	G\$ 294,251,822	G\$ 50,950,800

## APPENDIX 3

SUMMARY OF THE CAPITAL EXPENDITURE  
1966 - 1972 BY MINISTRIES

<u>Division</u>	<u>Allocation</u> <u>1966-1972</u>
1. Governor	200,000
2. Judiciary )	
3. Legislature )	100,000
4. Other Services )	
5. Premier	2,200,000
6. Attorney General	-
7. Ministry of Economic Affairs	2,100,000
8. Home Affairs	22,196,640
9. Local Government	1,645,000
10. Agriculture	6,787,000
11. Forests, Lands & Mines	10,460,000
12. Trade & Industry	13,375,000
13. Communications	37,034,000
14. Works & Hydraulics	114,288,500
15. Education	13,999,000
16. Health & Housing	34,166,682
17. Labour & Social Security	2,100,000
18. Finance	33,600,000
	<hr/>
	\$294,251,822
	<hr/>

## APPENDIX 4

ALLOCATION OF DEVELOPMENT EXPENDITURE (\$000,000)

	<u>1954 - 1959</u>		<u>1960 - 64</u>		<u>Actual*</u>
	<u>Exp.</u>	<u>%</u>	<u>Exp.</u>	<u>%</u>	
<u>Agriculture:</u>					
Drainage & Irrigation	G\$ 25.6	24.7	G\$ 23.6		30.1
Land Development	2.8	2.7	1.9		2.4
Sea Defences	4.6	4.4	7.6		9.7
Other	<u>4.6</u>	<u>4.4</u>	<u>3.5</u>		<u>4.5</u>
Total	37.6	36.2	36.6		46.7
Forests, Lands & Mines	3.2	3.1	1.5		1.9
Transportation & Communications	18.6	17.9	8.1		10.3
Roads	5.8	5.6	8.8		11.2
Public Buildings	.6	.6	1.5		1.9
Miscellaneous Public Works	1.8	1.7	.7		.9
Education	1.8	1.7	3.3		4.2
Health	.8	.8	1.8		2.3
Housing+	17.6	17.0	2.8		3.6
Other Social Services	.7	.7	1.5		1.9
Power	.5	.5	2.7		3.4
Water	1.7	1.6	1.9		2.4
Credits (Industry, Agriculture & Housing)	10.0	9.6	5.3		6.7
Miscellaneous	<u>3.1</u>	<u>3.0</u>	<u>2.0</u>		<u>2.6</u>
	G\$ 103.8	100.0%	G\$78.5		100.0%

\*For 1964, Revised Estimates.

+Includes Public Officer Housing

## APPENDIX 5

GUYANA CENTRAL GOVERNMENT FISCAL OPERATIONS.1965 - 1968 (Millions of Guyana \$)

	Actual 1965	Actual 1966	Revised Estimates 1967	Approved Estimates 1968
1. <u>Current Revenues</u>	77.2	85.2	92.7	106.3
a. Without additional revenue measures	77.2	85.2	92.7	98.4
b. Additional revenue measures	..	..		7.9
2. <u>Current Expenditures</u>	82.0	84.2	91.0	95.9
3. <u>Current Account Surplus</u>	-4.8	1.0	1.7	10.4
4. <u>Investment Expenditures</u>	24.1	31.9	42.4	45.3
5. <u>Fiscal Deficit</u>	28.9	30.0	40.7	30.9
<u>Financing (net)</u>				
a. Internal borrowing and other capital receipts	15.1	8.9	13.8	4.9
b. External financing	9.3	15.1	24.7	33.8
c. Decrease in reserves	4.5	6.0	2.2	- 7.8



OF GUYANA

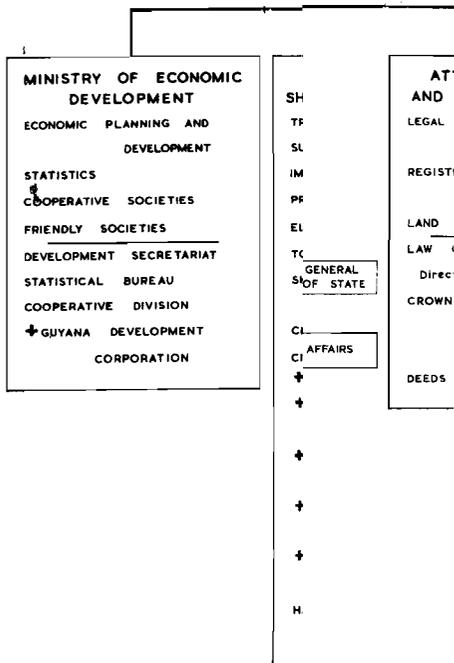




Figure 1

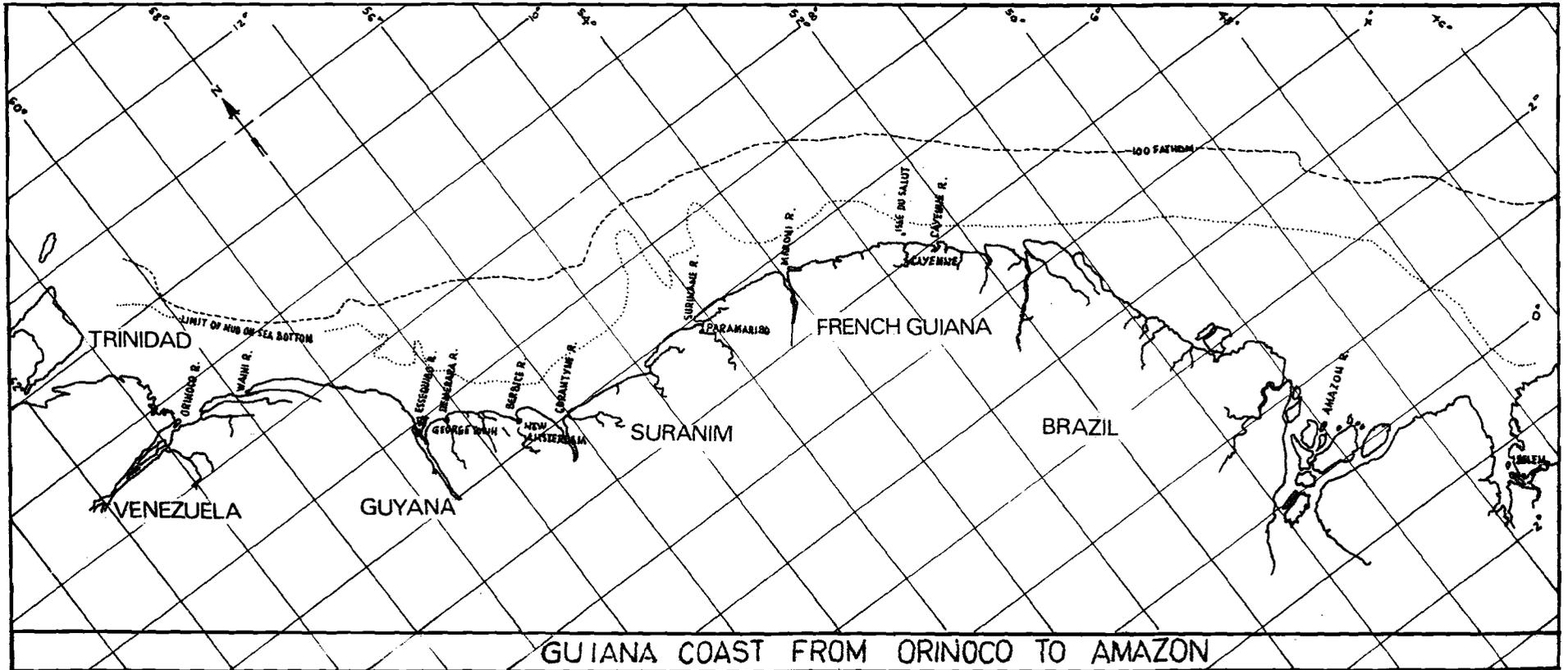




Figure 2



CROSS SECTION  
SHOWING NATURAL SAND REEF ON FORESHORE  
ESSEQUIBO COAST



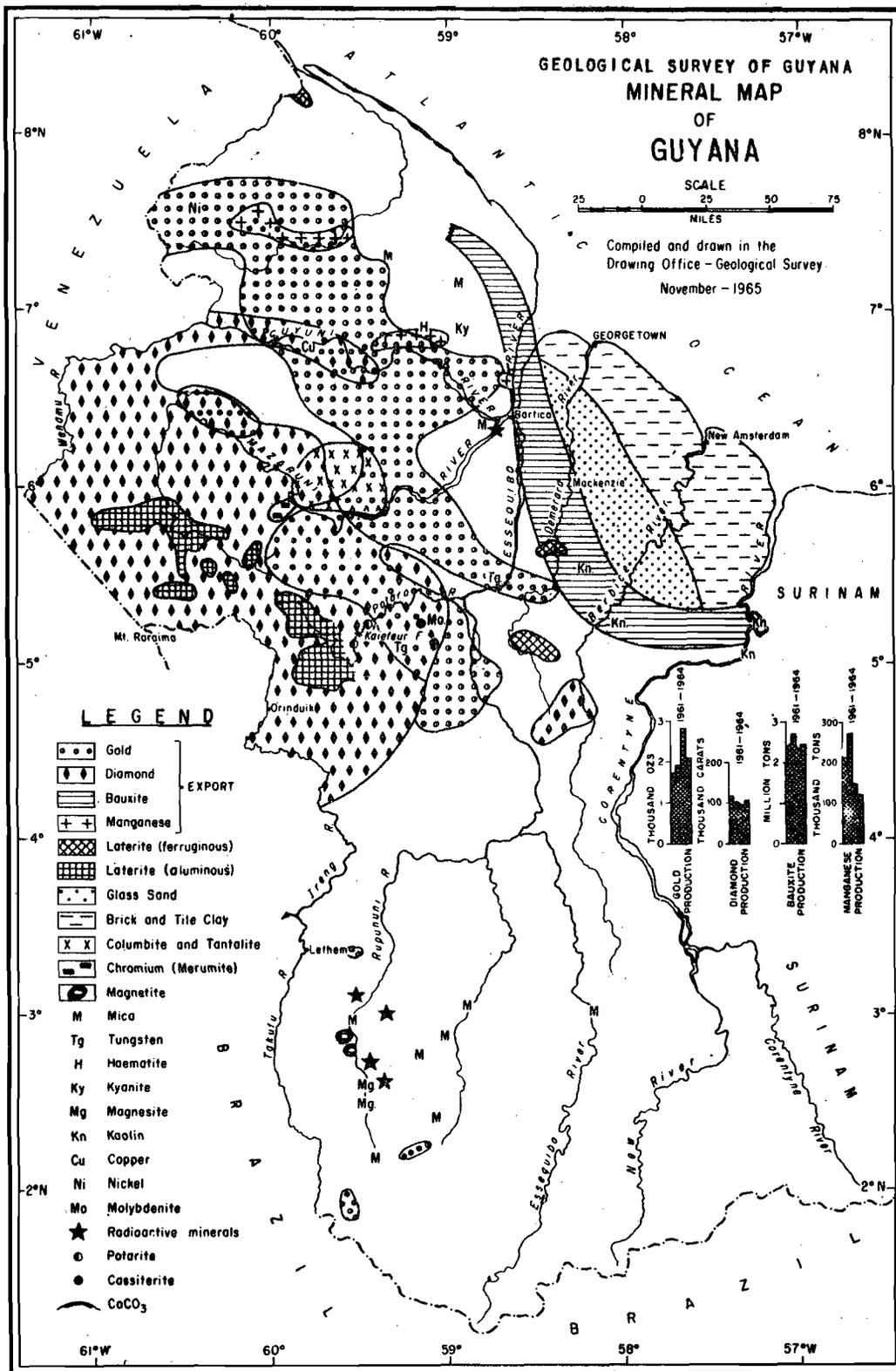
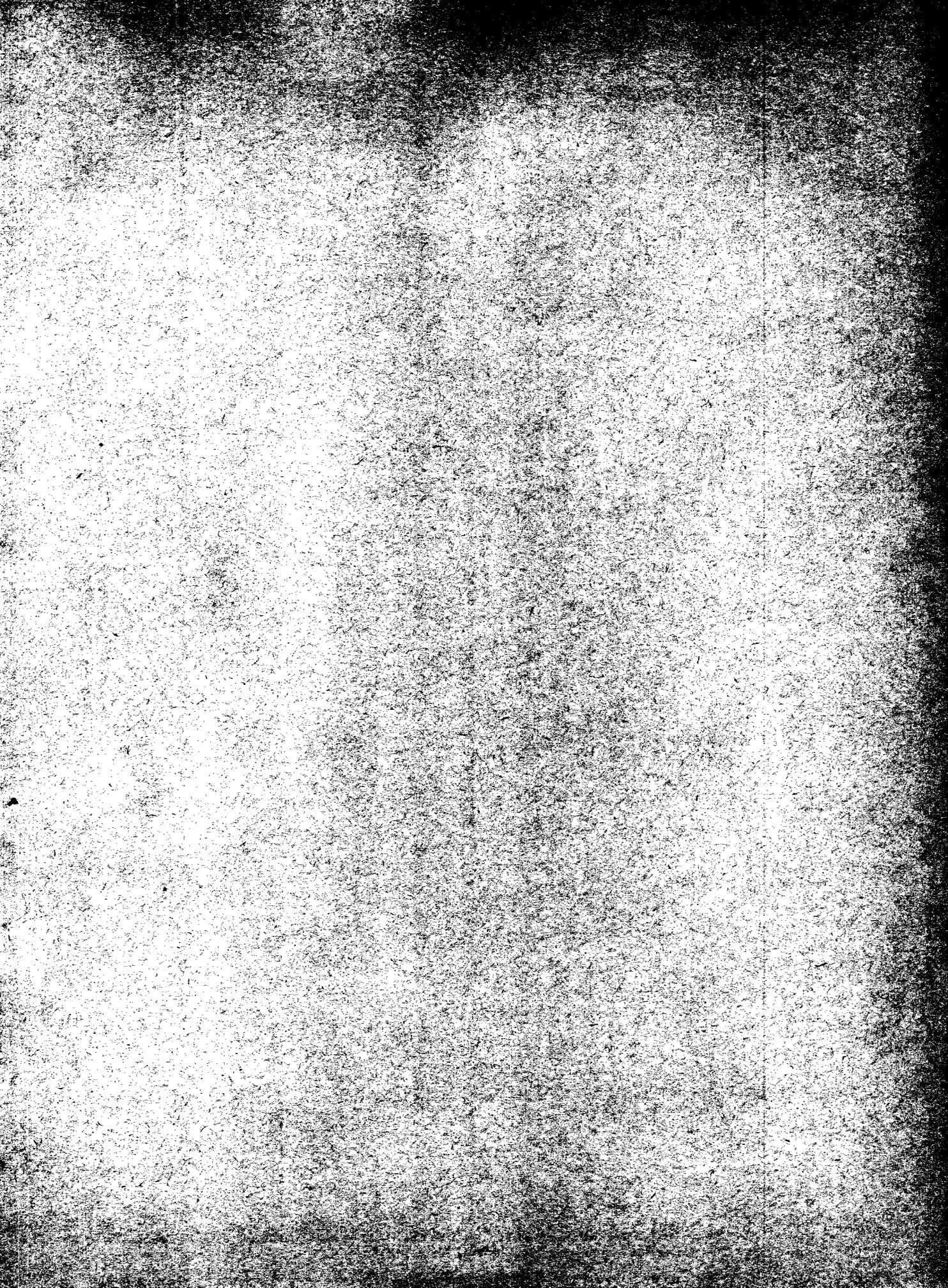
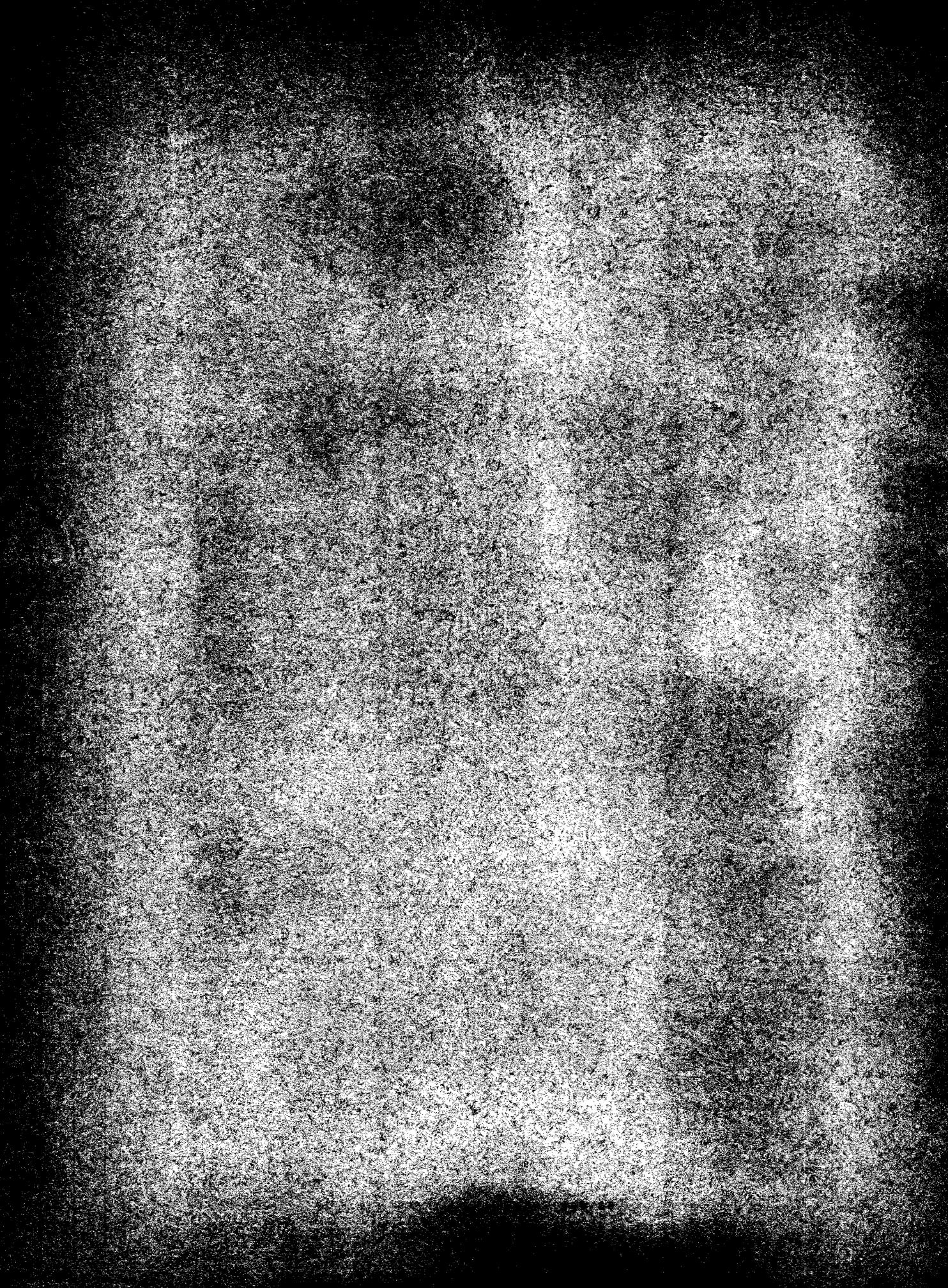


