

CEPAL

REVIEW

NUMBER 49
APRIL 1993
SANTIAGO, CHILE

ANIBAL PINTO
Director

EUGENIO LAHERA
Technical Secretary



UNITED NATIONS

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Strategic *management,* planning *and budgets*

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After having reached a turning point some time ago, the political, economic and social processes of the countries of the region are currently in the midst of a transition. Now that the wave of change which elevated the market and private enterprise to a position of unrivalled supremacy has passed, a more thoughtful evaluation needs to be made of the virtues and responsibilities, shortcomings and excesses of these factors. At the same time, a new assessment is also being made of the role of the State and of how it needs to change, as well as of possible forms of government intervention in social and economic processes. In short, the paradigm that will ultimately take hold in each country of the region has not yet become clearly defined. The changing nature of underdevelopment, its new dimensions and its most pressing manifestations make it necessary to rework existing interpretations and analyses and, on that basis, to put forward new political agendas and strategies for building more efficient economies and more equitable, unified societies. In recent years a considerable number of reforms have also been undertaken, with varying degrees of success, in an effort to improve the way market mechanisms function and to redefine the role of the State in various areas of the region's economic and social life. In the new division of responsibilities between the public and private sectors that is emerging out of these national experiences, modes of interaction associated with mixed economies are coming to the fore. In view of these developments, an ongoing analysis of the processes now under way is needed in order to organize and describe the different categories of newly emerging public-sector functions, ascertain the possibilities and limitations of the capacity for collective action embodied in planning as a technique of governance, and strengthen government approaches and procedures for marshalling and allocating resources.

I

Introduction

The planning and coordination of public policy are in the process of being reviewed and brought into line with the new sets of circumstances that have arisen in the region. Within the framework of the broader reforms being effected with regard to the State, the changes being made in the governmental administrative process are directed towards the establishment of new organizational and operational patterns.

This article comments upon these changes in the light of the actual processes currently taking place in the Latin American countries.¹ On the basis of considerations relating to existing forms of State action, the first four sections deal with fundamental aspects of strategic management. The discussion begins by focusing on the most pressing problems associated with underdevelopment and their very necessary prioritization, the conclusion being that we need to update our ideas about how these problems are created and perpetuated. Starting from a generic interpretation of the region's socioeconomic mode of operation, the ECLAC secretariat has drawn up a proposal for changing production patterns with social equity, and the *idées-forces* of that proposal are highlighted in this article.

It is also argued that an analysis of this subject as it relates to the actual economic and social realities of the region would be a very useful input for an examination of new forms of government intervention.

The last two sections are devoted to a discussion of the new functions of government which are beginning to emerge against this backdrop of societal change and reform of the State. One such group of functions has to do with the role of government as a catalyst in guiding and energizing national development processes; a second category is composed of the regulatory functions of government as an arbiter in cases where individual and collective interests may conflict, while the last group of functions concern the performance of those duties that are the exclusive prerogative of government. These categories of incipient governmental functions are used as a point of reference for a number of proposals for updating substantive and methodological aspects of planning as a technique of governance. The article closes with a few comments and suggestions for strengthening the governmental decision-making process as it relates to the allocation of public resources.

II

State action

Some dissatisfaction is to be noted among the region's political leadership as regards the operation of the existing socioeconomic system. The market and private enterprise are acknowledged to have certain features that should be utilized and promoted, but it is also recognized that they suffer from certain shortcomings which must be redressed and that they lead to certain excesses which need to be tempered. It is

appreciated that existing political agendas are firmly committed to building better societies. This calls for a skilful combination of market action and State intervention designed to ensure that the State's efforts to achieve this goal do not smother the potential of private enterprise. Clearly, this involves the delicate task of defining the proper sphere for State action, but it also creates a need to devise new forms and methods that will be in keeping with the changes taking place in our economies and societies (ILPES, 1992a).

The political processes which have taken place in the region over the past few years have had a very strong influence on State intervention and on the functions of planning as an instrument for guiding social and economic activity. Initially, these

¹ A preliminary version of this essay was presented in November 1992 at the fifteenth meeting of the Presiding Officers of the Regional Council for Planning (CRP), the intergovernmental body that oversees the work of ILPES. The authors wish to thank the directors of the Institute, as well as Jorge Israel and Ricardo Martner, for their valuable comments and suggestions.

mechanisms were clearly relegated to a position of secondary importance, while preference was given to the market and to deregulation. Planning ministries, departments and offices have, generally speaking, seen a decline both in their status and in their influence with decision-makers.