Figure 3







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Third Inter-regional Seminar on Development Planning  
Policies for Plan Implementation (with special  
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EXTERNAL ASSISTANCE POLICIES AND THE PLAN IMPLEMENTATION  
(UGANDA'S EXPERIENCE)

by

A.K.K. Mubanda

This seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the organization with which he is associated.



EXTERNAL ASSISTANCE POLICIES AND PLAN IMPLEMENTATION  
(UGANDA'S EXPERIENCE)

1. Uganda has encountered a number of problems in securing and utilizing external assistance. Some of these problems are a result of donor country or agency aid policies and can only be resolved by fundamental changes in these policies. In this case the British Government have taken a great step towards the right direction in revising its policy so that it is based on programme rather than on project financing.

2. In other cases, difficulties stem from policies where adjustments which may solve some of these problems may be possible. There are five basic problems:

- (i) Project Aid
- (ii) Tied Aid
- (iii) Administrative Burdens and Delays
- (iv) Debt Servicing, and
- (v) Covering of local costs

(i) Project Aid

3. This is the typing of external assistance to specific projects within the development programme or plan. Although the financing of clearly identifiable projects is desirable, in many instances from both the donor and recipient countries point of view, this practice, if exclusively or too widely employed, causes difficulty for the recipient country. A more effective and realistic approach to aid the economic development of a developing country like Uganda would be to view the economy of the country and not merely some segment of specific project within it, as the object of assistance. In other words instead of tying aid to specific projects within the plan, the aid should be given in such a way that the development programme envisaged in the plan moves smoothly at all fronts. A balanced and sound economic development effort includes activities which present the full range of these financing requirements. Unless assistance can be made available for a variety of purposes and in the form most appropriate to various activities within the development plan or programmes of recipient country, this plan or programme may be seriously distorted. Many difficulties arising from a partial view of

/development and

development and development assistance requirements would be alleviated if programme instead of project financing were adopted by donor countries and agencies.

4. A corollary of the problems outlined above is the fact that the concentration of assistance on specific projects tends to put a premium on development of partial, short range projects. This is somewhat contradictory to the more fundamental, broader and longer range planning which is of greater benefit for sustained and rational developmental efforts.

5. The financing of specific projects selected from broader programmes may also produce situations in which aid funds remain idle due to construction or other physical delays while parallel activities which could go forward within the same programme are held up for want of financing. This is where the new British aid policy is most welcomed. For example, instead of tying a great deal of the present £6 million British loan to specific projects, e.g. road construction to the north, the British Government have agreed to the Uganda Government switching these funds to new and quick moving projects instead of tying the funds to the original projects whose implementation were subject to long delays because of construction and survey difficulties. It would be most beneficial to a country such as ours if other donors were persuaded to adopt this approach.

6. Alternatively, short of the economy wider approach to assistance, a possible approach to solving the problems of aid to specific projects would be the adopting of somewhat broader definition of projects. With such an approach, aid could be extended for integrated programmes which met the relevant donor countries criteria rather than for specific projects selected from the programme. Adoption of this approach would help meet many problems and would foster longer-ranger, broader-scope development planning, and would also remove a potentially distorting influence on resources allocation.

/(ii) Tied

(ii) Tied Assistance

7. This is the assistance which is "tied" to purchases from aid giving countries. These are very closely related to the problems arising from the use of assistance to narrowly defined projects which are mentioned above. The nature of this assistance is indicated below:

The Mobilization of Local Resources

8. At present, assistance is needed to cover costs of development activities which must be met in Uganda's currency e.g. the operation and maintenance of tractors for hire services, group farms as well as bush clearing unit. Yet it is fairly clearly established that these local expenditures are fairly quickly reflected in increased demands for imports even though the increase is generally rather specifically generated by these expenditures. In many cases inadequate local resources represents the greatest impediment to undertake the necessary development activities e.g. during the current financial year although it is planned to establish 20 new group farms this is extremely difficult and may not be possible because of shortage of local resources and although the tractors are there to carry out the necessary bush clearing and ploughing work, local resources to maintain these tractors and to put up buildings and open roads in new group farms are not available. The raising of additional tax revenues for these purposes does not appear to be a feasible alternative. The solution would be to persuade donor countries to finance the programme fully rather than partially thus leaving the receiving country in a position whereby it cannot use the partial aid.

9. The tying of assistance to purchase in the donor country frustrates the financing of such costs. As a consequence, activities of higher priority for development such as referred to above in the case of group farms must be deferred because of the unavailability of local currency resources. Even if the definition of import content is stressed to its greatest plausible length, the Government is left with the difficulty of financing the residual local costs and this is becoming the major barrier in the use of external assistance.

/10. The

10. The problem is further increased by the fact that the Government has to devote a part of its local financial resources to development expenditure which are by their nature unattractive to donor countries and agencies; e.g. expenditures connected with defence, law and order, administrative buildings etc. These programmes frequently make heavy ancillary claims on foreign exchange resources and so they have to be financed locally. Moreover, their significance in the country's development is such that they have to be financed. They, therefore, constitute a very big drain on local resources.

11. The restrictions on uses of aid to purchases from the donor country also puts a premium on undertaking activities with a high import content and on importing goods and servicing simply because they can be financed by aid. In cases where the items are actually or potentially available locally, the net effect may be a substitution of imports for domestic production and a consequent failure to develop domestic production, employment and income, e.g. in the case of building this kind of arrangement may prevent us from the use of our local materials such as cement C.I. sheets, nails, etc.

12. The emphasis and priorities of the development programmes may also be seriously distorted in this process since high import content, capital intensive projects may be given undue precedence only because they can be more steadily financed with external assistance.

#### Increased Costs

13. The trying of assistance also has the effect of increasing the capital and operating costs of aid financed activities. Tied aid limits the scope of competition among potential suppliers to those of the aid giving country. Donor prices may be substantially higher than those prevailing in international markets which could readily be obtained by open tender thus when it costs the Uganda Government more to secure the needed goods and services, the donor country must increase the amount of its assistance.

14. In summary, the experience of Uganda has indicated that external assistance tied to purchases in the donor country does not meet the development needs as fully as it might. Assistance of this type does not cover one of the most pressing needs - the financing of local costs. (See part (v).)

(iii) Administrative Complications and Delays

15. Administrative problems have been encountered in Uganda which complicate and delay the securing and utilization of external assistance. The major aspects of these problems are:

Complications of Securing Aid

16. The need to support and justify requests for external assistance places a substantial additional burden on Government staff. Moreover, developing countries have a limited experience in the preparation of the documentation needed to support the request for external assistance. This situation is aggravated by the fact that administrative personnel conversant with the assistance matters are few and significant differences exist among donors as to the kinds and depth of information required to sanction schemes for external assistance.

17. In this connexion, the U.S., U.K. and World Bank are beginning to take a very reasonable attitude in that where appropriate they have supplied their own personnel to prepare and document aid applications. If this kind of assistance could be extended wider and if other donors could adopt the same attitude, it would be of immense benefit to us whilst at the same time enabling Government to train local staff to undertake this work in future. Furthermore, it would be helpful and of great value from our point of view if the information requirements of the aid donors could be brought into somewhat greater uniformity.

18. Another possibility of overcoming this and related sorts of problems is the formation of Consultative groups of donor countries.

19. On past historical experience, Consortia and Consultative Groups have been ad hoc affairs, with no definable function, little clear strategy, and with considerable variations in success. There is no reason to suppose that the proposed Consultative Group (C.G.) for East Africa should necessarily follow the experience of other C.G.'s.

20. The first experiment in donor aid co-ordination was that of one India Consortium, established in 1958 to deal primarily with India's balance of payments crisis of that year. Mainly, for a variety of political reasons, a consortium was established for Pakistan in 1960. In 1960/61, each consortia considered the financing of the respective countries five year plans (India's 3rd, and Pakistan's 2nd), where the practice of "pledging" originated - i.e. agreement amongst donor countries, subject to definite commitments to make available a certain amount of aid, over a certain period, in relation to the development plan.

21. The initial pledging sessions of each Consortia bore little relation to what was involved in the logic of the operation, and in 1961/62 each Consortia was enlarged by the addition by smaller donors, but this did not result in an increased flow of aid. Up to 1965, the Pakistan consortium was relatively successful, mainly because Pakistan was prepared to let itself be criticized, and to follow policies recommended by the Consortium (e.g. import liberalization measures, backed by an increased flow in programme aid). Other contributory factors to its success were the satisfactory manipulation of the aid relationship, the existence of a "give and take attitude" on both sides, the emergence of Pakistan as a major partner in the Consortium, and highly effective lobbying by Pakistan with each donor before the Consortium meetings. India, on the one hand, was more concerned to guard its independence, and resented the Consortium's criticism of its development strategy. Each Consortium, in the early 1960's usually met twice a year, once to review "performance" of the recipient, and later to "pledge". At first, both India and Pakistan were excluded from Consortia meetings, although this was modified later on.

22. In 1962, the United States wished to extend the practice of consortia to other major aid recipients, partly on the grounds of "burden sharing", but as other donors were unwilling to accept the logic of consortia, i.e., pledging, a series of C.G.'s, rather than Consortia, were established for Nigeria, Tunisia, Colombia and Sudan. The C.G. were merely intended to "co-ordinate" donor policies, and to discuss and influence the recipients performance. It was on this point

/that these

that these first C.G.'s failed: the recipients requested more aid, and then a discussion of performance, whilst the donors demanded an improvement in policy before they would consider an increased flow of aid. Neither side was willing to break this vicious circle.

23. About this time, some co-ordination was achieved between the U.S.S.R. and western donors in Afghanistan. An the DAC of the OECD established co-ordinating groups on Technical Assistance for East Africa and Thailand. The Group for East Africa largely failed because the DAC was not equipped to do the work required (i.e. management of the Group), and because of the slide away from road to political federation in East Africa at about that time. The ECED, in 1962, established separate Consortia for Greece and Turkey, the latter of which successfully rescheduled Turkey's debts in 1965.

24. Following the relative failure of C.G.'s the IBRD established a Working Party on the subject. The Party, which met in 1965, assumed that there would be no more consortia, but nevertheless thought that C.G.'s could and should have the same function as Consortia - i.e. pledging. The inherent contradiction runs through much of the C.G. work, and forms much of the Working Party report. The report also hinted at the only really desirable mechanism for the aid relationship: namely that the logic of the operation of the C.G. itself determines the volume and type of aid required, this making "pledging" superfluous.

25. After this report, the Nigerian C.G. was re-established, and held a successful meeting in February 1966. Nigeria carried out effective groundwork; there was talk of the investment/saving "gap", the logic of the gap for donor aid policies, and a discussion of the easing of terms. However, the C.G. unfortunately collapsed with the fall of the Ironsi régime in mid-1966. Other Consortia met for Ceylon, Malaysia, South Korea and Thailand, but these meetings were not successful.

26. From the historical background, certain general points emerge and these are of relevance for the proposed C.G. for East Africa.

27. Consortium v. Consultative Group. The U.S. prefer Consortia since the function and operation of pledging promotes burden sharing amongst donors. But there is no real evidence that pledging in fact increases

/the total

the total flow of aid, and in some respects makes the Consortium inflexible. A C.G., on the other hand, is equally inflexible. The logic of a discussion and review of recipients performance, and donor policies, is to consider proposals for action, and the logic of this is to act. The main reason why C.G. have failed is not unreasonable demands by recipient countries, but the failure of the IBRD and donor countries to accept the inherent logic of what a C.G. really means,

28. Terms of Reference. In the past, this has been left very vague, with only some rough idea of what is involved in the discussions. The terms of reference are obviously linked to the function of either a Consortia, or C.G., but in fact it seems the proper question is not Consortia, or C.G. but rather that co-ordination of policies, and that action, which will assist the particular recipient in implementing its development plan. Any C.G. will fail, unless it is linked to operational principles: that after a discussion of recipient needs, and "performance" (the feasibility of the Plan, the investment/saving, and foreign exchange gaps, problem of local costs), and a discussion of donors policies (tying of aid, greater proportion in programme aid, the commitment to disburse over a long period), then these discussions must be translated into a specific plan of action. Pledging should be left for specific purposes at specific times. The long term nature of development should be explicitly stated; donors should commit aid for several years at a time; the recipient country should be full and equal member of the group; and there should be genuine attempt at "give and take" from both sides in a spirit of co-operative partnership based on the sole criteria of the particular economic requirements of the recipient.

29. Membership. As far as possible, all donors should be members of the C.G. or Consortium. Switzerland, which is not a member of the IBRD, is a member of the IBRD C.G.'s for Colombia, Malaysia, Nigeria, Peru, Sudan, Thailand and Tunisia. Effective aid co-ordination requires the presence and participation of all donors, and if non-members of the IBRD can participate in C.G.'s then this argument cannot be made to exclude the socialist countries from any new C.G. In any case, the recipient country must be a full and equal member of the Group.

/30. Recipient

30. Recipient Performance. Probably, the real reason why behind the IBRD drive on C.G.'s is to assist/improve/advise/influence the implementation of policies in the recipient countries. Why this is illogical without operational principles is argued above, but the existence of a C.G. affords the IBRD the "excuse" to send a Mission, once a year, to the particular country. The recipient could agree with this, and discuss the Mission Report in the C.G. if there is to be a return for recipient in the form of more aid more geared to the recipient needs (e.g. aid for local costs). In this respect, since the recipient is expected to alter policy to suit the donors political, economic, and social values, the recipient's policy may be self-contradictory if donor policies differ. Donor co-ordination is thus essential, and necessary.

31. Donors Performance. Here the C.G. should discuss the terms of aid offered, the co-ordination of procedures amongst donors, to reduce administrative burdens on the recipients, the adverse consequence of, and the need to mitigate suppliers credit, and the appropriate role and function for the small donor (e.g. Scandinavian countries).

32. Meetings. Both the essential nature of the long-term objectives, and the continuity of the Group should be stressed, and to be effective, meetings should be held at least twice yearly - say once to review the annual IBRD Mission Report, donor policies, and recipients performance, and then later to translate these discussions into action. Presumably, individual donors would send their missions to co-ordinate with these schedules. Up to now most meetings of Consortia, or C.G.'s have been held in Paris, London, or Washington. As a deliberate change, meetings should be held in the recipients capital, where by contrast more emphasis would be placed on the recipients needs.

33. The above paragraphs have stated the problem in general terms, and it would be useful to apply these to the proposed C.G. for East Africa. At the outset, there are two major problems. Firstly, the question of membership - from the donor side, the inclusion of the socialist countries (para. 29 above); and from the recipient side, the implication of the Group, if Zambia, amongst others, joins the E.A. Community.

/Secondly, there

Secondly, there is a danger of the donors playing the three E.A. countries off against each other, in competing for aid, something which cannot happen in other C.G.'s. This simply requires effective and close co-ordination.

34. Finally, in general terms, the following are my suggestions for terms of reference for an efficient Consultive Group (paras. 27 and 28):

- (i) to make clear the nature of the Group; established solely as a long-term operation, in support of a country's economic development;
- (ii) to review, clarify and explain recipient policies;
- (iii) to review and amend, where appropriate, donors performance and policies in the light of (i) and (ii) above (para. 31);
- (iv) to ensure that donors give some explicit assurance that the aid required for implementation (discussed in (ii) will be available in the amount and form required, over a minimum period of years. When agreement has been reached on the economic requirements of the three countries, then that agreement must be translated into action. This is the most vital part of the C.G.;
- (v) to determine the specific role that each member of the Group can play, in particular the smaller donor countries.

(iv) Debt Servicing

35. Because of the difficulties enumerated above, it generally takes up to two years to obtain and begin to utilize any external financial assistance. This situation has on a number of occasions forced Government to resort to short-term loan, i.e. contractor finance which finances are by their very nature expensive. This kind of financing greatly increases Government debt liabilities in that the loans have to be paid over a period of between five to seven years which places a great burden on local resources which are badly needed for financing development

/programme. If

programme. If donors could simplify their procedures of giving aid thus enabling us to obtain long-term loans easily and within a reasonably short time the problem of resorting to contractor finance would be solved and hence the problem of involving Government in heavy debt servicing would also be solved. Greater local resources would become available for financing the development programme.

(v) Covering of local costs

36. The question of local costs is felt to be central in the utilization of foreign aid, and is inter-related to three distinct problems of domestic savings, of the adverse consequence of project tied and procurement tied aid, and of the foreign exchange problem. Because of this it is sometimes difficult to disentangle the separate items.

37. In general terms the problem is as follows. A large and growing proportion of foreign loans (excluding grants) are either tied to particular projects, and/or to the exports of the donor country. Often the donor finances only the direct foreign exchange costs of the project (i.e. in the form of its own exports), requiring the recipient to finance the local costs, and the indirect imports generated by the original investment.

38. The "costs" of a project, in terms of foreign exchange, comprise the direct capital good imports ( $M_k$ ); that component of local expenditure which has to be imported (e.g. petroleum, maintenance imports, or raw materials required to produce intermediate goods  $M_1$ ), and consumer imports induced by the investment ( $M_c$ ). The total costs of project are thus  $M_k + M_1 + L$ , where L is that proportion of local expenditure expended within the country.

39. For purely illustrative purposes, the proposed Milk Processing Plant financed from the Danish Loan affords an example of the above breakdown, although the figures are only indicative, and probably not final.

/Financial Breakdown

Financial Breakdown of Milk Processing Plant

	£ (U)
Total Costs of Project	345,000
(i) Danish Content - equipment	85,000 ( $M_k$ )
(ii) Non-Danish import content	
(a) other imports	115,000 ( $M_1$ )
(b) construction imports	58,000
(iii) (a) Local costs in Uganda	87,000 (L)
(b) of which:	
Indirect foreign exchange generated by investment	29,000 ( $M_c$ )

Note: Item (i) is simply the direct capital good imports from Denmark. (ii) (a) are the other necessary imports - e.g. materials for the plant; staff cars; (ii) (b) is that proportion of total construction costs of plant plus staff houses that is to be imported, estimated at 40 per cent of construction investment; (iii) (a) is purely local costs; (iii) (b) as a result of the investment in Uganda i.e. £87,000, a demand for imports will be generated, estimated at 33 per cent of the local investment, i.e. propensity to consume imports in 1/3, and ignoring the secondary multiplier effects. The figure of 1/3 is purely "questimate" and is probably on the high side.

40. Now if Denmark finances  $M_k$  entirely, and say 1/3 of (L), then the total donor contribution will be £114,000 or only 33 per cent of the total costs. An alternative policy would be for Denmark to finance both  $M_k$  and say 10 per cent of the total project costs, in the form of convertible currency, (£35,000), or in total £120,000. This would assist Uganda in finding the pure local cost component (£87,000), or the additional demand or foreign exchange (£115,000 + £58,000 (M) + £29,000 ( $M_c$ ), less £35,000) or £167,000.

41. This example illustrates one major aspect of the local cost problem - the need to "find" foreign exchange to cover the  $M_1$  type imports. The total foreign exchange costs ( $M_k + M_1 + M_c$ ) is the significant aspect, not just  $M_k$  alone. Aid to cover the  $M_1$  category could be used as a substitute for local costs ((v) above) and this point could perhaps be emphasized to the IBRD Mission.

/42. The

42. The example is used to simply show the various policy measures that Uganda, in conjunction with the donors, could take to overcome the general problem of local costs and tied aid. With the current trend in international aid policies, it seems realistic to assume that both forms of tied aid will continue, and the analysis should start from that position.

43. The foreign exchange component of investment in East Africa and in Uganda varies between 40 per cent and 50 per cent.

44. In Uganda's case if aid continues to be given on a project basis, then if say the total costs of all the projects which could be financed with the foreign aid is £x, and if the "required" aid inflow is £y, then from the balance of payments point of view, the share between donors and Uganda should be in the ratio of y/x. Now as the foreign exchange component of investment is say  $\frac{1}{2}$ , then if y/x is greater than  $\frac{1}{2}$  then some aid must be forthcoming for foreign exchange for  $M_1$  or  $M_c$ .

#### Proposals to Deal with Local Problem

45. The only really satisfactory answer to the problem of local costs is to raise domestic savings. However, the beneficial effects of such a policy must not be exaggerated. Suppose it is proposed to raise domestic investment by a further £5 m. Suppose that the  $m_k$  is  $\frac{1}{2}$ , that  $m_1$  is  $\frac{1}{3}$ , and suppose further that  $m_c$  is  $\frac{1}{6}$ , where  $m_k$ ,  $m_1$ , are the propensities to import investment goods (corresponding to  $M_k$  and  $M_1$ ), and  $m_c$  is the propensity to import consumption (i.e.  $M_c$ ). Suppose  $m_k + m_1 = \frac{1}{2}$  at the minimum, and  $\frac{2}{3}$  at the maximum. Donors are prepared to finance 50 per cent of the investment, i.e.  $M_k$ , or £2.5 m. Uganda has to find £2.5 m. from local resources, plus foreign exchange to cover  $M_c$ . Now if  $M_1$  is  $\frac{1}{6}$  then the foreign exchange required for that category is £8 m. leaving local costs at £1.7 m. and thus demand for foreign exchange for  $M_c$ ,  $\frac{1}{3}$  of £1.7 m. or £6 m. Total foreign exchange required is thus £2.3 m. Now as a result of requiring £2.5 m. of domestic resources, consumption is cut by that amount, thus releasing about £8 m. foreign exchange by a fall in imports. In other words to raise the required foreign exchange by cutting down internal consumption and thus imports requires domestic savings to be increased by £6.9 m. and not £2.5 m. To effect this increase the burden of savings on an already

low income country, but if the total domestic spending remains the same, i.e. £6.9 m. is transferred from consumption to investment, with £2.5 m. on projects partly financed through foreign aid, then £4.4 m. could be expended on projects which have a low demand for foreign exchange, e.g. rural self-help schemes.

46. Moreover, any demand for foreign exchange from this investment could be met by cutting the average propensity to consume imports (by improving controls on luxury imports), leaving total domestic spending unchanged but diverting resources to investment.

47. A further answer is to utilize programme aid which could, although preferably should not, be tied to donors' exports. Programme aid could be used to finance a variety of imports under the broad  $M_1$  category, and thus release foreign exchange to finance the  $M_c$  type imports. In a sense, then, programme aid can be regarded as substitute for local costs, and has less adverse effects on donor's balance of payments.

48. Further the position of local costs can be alleviated if donors finance productive projects, rather than infrastructure projects, as the latter generally have a higher proportion of local costs to total costs (e.g. road-building programme), than productive projects which require a large amount of imported equipment. In any event, to finance productive projects, especially in the industrial sector, is advantageous to the economy as a whole.

49. In one "Current Plan" those sectors with the largest estimate of public development expenditure are agriculture (£19.36 m. or 18.1 per cent of the total), roads (£14.78 m. or 13.9 per cent), education (£18.5 m or 17.3 per cent) and health (£12.83 m. or 12 per cent). If projects in the administration and defence sectors are excluded, on the grounds that aid is unlikely to be forthcoming to finance such projects, then the agricultural sector is 21.5 per cent of the (lower) total, roads 16.4 per cent, education 20.6 per cent, and health 14.2 per cent, or together 72.7 per cent of the total. In general these projects have a lower import content: in the case of agriculture, though largely productive, because of the higher proportion of local costs, and in the case of the infrastructure social service sectors because of the building and construction element.

50. A further proposal, although one with serious drawbacks, is that if programme aid is forthcoming to meet necessary imports, then on the grounds that the balance of payments is sound, a modest amount of deficit financing could be undertaken in connexion with the various projects financed through aid, to raise real output, and thus domestic savings.

51. Two other solutions to the local cost problem may be suggested. The first is simply to "bag" donors to supply outright grants to cover local costs.

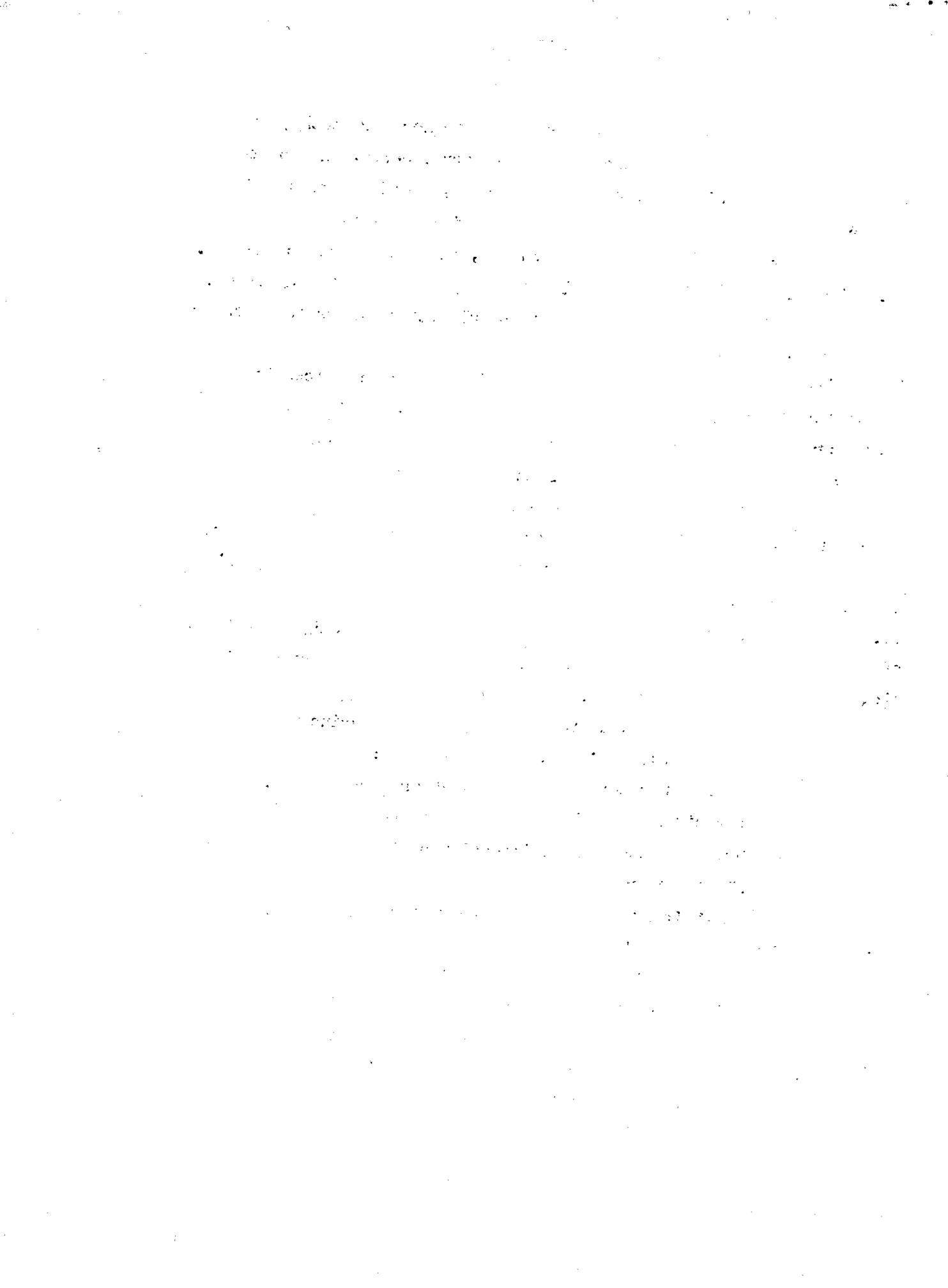
52. Alternatively, the donor should sell goods and services to the equivalent of say 10-15 per cent of the total costs of the project, to meet a proportion of local costs, as under the Russian and Chinese Loans, and the US PL 480 Wheat Agreements. As a general rule, such goods should exclude agricultural products because of the adverse consequences on the demand for locally produced agricultural products, and instead be confined to consumer goods. In the long run this does not affect the donor's balance of payments at all.