More recently, however, a more objective and realistic view has begun to be taken of new spheres and forms of State action, and this has led to the restoration of some of planning's classic functions as well as the identification of new tasks called for by emerging conditions. Today, the suppression of State intervention is no longer a leading issue; rather, the controversy—depending on the particular countries—concerns the extent, spheres and forms of regulatory action and of measures for guiding economic and social processes in desired directions.

It is not in mankind's nature to refrain from seeking to influence the future course of events, and this is also certainly true of society as a whole, which, if endowed with a democratic system of government, will choose the agenda that it finds most cogent. If we have a societal agenda to fulfil, then as soon as we lift our eyes to gaze into the future we are accepting the need for a strategic position and the desirability of being prepared beforehand, both for foreseeable external events and for the decisions that will have to be taken in order to put up a better defence against adverse events, take advantage of favourable ones, and ensure the fulfilment of the government's political agenda. Herein lies the essence of a renewed form of planning that abides by the restrictions imposed upon it by the modern world.

III

The foundations of strategic management

A national agenda that embodies the goal of building a better society and explicitly states its main objectives is an essential frame of reference for the definition of a strategic form of management. This involves the identification and prioritization of the most serious problems of underdevelopment in each country, together with the formulation of an updated and more precise interpretation of their origins and of the chain of events and factors that have engendered them.

In the recent past, the region has witnessed significant deterioration in a range of economic and social variables which has led to a general decline in the quality of life of large segments of its population. This deterioration has, of course, been experienced in different ways in the different countries. The most disturbing problems must be weighted differently in each country; nevertheless, the problems discussed in the following pages, which mainly have to do with social inequity, are to be found in quite similar forms throughout much of the region.

1. The most critical problems

a) *Poverty and social exclusion*

It is generally agreed that the social inequity existing in most of the countries of the region has reached

unbearable proportions. As someone once said, when a minority of the population has almost everything while the vast majority has almost nothing, this imbalance weakens democracy where it is most vulnerable. Indeed, this problem is so severe that its magnitude can be gauged quite well even without the help of statistics (ECLAC, 1990a). One has only to take a look at the region's cities and rural areas to realize that social exclusion and enormous territorial imbalances are among the chief manifestations of underdevelopment. The disturbing extent of poverty in the region is the result of its economies' inability to absorb the increase in the labour force in productive ways, and the emergence of the informal economy is compelling evidence of that inability. This obliges us to take a look at the way in which the social and economic system currently operates.

There are those who think that the stigma of exclusion is inherent in the prevailing development style. Others contend that it is a matter of time: they reason that if free enterprise and the market are allowed to function without being suffocated by State intervention, the level of investment will gradually rise so that available labour will be absorbed in an increasingly productive manner. In view of the imperative need to consolidate all the various facets of the

region's democracies, the span of time available for rectifying this problem is becoming a scarce resource, however. Hence the growing acceptance of the idea that the market and private enterprise, strategic management and State action are not mutually exclusive. The magnitude of the tasks to be accomplished leaves no choice but to concentrate on shared needs so that the operational demands of the market and private business and the government's responsibilities in respect of social needs and strategic leadership are all accorded due consideration.

b) Excessive consumption of non-essential goods and services

In contrast with efforts to address the above problem, there is an increasingly evident trend towards the unbridled acquisition of goods and services that are not strictly essential. Although such a propensity is not new, the current pace of consumption and, in particular, the means employed to satisfy this demand have become a cause of concern. Once again, we have no need of econometrics to realize that, if this trend persists, it could lead to even more disturbing distortions.

Although a large percentage of such consumption is accounted for by a relatively small segment of the population, it has an undeniable demonstration effect which, in conjunction with forms of advertising that go far beyond the bounds of mere persuasion, promotes consumption patterns that are at odds with the income levels of many sectors of society. This not only reduces the population's saving capacity, but leads to a great deal of frustration on the part of those who are urged to purchase more than they can afford.

Does it make sense for economic growth to be based largely on the growth of non-essential consumption? In view of this concern, it would not be reasonable to eschew State activity aimed at helping to moderate such excesses and to remedy shortfalls in regard to the consumption of essential goods and services. This is undoubtedly a complex matter: who is to decide what should be consumed? Be that as it may, however, the fact remains that today those who have something to sell use very aggressive ways of creating and fueling demand.

c) The insecurity of daily life

In many cities of the region, even in countries that are making substantial economic progress, criminal means of appropriating private and even public property are spreading at an alarming rate. Despite the punitive and preventive measures used by the

agencies responsible for the public's safety, the frequency of such crimes does not appear to have declined. In some cases the population comes to accept the situation and changes its behaviour patterns in ways designed to avoid what are considered to be inevitable hazards.

The prevalence of such acts may signal the presence of a phenomenon that runs deeper than mere antisocial behaviour. It might be a good thing to reflect on the contradiction that persists in today's societies: poverty is spreading, yet at the same time there is ongoing incitement to consume what are, for the most part, non-essential goods and services. The amount of advertising and the methods it employs seduce and enthrall the potential consumer, whose earning power and opportunities are, in many cases, quite limited. The gulf between what people want to buy and what they are really in a position to buy may serve as a breeding ground for forms of behaviour that are harmful to society. There can be no doubt about their proliferation in recent years, and all the projections—even the most conservative ones—classify this phenomenon among the societal disorders requiring priority attention.

d) The uncertain future of young people

There is little need for further evidence to prove that the fate of a significant number of young people in Latin America and the Caribbean remains uncertain. Some young people have had a patently insufficient education, while others have received a type of education that prepares them only for quite a limited place in today's societies. Some do manage to find a stable, productive role for themselves in economic and social life, but there are few opportunities for the rest, and their future employment status becomes all the more uncertain if they hope to work in the field for which they have tried to prepare themselves.

Education and access to knowledge are probably the subjects that will require the most thorough-going analysis from the standpoint of future development. If we care to look any further ahead than a year or so, there can be no doubt as to the importance of this issue.

e) The deteriorating quality of life for the middle class

The various sorts of corrective adjustments made in the economic and social processes in recent years have had both good and bad effects. On the negative side, we must include the impact on the so-called

middle class, which has had to forgo the consumption of a great many items, including even essential goods. The price of the shopping basket of goods and services for middle-income groups has risen much more sharply than their income levels, but the nature of their social role obliges them to maintain forms of behaviour that require substantial sacrifices. The mounting discontent among this sector of society is a source of social unrest that is menacing the political structures upon which democracy is founded. A society's vitality is closely related to the solidity and influence of this sector; if it is weakened, this may obstruct upward social mobility and cast a cloud over the political process itself. The adoption of an integrative view of the different social groups within the context of a strategic position aimed at advancing towards a better future is thus a prime responsibility of government.

f) The demand for transparency

In the 1990s we are witnessing a new wave of democracy on a universal scale which is probably the broadest, most thorough-going and intense process of this type to have occurred in the present century. Legitimate democracy is bringing about transformations in, *inter alia*, political regimes, forms of government and party systems. The wide-ranging democratization of Latin America is an outstanding example of this trend. There are other processes at work, however, which are less well known and insufficiently understood. One such process has to do with society's demands for transparency. The restoration of democracy entails the establishment of an open, transparent public forum in full view of the citizenry.

The very nature of some features of the development process heightens this demand for clarity. Indeed, the new mechanisms of economic deregulation require it in order to attain their legitimization, and it is a crucial requirement in the privatization of State-owned companies.

The demand for transparency can be equated with the demand for a genuine share in the design and implementation of public policy. Thus, all forms of confidentiality and any lack of transparency in decision-making processes are challenged. Obviously, the scope of this demand extends to social mechanisms and forms of behaviour such as bureaucracy, nepotism, clientage, influence-peddling, etc., and the current crisis in the political parties of some countries

certainly has to do with the disapproval aroused by such excesses. There is very little, if anything, that can do more to harm a government's ability to govern than the questioning of its legitimacy or of the legality of its acts.

g) Other aspects

There are, of course, other serious problems associated with underdevelopment, and environmental deterioration is one of them. Despite the tremendous importance of this issue, however, we will do no more than mention it in passing here. The wealth of information, analyses and projections concerning environmental factors are publicly available and are all the more accessible to the region's political leadership.

2. The need for updated interpretations

Although there are other disturbing manifestations of underdevelopment which could be mentioned, in this article we have referred only to those which are of high priority because of the seriousness of their implications and their widespread nature. As noted earlier, these problems are manifested differently in each national setting and, in some cases, may even be of secondary importance in comparison to other concerns specific to a given country. Be that as it may, a thorough analysis of this subject appears necessary.