53. No mention has been made here on the other indirectly related problem of tied aid, or measures to raise domestic savings. With regard to tied aid, the general questions are:

- (i) tying is not linked to any known economic principle - it merely protects the donor's balance of payments;
- (ii) it biases the choice of development projects - i.e. a choice of projects with a high foreign exchange cost;
- (iii) it increases the capital intensity of the project, without any of its advantages;
- (iv) it biases the choice of goods to be used in any one project.

54. If, donors whilst not necessarily increasing the total flow of aid, are interested and concerned to ensure the effective use of the aid disbursed, then it seems that the only way to obtain this is by allocating the various component parts of a loan by reference to the economic needs of the recipient. One such economic need has been outlined above.

As in the sphere of theology "Faith without works is dead" so in the sphere of economies "Plans without implementation are vain".



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PLANNING AND PLAN IMPLEMENTATION  
IN HUNGARY

by

Tamás Morva

National Planning Office

Budapest

This seminar has been organized by the Centre for Development Planning, Projections and Policies, the Secretariat of the Economic Commission for Latin America and the Latin American Institute for Economic and Social Planning in collaboration with the Office of Technical Co-operation.

The views expressed in this paper are those of the author and do not necessarily reflect those of the United Nations or the organization with which he is associated

1. The first part of the document discusses the importance of maintaining accurate records of all transactions.

2. It is essential to ensure that all entries are supported by appropriate documentation and receipts.

3. Regular audits should be conducted to verify the accuracy of the records and identify any discrepancies.

4. The second part of the document outlines the procedures for handling incoming payments and deposits.

5. All payments should be recorded promptly and accurately, and the corresponding receipts should be filed.

6. It is important to maintain a clear and organized system for tracking all financial activities.

7. The third part of the document describes the process for managing outgoing payments and expenses.

8. All payments should be authorized by the appropriate personnel and supported by valid invoices.

9. The final part of the document provides a summary of the key points and emphasizes the importance of consistent record-keeping.

## Introduction

1. Central planning in Hungary looks back upon a history of more than twenty years. Its first steps were closely linked with the targets and tasks of economic reconstruction after the immense devastations of the second world war. Later it became the main instrument in promoting the readjustment of the economy, the industrialization of the country and the manifold developing of productive forces. National income in 1967 achieved a more than three times higher level than in 1938 the last pre-war year. The level of industrial production increased in the same period by more than seven. Deep structural changes have taken place in the economy both in the direction of creating modern centralized socialist plants and establishing new technologies and industries e.g. in metallurgy, in engineering and in chemical industry. Agriculture has been producing about fifty per cent more than before the war. The structure and technics of agricultural production, mechanization of work and use of chemicals and in consequence of all that, the productivity of labour has increased considerably.
2. In this period of economic development national plans were the means which determined the trend of economic growth, its main proportions and other main characters. Though in details plans and reality has been often different and domestic market and foreign trade had a significant influence on the flow of economic activities, it is hardly to be discussed, that the directions of this progress were elaborated by national planning and the main directive forces of economic growth were national plans.
3. The system and methods of central planning developed continuously during this period. In the first years the main tendency was the increasing of the scope and content of planning.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data. The text also mentions that regular audits are necessary to identify any discrepancies or errors in the accounting process. By following these guidelines, the organization can ensure the integrity and reliability of its financial information.

Furthermore, the document highlights the need for clear communication between different departments. The finance team should work closely with the sales and operations teams to ensure that all financial activities are properly recorded and reported. This collaboration is essential for providing accurate financial statements to management and stakeholders. The document also notes that any changes in accounting policies or procedures should be clearly documented and communicated to all relevant personnel.

In addition, the text discusses the importance of staying up-to-date with the latest accounting standards and regulations. The finance team should regularly review industry updates and ensure that the organization's accounting practices remain compliant. This proactive approach helps to minimize the risk of non-compliance and associated penalties. The document concludes by stating that a strong accounting system is fundamental to the success of any business, and it requires a commitment to accuracy, transparency, and continuous improvement.

The second part of the document provides a detailed overview of the accounting cycle. It outlines the ten steps involved in the process, from identifying the accounting entity to preparing financial statements. Each step is explained in detail, including the specific tasks and documents involved. For example, the first step involves identifying the business entity and its boundaries, while the second step focuses on recording all business transactions in the accounting system. The document also provides examples of journal entries and T-accounts to illustrate the mechanics of the accounting cycle.

Moreover, the text discusses the importance of adjusting entries at the end of each accounting period. These entries are used to record accruals, deferrals, and other adjustments that are necessary to ensure that the financial statements accurately reflect the company's financial position. The document explains how these adjustments affect the income statement and balance sheet, and provides a clear example of how to prepare an adjusting entry. It also notes that the final step of the cycle is to prepare the financial statements, which are used by management and external stakeholders to make informed decisions.

In conclusion, the document emphasizes that a robust accounting system is essential for the long-term success of a business. It provides a comprehensive guide to the accounting cycle and offers practical advice on how to implement and maintain an effective system. By following the guidelines outlined in this document, organizations can ensure that their financial records are accurate, reliable, and compliant with all applicable regulations. The document also serves as a valuable resource for anyone looking to improve their understanding of accounting principles and practices.

The first three year plan /1947-1949/ was a more general program of economic policy but later planning extended to more and more details. The role and the fullness of details of operative plans of production development plans for quarters of the year has got a decisive influence on economic activities. This was the ruling character of planning in the period of the first five year plan /1950-1954/.

In the second part of the fiftieth the fullness of details in plans was reduced, the role of annual plans increased, central management developed in the line of decentralization, independency and material stimulation of enterprises intensified. E.g. in 1957 were initiated as the first among the socialist countries, a system of profit sharing in the state enterprises.

The reform of central management being in the state of realization in our country from the 1<sup>st</sup> of January 1968, follows the line mentioned above, but much more consequent and extended. In this paper - if there weren't any references to something else - my intention is to describe central planning and central management system as they were put into force from the beginning of this year. The new principles and new methods having been formed the last few years, should be concentrated upon.

Time - Horizon in Planning; Targets and Tasks of  
Different Plans

4. In accordance with the experiences there isn't a uniform type of national plans which were able to fulfil all the requirements of national management. On one hand, the targets and tasks of plans are different: they have to outline the general tendencies of development for a longer period, determine the rates and proportions of growth in a more detailed way for medium terms, maintain standing national equilibrium and do all operative measures in order to realize



in the changing circumstances the aims set by long and medium-term plans. On the other hand, even the economic processes are very different. They are some which need and make it possible to plan for a longer period, e.g. energetical and other infrastructural investments, demographical forecasts and proportions of education and training. They are others which need programs for two - three years, as e.g. production plans in building and construction and in some industries of engineering. At last they are processes which may be directed by annual plans. So we base planning on a coordinated system of long-term, medium-term /generally five year/ and annual plans.

5. Last year we began the drawing up of a long-term plan for the years 1971-1985. The work is organized by eight working groups with the participation of the leader of National Planning Office, economic ministries, authorities and the best experts of economy, industry, agriculture, foreign trade etc. In this groups at present there is going on a profound critical analysis of economic development in the past twenty years, on the base of which the first initial draft of the plan is to be elaborated. The first phase of this work will have been completed by the end of the next year.

6. The main links in our future planning system are five year plans. Five year plans express economic policy in the more detailed and complete way among all forms of planning. They imply the aims of development, the rates of growth, the main structural changes and the conditions and requirements of national equilibrium for the five year period. I.e. the outline of social product and national income; the proportion of consumption and accumulation; the investment policy in details; the structure of foreign trade and the development of international relations and co-operation; the program of labour force, the aims and main measures for increasing the living standard; aims and directives of regional development



inside the country. A new feature of our five year plans is, that beside including concrete decisions e.g. concerning investment policy they also contain the main measures, rules and policies /e.g. price, financial, wage policies/ which are intended to realize the aims set in the plan. The guidance of the present economic development has been based on the third five year plan /1966-1970/ and the fourth five year plan /1971-1975/ is under elaboration. The bill of the five year plans is passed and put into force by parliament.

7. The sources of annual planning are the aims and policies set in five year plans and the results of running analysis of economic situation. It is deemed desirable that annual plans should remain in the wider framework of the five year plan and shouldn't set independent aims, as they often did in the past. But this depends on the concrete conditions emerged in carrying out the five year plans. Annual plans have to correct and modify sometimes some of the forecasts and targets of five year plans. Annual plans have their special means, as e.g. budget, price policy, credit policy of state bank system, export, import and supply contingents etc. Annual plans are operative programs of the government; the government gives at least once a year information to parliament on its operative plans and economic progress. Yearly state budgets are put into force by the parliament. Annual plans are the only short-term national plans being in use in Hungary at present, but they are often supplemented in some parts with calculations for two-three years or with calculations for shorter periods, half-years or quarters.



## Basic Principles of Plan Implementation

8. The means of national management are to be divided into two groups: a. Directive means, which express central purposes and limits in a direct way. b. Incentives, conditions and rules stimulating and guiding economic activity of enterprises and other decentralized economic units. The character of central management depends on the weight of these elements and the manner of their combination.

9. Directive means of plan implementation are concrete decisions with in national plans /e.g. individual projects in investment plans/, obligatory indicators of plans determining either targets and tasks /e.g. output, purchases, productivity, reduction of costs/ or limits for making use of different resources /e.g. investments, material resources and imports, labour forces and wage funds/, operative directives, central control and allocation of materials, central permissions of exports and imports. The common advantage of these methods is that they express central decisions in a very direct way, the results achieved are quite easily and clearly accounted and controlled. But they have great disadvantages as well. They often cause in planning conflicting interests between enterprises and central authorities, they restrict the substitution of different resources in the enterprises, thus they work with certain losses.

10. The applying of indirect means of regulation is connected with the independency of enterprises and the existing of production for market. In our circumstances both main factors of market, demand and supply, are regulated by national plans. The plans limit and stimulate the activity of the enterprises, but enterprises are free within the wide framework of central conditions and rules. Enterprises - here we think especially of state-owned enterprises and we have to mention, that public

THE HISTORY OF THE UNITED STATES OF AMERICA

The first part of the book deals with the early years of the nation, from the time of the first settlers to the end of the American Revolution. It covers the period from 1607 to 1789, and includes a detailed account of the struggle for independence and the formation of the new government.

The second part of the book deals with the period from 1789 to 1861, and covers the years of the early republic, the War of 1812, and the years leading up to the Civil War. It includes a detailed account of the struggle for the abolition of slavery and the expansion of the nation's territory.

The third part of the book deals with the period from 1861 to 1900, and covers the years of the Civil War, Reconstruction, and the Gilded Age. It includes a detailed account of the struggle for civil rights and the rise of industrialization.

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sector in Hungary gives about <sup>75</sup> per cent of national income - are separate legal entities working on the basis of economic accounting and they are provided with fixed and working capital of their own. At the beginning of this year the freedom of enterprises has been enlarged to <sup>a</sup> great extent and covers self-determination of plans, discretion on all operational matters at their own risk, the right to enter into contracts, to take credits and make use of the part of profit which has been left at their disposal.

The main indirect means of plan implementation are central price policy, taxation and the rules for application of enterprise-revenues, regulation of wages, salaries and other forms of individual incomes, credit policy, foreign exchange policy, subventions, customs and other financial means regulating foreign trade. The advantage of these methods is, that they make the work of economy elastic, they open the way to the independency of enterprises and they coordinate their interests and those of the economy, as a whole. On the other hand, by applying these methods we have to take into consideration, that: a. they don't satisfy the needs by giving proper direction to the growth of economy for a longer period; b. their adoption isn't satisfactory to maintain the continuous equilibrium of internal market and foreign trade. In this regard directive methods aren't negligible.

11. There are close interrelations between plan formation and plan implementation. At the first steps of planning the emphasis in work was put on plan formation and it was thought that directive instruments of plan implementation has to be used in general. At that time this was to some extent in harmony with actual existing political and economic tasks and relations. But later the disadvantages of direct means became gradually clearer, the experiences in applying more complicated incentives accumulated and the scope and forms of indirect methods were developed. The application of indirect means doesn't depend on simple decision, as it is often thought,



but it has very objective conditions. These are:

a. The possibilities and the degree of decentralization of material and financial resources. Decentralization of functions beyond a certain extent may only be effecting, if it is supported by the power of disposal of certain material and financial resources. But this latter condition depends on economic policy and situation as a whole. Here arises e.g. as one of the main questions of investment policy: the problem in what extent new projects have to be established and which part of accumulation may be left with the working enterprises.

b. A higher proportion of consumption against accumulation within national income and a higher rate of growth of consumption. The increasing role of material stimulation postulates, that from profits provided by the enterprises should remain more for their own workers and employees than before. But that needs more available resources for consumption in the whole economy, as we want to maintain full employment and standing growth of living standard for all social strata of population.

c. The position of international trade and co-operation and the possibilities allowed by foreign exchange relations of the country. Deep changes in economic life of such a country, as Hungary, can't be realized without significant effects on foreign trade, so application of new methods in plan implementation has to be regarded also in its connection with foreign trade.

The main economic conditions and criteria applied in selection direct or indirect methods of plan implementation are often summarized as the more extensive or the more intensive character of development. At extensive phases of economic progress the rule of indirect methods was thought to be typical. But these reflections aren't properly controlled in practice. As the means having been selected react on the content of plans and influence the decisions on economic policy,

1948

At the beginning of the year, the Government of the United States was in a position to... (The text is extremely faint and largely illegible, appearing to be a formal report or document.)

The following information was obtained from the... (This section continues the report, with text that is mostly illegible due to fading.)

It is noted that the... (The final section of the document, also containing mostly illegible text.)

therefore the best combination of different instruments has to be found as an integral and important part of planning.

## The Main Incentives and Rules Regulating Industrial Production

### Price policy

12. At present price building aims to apply three main viewpoints at the same time: a. prices should express the costs of production; b. they have to promote interrelations between domestic market and foreign trade; c. they have to be influenced by the value judgments of markets and by state preferences. The contradictions among these viewpoints have to be solved in the successive phases of price building.

Price building is based on calculations performed according a unified methodology. The most difficult theoretical problem of these calculations is, how to account net revenue formed in prices. In Hungary now the forms of net revenue are differentiated. 5 per cent unified contribution /quasi an interest/ is calculated based on fixed and working capital of enterprises, this percentage has to express the minimum efficiency of capital. 25 per cent unified contribution is counted according to wages and salaries to express social insurance rate and some other collective costs of expanded reproduction of manpower. 2-10 per cent profit rate is calculated relating to the value of total capital; the profit rate is differentiated for industries or for groups of products according to the second and third viewpoints mentioned above.

Price calculation of export and import goods are also prepared according to the proportions of the prices in foreign currencies. As prices calculated on internal and those on external base are different, from this respect price building needs again independent economic considerations.

and... ..

... ..

... ..

... ..

... ..

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13. Price system in our country applies three types of prices: a. official fix or maximum prices; b. prices moving in officially given limits; c. free prices. Among the means of production some basic materials /as coal, energy, rolled steel etc./ have fix or maximum prices, in the second group are distributed prices of building and construction and prices of some light industrial goods, in the third machines for investments, intermediates etc. We want to increase gradually the sphere of the more elastic forms of prices.

#### Enterprise - interest in profit

14. State owned enterprises in Hungary are interested in increasing the sum of profit. Our main principle is that if prices express proper proportions and the main factors of market are centrally controlled, the aim of profitability, that is the purpose of the enterprises, can serve as good means for achieving our social aims, to satisfy our social needs the best. In such circumstances of central regulating the profit interest of enterprises acts towards the direction of realizing our social goals.

The profit of enterprises is centrally taxed and the rules how to create different funds from it are compulsory. Profits reached by enterprises are first distributed into two parts according to the share of double wage-fund related to the value of total capital. Coefficient two is in this calculation only of practical meaning, in some industries, where wage fund has a low share, it is higher, e.g. in metallurgy and in a part of chemical industry it is 4, in mining 6. The two parts of profit is taken upon different taxation.

The first part of it /which was counted proportional to the share of wage fund/ is taken upon progressive taxation. Tax of the second part is linear. Taxation measures are unified for the whole industry. After this year taxation about forty to fifty per cent of profit remains with the enterprises. From



profit left at the disposal of the enterprises, they form three funds: a. From the first part minus contribution is formed the so called sharing fund. From this fund they can pay the increase of wages and salaries and all forms of bonus and shares of the workers and employees. b. From the second part minus contribution, but together with the greatest part of redemption fund, is formed the so called development fund. This fund should be the financial base for investments, for credits to investments and for increase of their own working capital. c. From both former funds they have to put 10 per cent, in the so called reserve or guarantee fund, until they achieve a certain level.

Enterprises are free in working use of funds except the third one, the use of which is limited, put by for the case closing the year with loss.

This profit sharing system makes enterprises interested in production for market, in reduction of costs, in applying stateowned capital in the most efficient way. From the other hand central rules, which tell us how funds are formulated in the enterprises, give the possibility to calculate and influence - though with approximate certainty - the purchasing power both on the market of consumer and investment goods.

#### The system of investments

15. In accordance with the profit sharing system of enterprises investments are financed from three resources: a. own development funds of enterprises; b. bank credits; c. the state budget. As the formation of enterprise development funds is centrally regulated and the state bank system is functioning on the base of government directives, the influence of national plans extends to all investment activities. But enterprises are free in using their funds and taking credit following their own initiative and decision.



Enterprises can't be obliged to accept investments, however they run the risk of their own decisions.

Individual projects of great national importance, some sets of investments as development of irrigation system, road network, pipe system etc., and other infrastructural and non-productive investments are financed from the state budget. The limits and the distribution of state investments and the list of individual projects are sanctioned by national plans.

In the annual plan of 1968 the share of enterprise development funds is about 25 per cent, the share of bank credits about 20 per cent, and about 55 per cent of all industrial investments is financed from the state budget. The tendency is to diminish the share of state budget in some years to a level of about forty per cent, while the share of financing from credit is to be increased.

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The outlined system has been implemented from the beginning of this year. We think that the full development of these instructions needs several years and we take into account that there will be some difficulties with these means until we learn the correct use of new methods and we find the proper measures. But we believe the results achieved with the new system of economic management will be much greater, than the losses caused by it and we can strengthen this system in all its interrelations during the period 1968-1970.



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Some considerations on the system of  
social planning in Yugoslavia

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## 1. Introduction

1.1 The new system of social planning began to be applied at the final stage of preparation of the Yugoslav social plan for the 1966-1970 period. This system constitutes a logical phase in the evolution of the Yugoslav economic system since 1950, coinciding with the introduction of workers' self-management in enterprises, up to our days, when the new measures forming part of the economic reform bring a new affirmation of the system of self-government, also in the field of enlarged reproduction (net investments). Over the past fifteen years the economic system evolved in two directions. One can be termed as decentralization of management of investment resources and of decision power in investment matters, while the second implies a "déétatisation" of the process of enlarged reproduction i.e. a transfer of that management and decision power on investments, from the state organs to the working organizations. The most decisive step in déétatisation process was the introduction of a series of modifications in the system of income distribution, effected in 1963 and 1964 followed by another important set of measures forming part of the economic reform of July 1965. Through these modifications, the role of economic organizations in investment decisions, during the course of implementation of the five-year plan, would be substantially reinforced, so that their share in investments during this Plan is going to be at least 70 per cent and that of extra-economic factors, first of all, of the State, maximum 30 per cent.

1.2 The starting point in the endeavours to set up an elaborate planning system are the foundations of Yugoslavia's social and political system. According to the Constitution of the Socialist Federal Republic of Yugoslavia "The basis of the social-economic system of Yugoslavia is free, associated work with socially-owned means of labour, and self-management of the working people in production and in distribution of the social product in the working organization and social community". Within this framework a special importance is attributed to self-management of workers, which is the very element through which the ownership of the major part of the means of production (social sector) becomes immediate social

/ownership, differing

ownership, differing in quality from State ownership. Thus, planning loses its former character of a State function and becomes one of the basic self-government rights of the citizen. It increasingly transforms itself into self-planning and self-organizing of workers in working organizations and social-political communities (communes, component republics and Federation). Thus, self-government is a function leading to a déétatisation of planning and, to an increasing socialization of this function.

1.3 The economic position of working organizations is determined by the conditions under which the goods are traded both in the domestic market and in foreign commerce, by the extent of obligations towards the community and by the conditions for obtaining credits. The position of particular branches may temporarily be influenced by the amount of assistance furnished by the community. Concretely speaking, the economic position of the working organization and of various branches is determined by the level of prices of their products on the domestic market, by the exchange rates, the rate of import duties, and other conditions of trade with foreign countries, by the level of contributions and taxes, interest charges and maturities of loans, as well as by temporary direct or indirect subsidies granted by the community.

1.4 Through the reform of 1965 it has been possible to equalize the relative prices on the domestic market with those prevailing in foreign trade, that is to say domestic prices were brought at a new higher general level, conform to the new parity of the dinar. Exceptionally, for some more important products and services, which do not play any role in foreign trade, prices are being fixed under different, internal criteria. For the time being price ceilings have been prescribed for most products and services, while for the purchase of some farm products guaranteed minimum prices have been prescribed. The system of fixed prices will remain in force up to the moment when the economy will adjust itself to newly established economic relationships. Later on it will be possible to change over to a system of market prices whose formation will be determined by the interplay of supply and demand, except in the case of monopolistic positions in certain sectors. The community will maintain a system of price control on the free market

/which will

which will consist mainly in the obligation of the working organizations to notify in advance their intention to raise the prices, so as to enable the community to intervene on the market through sales from the officially held stocks, in importing the product in question, or through other economic measures. In the case of monopolies of whatever kind, the prices will be fixed by the community, but there must be some logical relationship between these prices and the prices of kindred products, or products linked through various phases of processing; which are allowed to find freely their own level.

1.5 In the context of the new reform it has been possible to reduce import duties which have been brought into harmony with the new parity of the dinar and the new price relationships both for domestic and foreign products. They will also be adjusted in a way to enable an accelerated integration of the Yugoslav economy into the international pattern of division of labour and to promote a speedy growth of foreign trade. During the coming years, policies will be pursued aiming at a further reduction of custom duties in harmony with the results so far achieved in efforts to raise labour productivity and strengthen the competitive power of the Yugoslav economy. The ultimate aim of policies pursued in this domain, is the liberalization of foreign trade and the convertibility of the dinar.

1.6 Before the reform, and through the reform it has been possible to reduce the degree of concentration of resources in the hands of centralized institutions, which has previously been furthered through a system of contributions, the working organizations and the citizens were bound to pay to the community. Since 1963 and then with the reform, measures were taken to the effect of abolishing the contribution (rent), paid by the mines, contribution on extra income, contribution to social investment funds, contribution from the income of working organizations, contribution to the housing funds, contributions to transportation enterprises for the payments for benefits in passenger traffic, while the contributions to budgets and to the health and social insurance funds, paid out from the personal incomes of the workers employed within the social sector, were reduced.

Upon the introduction of these changes the only obligation of the working organization was to pay a tax on capital and a turnover tax on the sale of its products and some services. The general rate of tax on capital

/amounts to

amounts to 4 per cent, while in some branches it has been reduced to 2 per cent or to 2.5 per cent. Turnover taxes are charged only on final consumer goods, and on certain services, and they are collected in trade. The over-all burden on the Yugoslav economy, in the form of a tax on capital and the turnover tax has remained approximately the same, although the pattern of its distribution among various activities is somewhat different, compared with the state before the reform.

1.7 In assessing the position of working organizations one has to consider the conditions under which they may obtain the necessary credits for investment in fixed funds and working capital. According to regulations in force all the working organizations enjoy the same treatment as regards the possibilities of obtaining credits, provided that the banks in extending loans, apply severe criteria in selecting projects which seem the most profitable. Thus, for example, the banks are entitled to extend investment credits at better terms than the conventional ones at the request of a State organ, but at the expressed condition that the organ having asked for a more favourable treatment (low interest rates, longer maturities) for a given branch has to bear the difference between the conventional and the privileged terms. But, at this moment the Yugoslav banking system is about to adjust its lending activities to the new principles, so that one is entitled to expect that these principles will find full affirmation within a short period of time, because the success of the new economic reform largely depends on the implementation of these measures.

1.8 Thus it is possible to conclude that the respective position of working organizations in the process of social reproduction under the Yugoslav economic system is determined by, as a rule, freely formed prices on the domestic market, by the increasingly more liberal conditions of trade with foreign countries (and fixed instruments in this trade), fixed obligations of working organizations and citizens towards the community and access to credits under conditions of equality. All these relatively stable elements of the system determine the framework and limits of independence of the working organizations and destine them to be the main factors in the process of enlarged reproduction.

## 2. Limits of the planning functions of the State

2.1 Two elements determine the role of social-political communities (Federation, component republics, communes) in the process of social reproduction and more particularly in social planning. These are, first, the material (financial) resources at the disposal of each social-political community within the framework of a unique system of distribution of the national income, and, second, the possibility to enact laws in each of these communities, within the framework of the specifically Yugoslav constitutional system (self-government).

Each social-political community has its own sources of revenue out of which it covers its budgetary expenses. In exceptional cases, when the under-development of some regions is at stake in order to help overcoming backwardness, the broader community extends financial assistance to certain territorially more narrow community. Thus, in principle, there is no relationship of dependence, as regards financial resources, between the commune and the republic, viz. between the republic and the Federation, and this also refers to the use of financial resources for planning economic and social development.

2.2 A federal law prescribes what shall be the sources of financing and upon what kind of revenue a social-political community can count. A particular revenue of the Federation regulated by a federal law, which to a lesser degree also accrues to the communes, is the tax on capital at the disposal of enterprises.

The Federation provides some additional resources to those component republics whose per capita income is lower than the average Yugoslav per capita income, viz. lower than the per capita income of a republic whose income comes close to the Yugoslav average. The amount of additional resources is fixed by a decision of the Federal Assembly. The republic may also receive from the Federation grants for specific purposes.

The rights of the Federation to enact laws regulating economic matters are much broader than the rights of other social-political communities. First of all, the Federation provides for the unity of the economic system and of the system of distribution of the social product, for the unity of the monetary and credit systems, determines the policy according to which

/money shall

money shall be issued and assures supervision of money circulation, the percentage of obligatory bank deposits to be held by the federal banks and the conditions and the manner in which foreign currency and similar reserves and deposits shall be used. Federation also determines the general course of the country's economic development and the basic relations in the distribution of the social product, co-ordinates economic development and relations between industrial branches and areas, determines the course and conditions of trade with foreign countries, equalizes the general working conditions and acquisition of income so as to realize the principle "distribution according to work", and promotes the most favourable general conditions for the realization of the common interests of all the citizens, the activities of the working organizations and the functions of the social-political communities in the sphere of social-economic relations.

The Federation determines the sources and the amount of the resources required to carry out its tasks, as follows: (a) for financing the national defence budget, and other tasks within the competence of the Federation; secures the financial resources for dotations to certain republics; (b) for intervention in the economy in order to co-ordinate relations between different activities for equalizing working conditions and the acquisition of income, and in order to provide for the stability of the economy, keep the market in full supply and expand trade with other countries; (c) for financing rapid economic development in the economically under-developed republics and areas; (d) to take part in investments of essential importance to the co-ordination and course of Yugoslavia's economic development and in investments determined by international agreements.

In order to speed up economic development of the inadequately developed republics and areas, the Federation has created a special credit fund. A federal law provides permanent sources of financing for this fund and special credit terms and determines the manner of operation of the fund. Out of the budget resources finance will be provided to a republic that is unable to finance social and other services with funds of its own, subject to conditions determined by a federal law.

/The Federation

The Federation may, by its laws, prescribe as obligatory that the working organizations and social-political communities shall form reserve social resources and that the working organizations shall utilize part of their freely-disposable income to develop the material bases of their work, or of economic and social development, if this is necessary for economic stability or for the attainment of the basic material relations established by the social plan of Yugoslavia; temporarily prohibit the use of certain social resources by the working organizations and social-political communities, when this is indispensable in order to prevent or eliminate major disturbances in the economy and major disproportions in the fulfillment of the social plan of Yugoslavia, or when the needs of national defence or other special needs of the country so enjoin; prescribe obligations for the working organizations and social-political communities of concern for national defence.

2.3 The rights and duties of the republics shall be determined by republican constitution in accordance with the principles of the Constitution of the Socialist Federal Republic of Yugoslavia. Apart from affairs which enter into the competence of the Federation, the republics shall discharge all the other affairs of common concern for the economic development of their territory; they regulate social relations, determine the course of economic development and the development of social services, provide for the realization of the rights of the citizens and for constitutionality and legality, and discharge all social affairs of common interest for political, economic and cultural life and social development in the republic. The republics autonomously determine the types of revenue which have been left over to them by federal law and fix the amounts of this revenue. The republics shall divert one portion of their own revenue to provide additional resources for financing the social and other services of the communes which are inadequately provided with resources, and determine the way of financing the budgets of districts, wherever they may exist. The republics determine autonomously the turnover tax in retail trade as well as fees for services which are left to them by federal law. They may also fix the limits of communal turnover taxes, if this is necessary. They determine by their own law the percentage of contributions and income taxes, as well as property taxes, which are left over to them by federal law.

/2.4 The

2.4 The communes, being the basic social-political communities provide the material and other conditions necessary for the work and development of productive forces, guide and co-ordinate economic development and the development of social services; determine and distribute the resources for common communal requirements; create the conditions required to satisfy the material, social, cultural and other common needs of the citizens; co-ordinate individual and common interests with the general interests; determine the general conditions to discharge the business of the communal and similar organizations; in order to discharge their rights and duties the communes autonomously pass regulations, and the social plan and budget, and establish their own funds; in conformity with legally determined sources and types of revenue, the communes autonomously determine and use their revenue. In accordance with law the communes directly discharge the functions of the social community as regards the regulation and utilization of land resources in general use, the construction and regulation of housing, and of communal facilities related to housing.

Subject to conditions determined by republican constitution and law, a commune that is unable to finance its work and the work of its social services shall be allocated additional resources from republican revenues to finance social services and other services in the commune.

### 3. The Role of the Federation in Planning

3.1 There is an important difference between planning concerned with the economy as a whole and planning at other levels. This difference stems from the basic function of planning that consists in co-ordination and guidance of development as well as of the economy itself as of the proper material base for other social activities. Harmonization of activities and providing guidance is of much higher importance when it refers to the entire economy of the country, than in the case of more narrow communities. Hence, the special role of the Federation in planning activities, which is expressly mentioned in the Constitution of the Socialist Federal Republic of Yugoslavia.

/The Federation

The Federation assures the economic development of Yugoslavia, as a unique economic area, having a uniform economic system, and determines the country's development policies; creates optimum conditions for the implementation of the plans, taking into account the interests and the behaviour of the working organizations and producers' associations. In doing so, in grasping the general conditions and possibilities for development, the Federation influences the economic flows, the relationships in the economy and the relations with foreign countries. Through its plans, in the interest of the social community as a whole, the Federation provides for the implementation of priority tasks, in contributing at the same time to overcome the contradictions inherent in the evolution of the society. Through its monetary credit, foreign trade, and price policies, as well as through other measures and economic policy instruments the Federation creates favourable conditions for economic activities enabling a furthering of common interests.

The working organizations and the more narrow social-political communities, in formulating their policies should, in their own interest, observe the general lines of development policies, and the general conditions of economic activities, which in the given period of time constitute the main framework of their activities.

3.2 The basic form of the plan is the social plan for a medium-term period which may last from four to seven years. This plan sets the basic objectives and fixes the methods of development, starting from already existing tendencies and other conditions of development. Together with the elaboration of this plan, the planners also endeavour to find proper institutional solutions, in order to create the most favourable conditions for business, and a harmonious and well organized development, enabling the realization of the basic objectives of the plan.

Given the fact that the medium-term plan contains only the basic elements for development, the more special and more detailed conceptions of medium-term development are worked out separately, in accordance with the plan - so, for instance, conceptions concerning industrial development, agricultural policies, etc.

/The medium-term

The medium-term plan is a document of the Federal Assembly, containing the basic objectives, tasks and directives for development policies, as well as the methods and instruments for plan implementation. The general lines of development are fixed in accordance with the country's real possibilities and its real needs.

3.3 For achieving this aim, the starting point are the comparative advantages: the objective of these efforts is to create such a combination of productive forces and such proportions in the system of social distribution, which, through a rational utilization of resources, could impart optimum dynamic propulsions to economic growth and ensure the improvement of living standards, including both the long-term and the short-term aspects of development, and the most favourable prospects for an integration into the international pattern of division of labour.

The plan contains all the indispensable quantitative indicators as an illustration of objectives and methods of development, which will serve as a basis for determining the conditions of economic activities through which these objectives will have to be realized. These quantitative indicators refer to the rates of growth, the basic proportions in the distribution of national income, the intensity of conditions of economic activities, the basic structure of investment, parameters for the raising of living standards, planned production targets for a small number of key products (such as the basic forms of energy, steel, cement, wheat), the main communications, etc. The plan also fixes the main lines of development policies for the less developed republics and areas.

If the need arises (that is to say not in periods fixed in advance) indispensable changes are introduced in some parts of the medium-term plan, in accordance with the principle of continuous planning. It is foreseen that, in conformity with this principle, from time to time after two to three years the medium-term plan is prolonged for a further medium-term period, with the necessary rectification of the previously fixed relationships.

For certain sectors, such as power generation, transports, etc., if this seems necessary, long-term development programmes are being elaborated for a longer period, say ten to fifteen years.

3.4 The possibility of adopting short-term plans, annual or bi-annual, is not envisaged. Instead of this, an analysis of the realization of medium-term plans will be completed, as well as an analysis of conditions of economic activities, for the next year which could be foreseen and of trends of development during the coming year. In this analysis the possibilities of development during the coming year, in certain regions, will also be examined, and attention will be paid to possible deformations which may occur, and to other negative tendencies. On the basis of that analysis, it will be possible to find out what kind of rectifications, and interventions in order to enable its realization will be necessary with a view to eliminating or mitigating the undesirable movements, and to strengthening the plan in lending support to positive movements.

3.5 Under this planning system, the Federation will prepare a projection for the long-term period of twenty years, enabling to foresee the basic possibilities of development (the possible degree of development of the productive forces and of living standards, the degree of development compared with the presumed degree of development in the world etc.). This projection should not be accepted formally as a development programme, but would permit a general insight more particularly into the state of long-term research and in the advance of technology. In this context it will be possible to get a proper insight into the long-term prospects for changes in the social-economic structure of population, the rural problems, the housing problems, etc. Projections of this kind have a real significance for given areas of economic and social life, which by their very nature, require an insight into the long-term aspects of development such as fundamental research, education and similar things. Such projections would serve as a solid basis for the elaboration of medium-term plans concerning the above elements. Long-term projections for orientation purposes must be amended upon the expiration of each medium-term plan, after taking into account the new developments.

3.6 All the social factors co-operate in the elaboration of development plans. These are no usual forms of co-operation, discussions, exchange of opinions and similar, but actual work in common. Development conceptions are a subject of discussion within the associations of working organizations

/and are

and are being adjusted to the plans of social-political communities, and, in this way, they ensure the interaction of both kinds of plans, those of the working organizations, and those of the broader communities. In this context, one of the basic tasks of the planning authorities is to compose a complete plan, taking into account both the development conceptions of the working organizations and their associations and general conditions, possibilities and needs. In this way the conceptions of the main factors of economic and other activities exert a direct influence on the formulation of the whole development policies, while, at the same time, from the viewpoint of a rational functioning of the entire mechanism, an influence is exerted on the conceptions of single factors. A similar procedure in the elaboration of the plans is rendered possible through the fact that planning is a continuous process and not an intermittent activity of directly responsible organs.

3.7 The plan of the Federation is based on the principle of basic balances which, apart from the objectives of development policies, such as the raising of living standards and of the country's economic potential, elaborate in detail and with ample documentation the following proportions:

- basic relationships in the distribution of national income;
- basic investment structure, namely the general lines of development of economic and non-economic activities, taking into account the essential structural problems, including foreign trade;
- directions of integration into the international pattern of division of labour, and the methods in which integration should take place;
- fundamental principles of the regional aspect of the country's development policies, more particularly of under-developed areas;
- conditions of economic activities and the basic premises for changes in the mechanism of the economic system connected with plan implementation.

These and other basic proportions of the plan had to be supplied with the documentation which contains a system of social accounts and a determined number of material balances and balances of intersectoral relations (input-output analyses). The balances upon which the plan is

/based are

based are not only important as documents, but they serve as indicators for all the organs engaged in plan implementation, also when they take the necessary measures for its realization. The balances also serve in making analyses concerning plan implementation.

The required measures enacted for plan implementation are in the form of laws and other regulations, either at the moment when the plan is accepted, or later, during the course of its implementation dependent on the concrete needs. At this occasion it could be mentioned that the enactment of these measures is a regular legislative activity.

#### 4. Planning in the Working Organizations, Communes and Republics

4.1 Planning in the working organizations, associations of working organizations, communes and republics, is aimed for the purpose of achieving a fuller utilization of the productive potential and natural resources belonging to the working organization or to the social-political community in question, within the framework of the Yugoslav economy as a whole; this is later completed by effort to achieve a better co-ordination of social development and by efforts to determine their very course, within a given more narrow framework. In this context a rough appreciation of the concrete character of the plans at all these levels, will be made.

4.2 The working organizations establish their plans and development programmes for periods suiting their own specific conditions. These may be "perspective" plans for periods of ten, fifteen or even more years, dependant on cycles of changes in assortments, or changes in technology to adapt it to modern requirements. These may also be medium-term or short-term plans, usually annual plans. In principle there ought to be no time coincidence as regards the validity of plans of the working organizations and of plans of the social-political communities, but the working organizations are bound to conform a part of their programme to the plan of the social-political community for a given period. The working organizations may determine the course of their development for a longer period, whose duration is not fixed in advance, but for shorter periods they usually establish concrete plans.

/The plans

The plans of the working organizations generally determine the business and development policies, and provide for the ways and means for their implementation. As a rule, their objective is the achievement of a given revenue and of a given level of personal incomes, in attaining a certain production potential and a certain level of labour productivity.

In accordance with their needs, the working organizations plan co-operation and specialization, and work out their own conception concerning the integration of their production pattern into a broader framework or even into the international framework of division of labour, they fix their long-term policy concerning the basic distribution of income, more particularly with a view to ensuring the necessary resources for the realization of their own development policies. They also plan corresponding parts of social standard of living, the conditions for an evolution of social relations in the working community, more particularly with a view to obtaining an improvement of the internal organization in smaller production and other units, in elaborating up methods of income distribution, etc. In adjusting their plans to the plans of other factors, they bring into their own plan a corresponding part of business, and of development policies, through agreements with enterprises of a kindred branch, with enterprises within the same commune, and similar. In that way it is possible to establish concrete links between various participants in the reproduction process.

The plans of the working organizations also contain determined material tasks expressed in natural and value indicators. The development plans; as well as the plans fixing production targets and the volume of affairs, serve, first of all, for the purpose of expressing the optimum production and business programme of the enterprise. Various analyses are needed which will help in framing these programmes, such as market analyses, analyses concerning the utilization of the productive capacity, price and cost analyses, etc. Modern programming requires more and more the use of modern mathematical and mathematical-statistical methods (linear programming, dynamic programming, etc.).

4.3 Under the system of self-government, planning is to a large extent the matter of producers working organizations and their associations themselves. More and more these organizations are organizing themselves, negotiating solutions on matters of common interests, either directly or within the framework of various associations and other integrated formations. In addition, apart from assuming responsibility for their own development, the working organizations are also assuming partial responsibility for the optimum development of other activities, whose prosperity is a pre-condition for their own prosperity. Here is not dealt with the usual forms of business co-operation between a certain number of working organizations, but with a new form involving the participation of working organizations of various branches in framing development policies, and in preparing agreements intended to promote some aspects of development of the branch in question. In doing this, associations of producers work on their own affirmation and help to promote the affirmation of the new level of self-government.

Under the term association are understood various united working organizations of the same or of complementary activities, either within the framework of the country as a whole or within the framework of the republic or commune. The working organizations participate in the activities of all associations with whom they have common economic interests to share. Some other factors also participate in the activities of some types of associations, such as trade unions, scientific and educational institutions and some others which have a stake in the given activity. The activities of the associations are now discharged within the framework of activities deployed by the Chambers of Economy, their councils or individual producers' associations.

The associations autonomously determine or play some part in framing development policies which are formulated in the social plans of broader communities, concerning their own activities, or complementary activities. Arrangements concluded among producers providing for an optimum development of their branch usually lead to measures which are carried out either by the producers themselves, or by the broader communities.

4.4 Each body vested with self-government rights plans in its specific way, and the object of its planning are matters upon which it has some direct influence. This is why the communes do not plan the economic development in their own geographical area, nor do they regulate the activities of economic organizations but they merely take cognizance of the plans of the working organizations and incorporate them into their own plans. In doing so they decide on measures that may be undertaken by themselves in order to facilitate economic development, according to the provisions of the working organizations.

The commune examines the relative chances of various economic activities on their territory to achieve some comparative advantages and endeavours to create favourable pre-conditions for the development of these activities. It grasps and fixes in its plans how to create favourable pre-conditions for improving various economic and non-economic activities on its territory, for attracting resources to be invested. The commune in accord with the working organizations plans the joint activities in order to promote the solution of common problems.

The basic elements of the commune's plan include creation and harmonization of conditions for the development of communal services, social standard of living and of facilities and general conditions for work and life of the citizens. In accordance with its general medium-term plan the commune draws up programmes for the development of certain areas of social life, such as health services, cultural life, etc. These programmes are made for various periods, dependent on the character of the activity in question. Several communes, within the framework of inter-communal co-operation, may endeavour to solve problems of common interest in engaging their common resources.

Citizens of a commune may exert a direct influence of the economic policies of the communes, and on their plans, through the existing institution of electors meeting. The communal organs are bound to consult the citizens on all more important questions, at those electors' meetings. For some determined issues it is possible to organize a referendum, which already has been organized in the practice.

4.5 The plans of the republic, after their form and their content, are similar to the plans of the Federation, and they are worked out in close co-operation between the planning authorities of both instances. In drawing up their plans the republics determine the tempo and the directions of economic development on their territory, in accordance with their specific conditions, so that there may be important differences between the plans of various republics, and between the plans of the Federation on the one hand and those of the republics on the other. Each republic in framing its plan places emphasis on those sectors of the economy which are enjoying the best chances for prosperity, and through which the economy of the republic in question may integrate itself into the Yugoslav or the international pattern of division of labour. There is no relationship based on formal subordination between the plans at different levels.

The republics are autonomous in their own planning activities, provided that they act within the framework of the constitution and laws, and within the limits of their own resources. Within these limits the republics plan their own economic and social development and enact measures to which they are entitled in order to realize the planned development. Through these measures they may exert some influence, inter alia, on elements of development such as the relation between consumption and accumulation (capital formation) and investment structures. In engaging their own resources the republics may stimulate the development of certain activities, in accordance with their specific needs.

It seems quite understandable that this ought not to imperil the unity of policies and of the system as a whole, but the opinion prevails that a specific, that is to say, more elastic and adequate policy in individual republics shall contribute to the unity of the system and of policies more than the application of unique measures under various conditions.

## 5. Regional Planning

5.1 For the time being regional and physical planning are hardly represented at all in the Yugoslav planning system. Regional planning is, in fact, reduced to planning a more rapid development of underdeveloped areas, to the drawing up of urban plans, and to some rare cases of real regional planning. It can be said, however, that regional planning is an indispensable part of the planning system, and its introduction has been envisaged under the new planning principles.

Specific regional plans will be worked out in the future. These plans will determine the specific social and economic physiognomy of the area in question including the general lines of development based on the utilization of comparative advantages and taking into account the other specific conditions prevailing in the area. These elements will be considered from the standpoint of the necessity to integrate the area in question into the development pattern of the country as a whole. For this reason they are likely to have some impact upon the formulation of development policies of the country, as a whole, while, in the wake of the adjustment process, it will be possible to suggest from the standpoint of the country as a whole, the necessary changes in the developmental conception for the area in question.

5.2 Among the more important elements of regional planning besides the provisions for an accelerated tempo of economic development of the inadequately developed areas, one has to mention the general system of infrastructure, including the main transportation systems and basic power sources. In that connexion it will be necessary to draw up a rational basic scheme concerning the location and functioning of unique transportation, power generation and other systems at the level of the Federation. To this could be added the location models, veritable schemes for the location of the major production facilities, in those branches where this is needed (for example metallurgy, cement industry, etc.). These location models are the result of scientific work and as such provide a basis for proper decisions concerning location and facilitate the orientation of the banks and some other factors, but they are not obligatory. In some cases, where the need is felt, certain location models can constitute an obligatory basis for investments.

/6. Physical

## 6. Physical planning

6.1 Physical planning is also an integral part of the system of social planning. Starting from natural resources and created production potential and values, from long-term economic and demographic forecasts, physical plans always forecast the infrastructure of the territory, create the optimal location of the basic economic capacities, the network of settlements and social services, imparting a direction of urban planning and of urbanization process entailing a rational economizing with space and shaping humanly the living conditions where the people live. Physical plans have the character of social planning acts: co-ordinating the development policies and the interests of the factors of development in the given area, in principle, these plans are being prepared and adopted in the same way as the social plans.

6.2 Physical plans are prepared for broader and more narrow areas, for areas including one or several communes, for specific (touristic, natural, industrial, etc.) areas, for the territory of republics and the national territory as a whole. Dependent on the degree of their comprehensiveness, the character of the plans is also modified, as well as the methods used in making them. The preparation and realization of these plans are inspired by the principles of co-operation among social-political communities.

6.3 Physical plans are, by their very nature, long-term plans, and are prepared for periods of twenty or thirty years. They are implemented in stages identical with medium-term periods. Renovation and continuous prolongation of these plans is carried out in connexion with the preparation of medium-term plans. They are being implemented in connexion with urban planning schemes, water regulation schemes, transport and other projects, in connexion with land policies, through the programmes of housing and communal facilities, as well as through other legal and administrative provisions concerning construction activities.

/7. Adoption

7. Adoption of plans and the analyses  
of their implementation

7.1 The procedure connected with the drawing up of plans and their adoption is founded on democratic principles in conformity with self-government practices. All the factors playing a role in social reproduction, all the political, social, professional and scientific institutions, as well as all working people participate in the elaboration of social plans and of the plans of working organizations. These possibilities exist at all the stages of plan preparation, so that not a single stage can be terminated without ample consultation of all the interested people who are allowed to expose their views and opinions.

The plans of social-political and working communities are being accepted by the representative bodies of all these communities. In this way the plans receive the character of social obligations and tend to become instruments for the realization of certain economic policies. There is the usual practice to expose the alternatives for future economic policies, to the representative bodies in order to enable these organs to issue the directives for the elaboration of plans, and to put in the way the final preparation of the plans.

7.2 Scientific and economic analyses secure high quality planning and an objectivity in formulating the basis for the standpoints in economic policy. For this reason the drawing up and continuous improvement of the planning methodology is one of the most important elements of the entire planning system. Planning methods include preparation and adoption of plans, as well as their implementation. Connected with this is the great need for promoting research activities in the field of economic development and economic systems, and more particularly research devoted to basic theoretical problems of the social and economic system.

In the planning system a special place is held by efforts to achieve a proper co-ordination of work in the elaboration of plans. Thanks to co-ordination, in the preparation of plans of individual autonomous bodies playing a part in economic and social activities, solutions can

/be found

be found which suit the interests and the needs of direct producers, in enabling at the same time the implementation of general objectives and tasks of the social community as a whole, as well as the normal course of the entire process of social reproduction. In that context, the planning institutes are closely connected with the business world (associations of producers, etc.).

7.3 From time to time the bodies entrusted with the task of drawing up the plans are bound to submit reports concerning plan implementation, viz. concerning implementation of economic policies. If these policies are not being implemented, the above organs are bound to analyse the causes of non-implementation and to propose measures intended to push up the realization of these policies. These bodies may also propose a modification of the plan (in furnishing a justification for this), if there are sufficiently strong indications that it could not be implemented for various objective and other reasons. In the meantime a modification of the plans can only be envisaged if there is a confirmed impossibility of carrying out planned development, or of the modified objective conditions require a different development.

At the end of each planned period a final report is submitted concerning the implementation of plans. This report implies the information and justification before the representative organs and the public at large on the implementation of economic policies during the period under review.

The organs of social planning, together with the producers' associations, scientific institutions, etc., from time to time present the informations, for the economy as a whole, and for certain economic and other activities; on movements and tendencies, particularly on the activity in the enlarged reproduction, investments intentions and their realization on the state of capacities and on possibility of using them, on the lack of certain productive capacities, on conditions for earning income and the process of capital formation (accumulation) in various branches. These informations serve to the working organizations and

/banks in

banks in the conduct of their business and investment activities. From these informations they may, inter alia, draw the necessary conclusions concerning the most favourable possibilities and directions of capital investment etc. Analyses are made containing alternatives for optimum and prospective solutions, more particularly for some activities, as regards development and enlarge reproduction, optimum size of capacity, the introduction of modern and most appropriate organizational schemes for the conduct of business, and common services and activities.

For some branches, location models are made providing for optimum solutions in the location of productive forces. These materials, which in fact are elements of the plan, also assist the factors of economic initiatives in making decisions. Quite naturally, these documents do not create any obligation for the working organizations and banks, but it is also quite clear that working organizations, banks and the social-political community must take account of them. Finally, some elements of these materials can be inserted into the legal provisions enacted by the social-political communities, thus, for example, they may enact regulations on the minimum capacities serving for certain kind of productions or other activities, etc.

7.4 The Federal Planning Institute draws up the drafts of plans, makes analyses and submits its proposals concerning measures to be adopted. In performing this job the Institute co-operates with the planning institutes of the component republics, the Chamber of Economy, producers' associations, trade unions, various departments of the federal government. Discussions are held among the experts of these bodies. Special bodies, called councils, are organized within the framework of planning authorities for certain branches and activities of the economy. They are composed of the delegates of the above bodies.

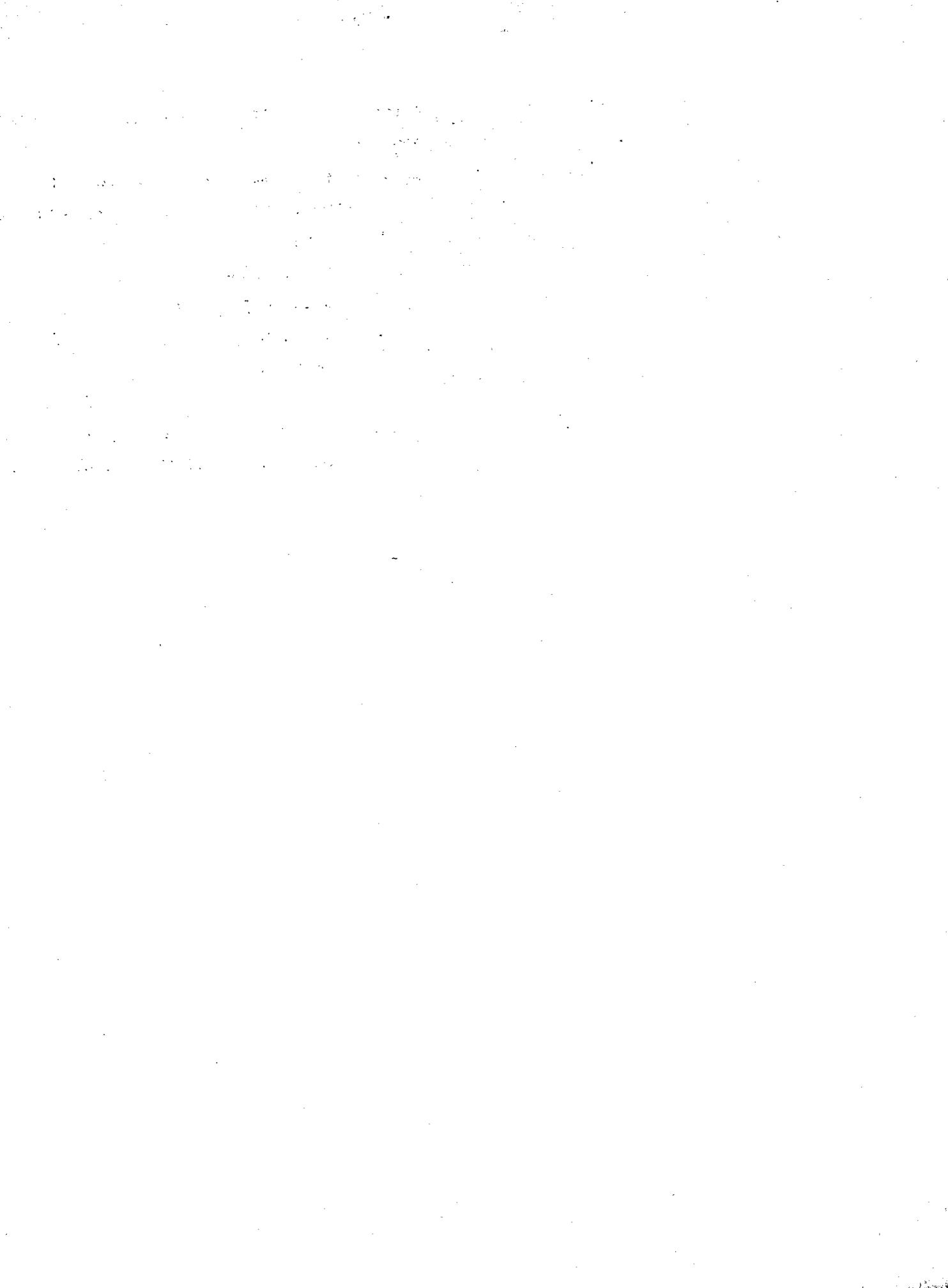
In addition, some other methods are used for giving the necessary publicity not only in accepting plans and in formulating the economic policy but also in the process of working out of proposals for this policy. Efforts are being made to induce the planning institutes to organize public discussions with a broad audience, among scientists,

/experts and

experts and other interested persons and treating all the more important questions in the domain of economic policies.

As a rule, the planning authorities submit their proposals in variants, assorted with scientific arguments about the required conditions and the possible consequences of those alternatives.

7.5 Efforts are being made nowadays to establish a minimum of planning methodology, in order to find a language understandable for everybody in planning and analyses. What seems to be a necessity is the elaboration of a planning methodology for non-economic activities, in view of the fact that plans become more and more plans of all social activities. In fact, the basic elements of economic planning are largely applicable in the working organizations of all the social services as well.



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IMPLEMENTATION OF EMPLOYMENT POLICY

by

International Labour Organisation  
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## IMPLEMENTATION OF EMPLOYMENT POLICY

### A. Introduction

1. There are very few aspects of economic development which have such a vital and immediate impact on the daily life of the people as the implementation of an effective employment policy. It can of course be said that most of the usual objectives of economic development - industrial growth, import-substitution, improving the balance of payments, and so on - have important and far-reaching effects on people's life and work; but these strategic objectives may easily seem remote and impersonal to the mass of the population. For most of the people, interest will be aroused only by a plan which can be seen to offer prospects fairly soon of a better daily life. They will look for higher real wages, better living conditions, and perhaps more than anything the chance to share in these benefits of economic growth, which comes with a high and stable level of productive employment.

2. The attitude of many workers and their families to economic development plans - and to the governments responsible for them - thus depends very much on the approach to employment policy. Unless a development plan includes the implementation of an effective employment policy, it will have little chance of receiving popular support. Lack of such support will inevitably mean that the prospects of achieving the over-all objectives of the plan will be correspondingly reduced.

3. Against this background, the present paper sets out to examine some problems of employment policy which are being encountered in practice. The main emphasis is not on the techniques of fixing employment targets or on the adequacy of such targets in existing plans. On these subjects a good deal has already been written. The approach which is adopted here is to look for some evidence of progress towards current employment targets, to suggest what actions are needed to overcome some of the obstacles to implementing employment policy and to consider the international exchange of experience in this field.

### B. Employment Targets in Development Plans

4. During the 1950s, most of the economic plans prepared in the developing regions of the world began increasingly to take into account the need for creating more new jobs. This trend, stimulated on the one hand by rapid population growth and on the other hand by more widespread knowledge of the techniques of capital-intensive methods of production, has been the subject of many writings in recent years.<sup>1</sup> Not enough time has gone by

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<sup>1</sup> Some of the main references are given in I.L.O. Employment and Economic Growth (Geneva, 1964).

to evaluate properly the results of many of these development plans in regard to attaining the employment objectives which were set out, but it seems that the number of countries in which employment objectives have been realistically assessed in relation to production targets is comparatively limited. In most of the plans, a gradual reduction of unemployment and underemployment is adopted as one of the major or subsidiary objectives. But there are few plans in which the methods to be used for achieving this reduction, and the economic activities and areas of the country where employment will increase, are set out in the same degree of detail as (for example) the use of natural resources or the financial requirements of investment projects.

5. Employment objectives in a development plan may be expressed in at least the three following ways:

- (a) increasing employment in the same proportion as the increase in the labour force.<sup>1</sup> This is regarded as a minimum objective in some plans; it implies, however, that the absolute total of unemployment and underemployment at the end of the plan period will be more than at the beginning;
- (b) a more common and somewhat more ambitious objective is to ensure that the absolute total of unemployment does not increase; this means that the employment created should equal the absolute increase in the labour force, so that the proportionate rate of increase of employment must be higher than the rate of increase in the labour force;
- (c) the third and most ambitious objective is a reduction of unemployment and underemployment in absolute as well as proportionate terms during the planning period.

6. A comparison on the above lines of the planned growth of employment with the growth of the labour force in a number of development plans has been made recently in the I.L.O.<sup>2</sup> and shows the following grouping:

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<sup>1</sup> Defined as those who are employed (fully or partially), plus the unemployed and those with a job but not at work.

<sup>2</sup> C. Hsieh, "The Planned Rates of Increase in Employment in Development Plans" (article about to be published in the International Labour Review).

<u>Employment Growth (E) Compared with Labour Force Growth (L)</u>		<u>Countries</u>
E substantially more than L	Pakistan	(Third and Fourth Plans)
	U.A.R.	
	Tunisia	
	Turkey	(First 5-Year Plan)
	Greece	
	Italy	
	Venezuela	
E equal to or slightly exceeding L	India	(Second 5-Year Plan)
	Pakistan	(Second Plan and Perspective Plans)
	Ceylon	
	Malaysia	
	Philippines	
	Japan	
	Turkey	(Second and Third Plans)
	Ghana	
Brazil		
E less than L	India	(Third Plan)
	Morocco	

Latin America

7. In Latin America, because of the combination of lower death rates with steady or rising birth rates, the youngest age group (0-14 years) is increasing fastest. The labour force or economically active population is growing at over 2 per cent. per annum, but at a considerably slower rate than the population as a whole. The labour force comprised 34 per cent. of the population in 1950 and about 32.8 per cent. in 1962.<sup>1</sup> These rates, taken together with the rate of population increase (currently about 2.85 per cent. and likely to reach 2.9 per cent. between 1970 and 1980), mean that the average annual increase in the labour force for the Latin American region is about 0.85 per cent. of the total population, as the following figures show:

<sup>1</sup> E.C.L.A.: Manpower and Economic Development in Latin America, 1964 (E/CN/12.1.1).

Population and Labour Force Estimates (mns.)<sup>1</sup>

	<u>Total Population</u>	<u>Labour Force</u>	<u>Average Annual Increase of Labour Force</u>
1960	212	71.3	2.09
1970	283	92.2	2.83
1980	376	121.5	

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8. This average of 0.85 per cent. conceals wide variations as between countries (for example, 0.93 per cent. in the case of Venezuela and 0.40 per cent. in the case of Uruguay). It may be concluded however that for Latin American countries with the highest rates of population growth, an annual target for employment creation of about 1 per cent. of total population is needed to keep pace with labour force growth and to allow also for a reduction of unemployment and underemployment.

Progress towards Employment Targets

9. There are not yet many developing countries which are able to make a proper statistical evaluation of progress towards employment targets. Only a few examples can be given here. It is noticeable that employment-generating effects of plans are approached in two main ways. There may be a plan of which the whole structure is relatively labour-intensive, i.e. the employment potential is built in through the choice of production targets, the sectoral pattern of investment and the techniques used in carrying out development projects. This type of plan generally places heavy emphasis on agriculture. Or the main structure of the plan may be relatively capital-intensive, relying on multiplier effects to create employment; this type of plan usually emphasises industrial development but may be accompanied by special programmes (e.g. rural works projects) for creating employment at low capital cost in order to alleviate unemployment until multiplier effects begin to show themselves.

10. The Third 5-Year Plan of India recognised that unemployment would increase from 9 to 12 millions during the plan period even if the target of 14 million extra jobs were attained. A

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<sup>1</sup> See Manpower Planning and Employment Policy in Economic Development (Report II for the Eighth Conference of American States Members of the I.L.O., 1966).

rural works programme was developed to absorb these 3 million workers between 1960/61 and 1965/66. Capital per worker had increased from Rs.1,520 in 1950/51 to Rs.1,890 in 1960/61<sup>1</sup> and was expected to reach Rs.2,265 (at constant prices) by 1965/66. The general conclusion appears to be that the high rate of investment was reflected in a sharp rise in capital-intensity rather than an adequate growth of employment; this conclusion however might well have to be modified if the reduction of underemployment in agriculture were taken fully into account.

11. In Venezuela the National Plan of 1960-64 envisaged that unemployment would be reduced from 14 per cent. to 7 per cent. during the Plan period. Special employment programmes in the construction sector and additional training programmes of I.N.C.E. formed part of this Plan. An appraisal made in the following Plan<sup>2</sup> shows considerable progress towards achieving this employment objective; unemployment in 1964 was estimated at 10.5 per cent. compared with a planned figure of 9.7 per cent., the absolute total of unemployment being 288,000 compared with a planned figure of 267,000.

12. In Pakistan, it became possible during the Second Plan period (1960-65) to provide enough employment to absorb the growth of the labour force. This was attributed<sup>3</sup> mainly to three factors:

- (a) extension of the cultivated area and acceleration of agricultural growth from 1.3 per cent. annually in the 1950s to 3.5 per cent. in the Second Plan period;
- (b) a rural works programme (especially for irrigation, land reclamation, road construction and intensive cultivation) by which employment is provided in rural areas for an average investment of Rs.600 per job compared with Rs.5,250 per job for the Second Plan as a whole;
- (c) developing a system of "planning from below" which involves "broad-based participation by the people whose ways of life are directly affected; planning no longer remains an exercise carried out by experts and administrators from outside the main stream of local life".<sup>4</sup>

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<sup>1</sup> E.C.A.F.E.: "Economic Development and Human Resources", 1966 (Growth Studies, No. 3, p.10).

<sup>2</sup> "Plan de la Nación, 1965-1968" (Cordiplan, 1965, p. 38).

<sup>3</sup> Government of Pakistan: The Third Five-Year Plan, 1965-70, pp. 150-157.

<sup>4</sup> Government of Pakistan: The Third Five-Year Plan, 1965-70; p. 516.

During the Third Plan period, it is expected that additional employment will attain 5.5 million man-years compared with an estimated labour force growth of 4.2 million, thus reducing considerably the back-log of unemployment and underemployment.

13. Most employment targets are set at the sectoral level (perhaps divided by regions) and there are few countries which have numerical criteria for taking employment effects into account at the project level. In the Philippines, however, specific directives have been given about such criteria in the choice of development projects. The employment criterion has a weight of 40 out of 100 "points" assigned to a project, the remaining 60 points being assigned for criteria of revenue-producing capacity, geographical location, economic side effects and the degree of local support for the project.<sup>1</sup> Ratios of man/days of work needed to the estimated cost of the project are used to calculate a measure of labour-intensity for each project.

14. An outstanding example of the rural works approach is the programme of "Cooperación Popular" in Peru. In the first three years over 12.4 million man/days have been worked in this programme, the equivalent of about 50,000 full-time jobs or nearly a fifth of the annual increase in the labour force. Nearly 70 per cent. of the additional to national capital thus created (537 million soles) was attributable to the investment of voluntary community labour.

#### C. Action by Governments to Implement Employment Policy

15. The preliminary inquiry carried out in Peru and Colombia seemed to point out problems of implementation likely to be found in most other countries of the region. Rapid economic progress in the past few years has failed to generate enough employment opportunities for the rapidly growing labour force. This situation might have been improved if there had been a continuing search for sound policies and action, but the inadequacy of statistical data and institutional arrangements limited the possibilities of identification of the unemployment problem and of implementation of measures to deal with it.

16. In Peru the Government has pursued an active programme to provide incentives for industrialisation, particularly in outlying areas of heavy population concentration, and also in major cities where there is significant open unemployment. Agrarian reform and community development have received attention as means of creating new employment opportunities in the rural areas. However, the Government assists existing industries to mechanise and promotes, through its industrial incentive

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<sup>1</sup> Rules and Regulations to Implement the Emergency Employment Act, 1962, Chapter IV, "Project Appraisal", Article I.

systems, the establishment of capital intensive industries undertakes public works with labour-saving equipment in areas of excess labour force; this is done at the same time as it publicly recognises the inadequate utilisation of the country's manpower.

17. Colombia has recently demonstrated its awareness of the gravity of present unemployment and underemployment problems and is in the process of establishing institutional machinery to seek a solution. As a country with an evolving industrial base dependent on one crop for its foreign exchange earnings, and with an exceptionally strong rural-urban flow, it has recognised the need to focus on promoting employment in the short run and to stimulate its domestic economy. The subject is receiving attention at the policy and implementation levels simultaneously and all available means of creating employment are being utilised or are under review. An organisation to produce an adequate data basis, to provide technical support to policy makers in employment matters, and to assist in the co-ordination of implementation, is soon to become operational.

18. There is no doubt that the utilisation and development of human resources will have to be among the highest priorities for many governments during the next few years. Reference is made later in this paper to the Ottawa Plan of Human Resources Development, which the I.L.O. has begun to implement in accordance with resolutions adopted by countries of the Americas. This is the first of three regional plans which envisage a comprehensive approach to problems of human resources development, an approach which includes two very broad and basic aspects. First of all, there is the aspect of skill formation, covering the acquisition of skills of all kinds. This deals not only with problems of high-level manpower in technical and professional occupations, but also with the training of skilled manual workers by apprenticeship and other methods, and includes short courses and on-the-job training of two or three months' duration needed to equip workers for semi-skilled tasks. Secondly, the regional plans deal with problems of employment creation, the fixing of employment targets as referred to above and the action needed to reach these targets.

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<sup>1</sup> "Whether impelled by considerations of social equity, economic growth, or by political necessity, employment policy is thrusting itself to the forefront as a vital consideration in a nation's development plan ... the ability to provide employment is becoming a criterion by which to measure the success of development efforts." (U.S. Department of Labor, Manpower and Employment Development, June 1967).

19. Experience of recent years in human resources planning, especially in the employment policy field, bears witness that the emphasis given in this Third Seminar to problems of implementation is both correct and timely. More and more attention has been given to this subject recently, with a growing recognition that the preparation of plans - however careful and comprehensive - is only a beginning, and often not the most difficult of the economic development tasks which a government has to carry out. In the earlier stages of manpower planning work in developing countries it was often believed to be sufficient to train a number of planners in the economic and statistical expertise needed for preparing the human resources chapter in a general development plan, after which the plan would be put into operation by the government services of each country. But employment policy, if it is to be effective, is certainly not one of the aspects of development that can be neatly separated from the possibilities of implementing the plan within a given political and administrative framework. In 1964, the administration of development planning was examined in detail by a meeting of experts under United Nations auspices and the following comment was made:

"The human factor implied the preparation of training programmes in connection with the integration of economic and social planning and, above all, the adaptation of the objectives of the plan to the administration's capacity to prepare and implement programmes."<sup>1</sup>

More recently, after a very thorough study of the theory and practice of planning in many developing countries, the following conclusion was reached by a well-known expert in this field:

"... in most developing countries the unresolved planning problems are mainly political and administrative rather than economic."<sup>2</sup>

20. These conclusions are particularly applicable to both the political and administrative context of employment policy. Employment targets, unlike most production targets, cut across different economic sectors and can only be satisfactorily implemented by collaboration between macro-economic planners, sectoral planners and administrators in many different units of government. Similarly, at the political level, collective responsibility of ministers has to be invoked for the acceptance of an effective employment policy and for any substantial modifications of it.

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<sup>1</sup> Administration of National Development Planning (United Nations, 1964, ST/TAO/M/27).

<sup>2</sup> A. Waterston: Development Planning: Lessons of Experience, pp. 3-4 (John Hopkins Press, 1965).

21. Once genuine support for employment policy has been given at the political level, emphasis can be shifted to the prospects of implementation at the technical level. Only two of the main obstacles will be briefly mentioned here, those of statistics and of co-ordination. There are not many developing countries which have a meaningful series of estimates (except at long intervals, e.g. census dates) of the degree of unemployment and underemployment. This means that until the necessary statistical improvements have taken place, it will remain impossible to measure the short-term or even the medium-term impact of policies designed to create more jobs, and therefore impossible to adjust policy measures promptly to changing situations.

22. Problems of co-ordination are extremely important in most aspects of economic and social development planning and no less so in the manpower and employment field. Where the task is fairly self-contained (as in training skilled workers) responsibility can often be given to a single authority, e.g. one which plans and organises training in close relationship with industry. But it is in the field of employment policy that problems of co-ordination become most acute. There is a general recognition of the need to create more jobs, but an effective machinery for deciding how to do so - let alone for doing it - does not exist in most Latin American countries. In this field, policies affecting many different economic sectors have to be co-ordinated by a central planning unit, but it cannot be expected that the general guide-lines normally issued by such a unit will percolate sufficiently through the administration to bring about effective action in themselves. To secure this, a single ministry or other unit must be charged with acting as a pressure point to ensure that employment policy is taken fully into account in decisions about economic and social policy in general, and with continuously watching the implementation and day-to-day impact of agreed policies. This also involves more people working together as an administrative team; to the extent that it happens, the tradition of personalised administration in which ministries act more or less independently, must necessarily be revised.

#### Administrative Organisation of Employment Policy

23. Both the working arrangements for formulating employment policy and the capacity to implement such policy vary widely between countries, in Latin America and elsewhere. It is not possible to point to any ideal arrangement which clearly works better than any other. But by comparing the experience of several countries, it is possible to show the general pattern which exists for the organisation of manpower planning including employment policy. It is assumed for this purpose that the structure of government includes a planning unit as well as the normal series of economic and social ministries (industry,

labour, agriculture, finance, education, etc.) reporting to the Head of State, as well as technical units such as the central statistical office. Also, it is assumed that employers' and workers' organisations participate or at least are consulted in the planning process. The following diagram illustrates the main units involved in implementing employment policy within this general pattern:

Organisation for Manpower Planning  
Including Employment Policy

**Chief Executive (Head of State)**

Council of Ministers

(7)

Economic and Social Development Board

Chairman: Minister of Development,  
Economy or Finance

(1)

Executive Secretary: Director of  
E.S.P.S.

Members: Ministers, employers' and  
workers' representatives

2(a)

Several Committees, e.g.

Finance  
Regional Development  
and  
Major Economic Sectors

Economic and Social Planning  
Secretariat (E.S.P.S.)

Manpower  
Division

Production  
Planning  
Divisions

Other  
Planning  
Divisions

2(c)

2(b)

Manpower Committee

Chairman: Minister of  
Labour

(3)

Executive Secretary: Chief,  
Manpower Div. E.S.P.S.

Additional Members: Re-  
presentatives of Central  
Statistical Office,  
Workers' and Employers'  
Orgns., Research, etc.

Central  
Statistical  
Office

(4)

Other Ministries

Finance  
Agriculture  
Industries  
Public Works  
Transport  
Defence, etc.

5(b)

(5) Ministry of  
Labour

(6) Ministry of  
Education

5(c) Manpower Directorate

Employment  
Service

Employment  
Market Re-  
search

Vocational  
Guidance

NOTE: The purpose of this chart is to facilitate the study of the problems of implementation. It is not intended to illustrate the planning system of any one country although these or similar organisational components are likely to be found wherever planning is undertaken.

\_\_\_\_\_ = Executive responsibility.

- - - - = Planning responsibility.

- (1) Economic and Social Development Board: recommends general strategy of economic and social development and approves over-all objectives including employment objectives.
- (2) Economic and Social Planning Secretariat:
  - (a) provides E.S.D.B. with technical information and advice for deciding strategy and objectives;
  - (b) prepares detailed plans with specific targets for output of goods and services in each planning period, covering both private and public sectors; and
  - (c) its Manpower (or Human Resources) Division: determines targets for employment creation related to demographic growth, general employment situation and investment targets adopted in plan; determines manpower needs (by economic sectors and broad occupational categories) on the basis of information from production planning divisions; co-ordinates human resources planning work of various units; provides necessary information and advice to Manpower Committee of E.S.D.B. (in some Latin American countries this function is diffused among different ministries, which makes its contribution to macro-level decisions problematical).
- (3) Manpower Committee of E.S.D.B.: recommends general strategy of human resources development to E.S.D.B. and provides policy guide-lines to various units concerned with manpower and employment (may be called a Human Resources or Manpower Council, e.g. the Human Resources Councils recommended by the Second Inter-American Conference of Labour Ministers, May 1966).
- (4) Central Statistical Office: co-ordinates statistical work of various units for purposes of economic and social planning, including employment policy; carries out multi-purpose statistical inquiries; advises E.S.P.S. on availability and further development of statistics.

(5) Ministry of Labour:

- (a) carries executive responsibility for manpower services such as employment service, vocational guidance and occupational research;
- (b) studies employment market situation in different areas and advises Manpower Division of E.S.P.S. and Manpower Committee regarding probable impact of employment targets to be adopted; and
- (c) carries out continuing studies in co-operation with E.S.P.S. of the employment effects of plans already in operation and indicates changes which may be needed.

(6) Ministry of Education: has joint responsibility with Ministry of Labour for vocational guidance of young people during later years of education and when seeking employment.

(7) Council of Ministers: takes decisions on decrees, regulations and other major executive action needed to implement the agreed plan of development (including legislative proposals where necessary); resolves inter-ministerial problems arising from different viewpoints on measures needed.

24. There are many variations on the system shown above, but what is important is that when the main functions described become operational, the prospects of successfully implementing employment policy are improved in many ways. Perhaps the two most significant are that ministers and their senior advisers can be briefed with information and arguments (at present often lacking) for bringing employment criteria to bear on top-level decisions about economic development. A responsibility which in Latin America now tends to be diffused and neglected thus becomes concentrated into a single channel. Secondly, a means is provided for continuously watching changes in the employment situation and making necessary adjustments in development plans. Such improvements are fully in accordance with recommendations made within the Alliance for Progress machinery by the Inter-American Conferences of Labour Ministers.

#### D. International Action on Employment Policy

25. Problems of unemployment caused by economic recession and structural change have always been among the main concerns of the I.L.O. Some of the earliest Conventions and Recommendations dealt with this subject<sup>1</sup> and during the period from the 1920s to the early 1950s many studies and reports were prepared on unemployment and policies for dealing with it. By about the middle of the 1950s, when the period of readjustment after the Second World War had come to an end, most of the industrialised countries had adopted the idea of a high and stable level of employment as a basic objective of economic policy.<sup>2</sup> With the gradual disappearance of large-scale unemployment in the developed countries, the focus of international action in this sphere began to move towards problems of unemployment and under-employment in the developing part of the world.

26. In 1964, the 48th International Labour Conference<sup>3</sup> adopted two instruments on the subject of employment policy. The first of these states that each member State "shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment". Recommendation 122 suggests a number of specific measures of policy which might be adopted by countries in order to move towards the objective of a higher level of productive employment, including in particular the adoption of quantitative targets.

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<sup>1</sup> e.g. Unemployment Convention, 1919 (No. 2)

<sup>2</sup> In the U.S.A., full employment came about somewhat later than in most of the European countries. The Manpower Report of the President, March 1966 said "... the economy has now entered a relatively unfamiliar environment as it approaches full employment."

<sup>3</sup> Employment Policy Convention (No. 122) and Employment Policy Recommendation (No. 122). (Copies of these will be distributed in Caracas to delegates at the Third Seminar.)

27. On the question of the obstacles which exist to generalising the full employment experience of many advanced countries so as to include the developing countries, a great deal has been written. In the broad sense, these obstacles are well known, although detailed and reliable information about their significance in any given country is much harder to come by. First and foremost is the problem of the more rapid growth of population in the developing as compared with the advanced countries. The dominating influence of this factor in fixing targets for employment creation in development plans has already been noted. Probably next in importance comes the question of the importation of certain capital-intensive technologies the use of which, with the endowment of production factors found in the advanced countries, may be economically rational, but which is not so in the developing countries. The latter in fact have wider scope for technological choice than in richer countries where capital-intensity is a logical reaction to scarcity of manpower and a strong trade union bargaining position. Finally, a good deal of importance must be given to institutional obstacles to employment policy - obsolete systems of land tenure, a highly unequal distribution of incomes, lack of adequate knowledge of the employment market, lack of suitable vocational training opportunities and lack of employers' and workers' participation in formulating employment policy.

28. A further step in the field of international action to tackle such problems was taken at the Eighth Conference of American States Members of the I.L.O. held at Ottawa in September 1966. At this Conference, two resolutions were adopted calling for an integrated programme of action, using a common methodology, to deal with problems of human resources in their two main aspects of employment creation and skill formation. This programme, now known as the Ottawa Plan of Human Resources Development, has the highest priority for I.L.O. action in Latin America, in collaboration with other international agencies.

29. During the first stage of the Ottawa Plan, a detailed inquiry is being carried out into the obstacles which exist to the application of the I.L.O. Employment Policy Convention and Recommendation in the countries of Latin America and the Caribbean. Several countries are already making studies on this subject, some of them with technical assistance from the I.L.O., in accordance with decisions taken at an I.L.O. meeting on the subject of employment policy held in Lima in October of this year. The results of these studies are expected to throw much new light on the economic, social and institutional factors which come into play in implementing employment policy. It is

also hoped to provide much more detailed information than now exists about the employment policies being pursued in different countries, the results which have been achieved and the possibilities for extending lines of action which have shown some success to other countries of the Americas. An oral report on significant problems revealed by the progress of these studies will be made by the I.L.O. representative at the Third Seminar.

I.L.O.  
Géneva,  
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