This naturally creates a need for an updated explanation of how each of these problems arises and how it is perpetuated. The view persistently disseminated in the past that there is no point in further analysis no longer appears valid. The outside world and the economy and society of each country have changed considerably. Completely new problems have arisen, while chronic problems have changed considerably, even in their inherent nature. If baseline analyses are to serve as a foundation for the design of strategies for overcoming these problems, then they must not be limited to general considerations, but must instead refer to particular sets of circumstances. Exacting standards must be met in identifying variables, their sequencing and their direct and indirect linkages, as well as in estimating their magnitude and impacts. General analyses must be made more concrete and more specific and need to be developed on a more disaggregated level.

IV

The idées-forces of ECLAC

In response to the need for strategies to solve the range of problems faced by the region, the ECLAC secretariat has put forward a set of general concepts relating to the ideas of changing production patterns, social equity and sustainable development. These "idées-forces" are based on the observation of current phenomena and serve to promote a debate in which each country can address these issues in a way that relates to its particular circumstances. The ECLAC proposal's primary aim is to answer the following question: How can we achieve greater economic growth and gain a more solid footing in the external economy while also raising the living standards of the population and safeguarding the environment? (ECLAC, 1990b and 1992c).

The central ideas of this proposal concern the achievement of genuine competitiveness and the systemic nature of economic growth. In contrast to the type of competitiveness afforded by comparative advantages based on low wages and plundering of the environment, this new concept of competitiveness entails an ongoing absorption of technical progress and knowledge into the production and distribution processes.

The systemic character of this approach demands the formation of linkages in respect of economic growth generated by a more solid position in the external market and by the increased productivity of activities that produce goods and services for domestic consumption. This ensures the formation of greater social

linkages, thanks to the increased social equity that one finds in a more fully integrated economy. Clearly, then, the core element that sustains all these achievements—economic growth, a reduction in structural heterogeneity, a stronger position in the external market and greater social equity—is the absorption of technical progress and knowledge as a result of policies that bring needs and objectives into line with one another.

One of the basic assumptions underlying this proposal is that the development of open economies based on these elements can lead to the creation of far more jobs at a much higher level of productivity than could be created by intensifying the import-substitution process within protected economies. The systemic nature of the proposal stresses indirect job creation, as part of the overall competitive effort, in activities providing the relevant inputs and services.

The integrated approach devised by ECLAC points to an active role for the State in certain key areas, such as stricter public and private austerity with a view to the promotion of saving and investment; the preservation of natural capital and of a healthy biosphere; the promotion of transport, communications and other infrastructural projects needed to achieve systemic competitiveness; a policy for the absorption, adaptation and creation of technology; investment in human resources and vocational training; and the launching and financial backing of small and medium-scale businesses.

V

New forms of government action and a new kind of planning

Efforts to strengthen the governmental administrative process within the framework of a strategy for changing production patterns with social equity and environmental sustainability must take into consideration the societal phenomena that will influence that

process in coming years. These phenomena fall into four main categories of trends or shifts which are fairly widespread in the countries of the region: i) a transition from semi-closed to more open economies with a view to integration with the rest of the world and

participation in cooperation and free trade agreements with other nations; ii) a shift away from heavily regulated economies in which the State plays a large role (both directly and indirectly) in the production of goods and services and a move instead towards systems based on private enterprise and the operation of the market, with strategically aimed and more effective government regulations; iii) vertical dispersion of the central government apparatus as the central authorities give up powers and instruments—as a consequence of the economy's greater openness and integration—and delegate authority to lower levels as part of decentralization processes of varying scope at the regional, provincial and municipal levels; and iv) the increasing difficulty faced by governments, owing to financial, organizational and technological constraints, in coping with the range of demands being expressed, to varying degrees, at the political level.

Within this context, there are two closely related issues—reform of the State and emerging governmental functions—which, although their specific aspects and emphases may vary from country to country, are a prime focus of government concern and action. Increasing attention is also being given to a third issue: the renovation of planning.

1. Reform of the State

There is a prime fact that cannot be disregarded: against this backdrop, significant changes are already taking place in the economic functions of the State, and this process can be summed up in a single phrase: the State is reforming and is being reformed. It is, at one and the same time, both the agent and the object of this process.

This implies the simultaneous presence of two processes in governmental action today: administration and change. On the one hand, the government is defining and administering public policy within the context created by a given set of operational conditions; on the other, it is seeking to change those conditions in order to delimit the spheres of governmental action, redefine its functions and increase the viability of its policies. Thus, another important fact is that the current governmental process is marked by this interaction between the processes of administration (routine) and change (innovation).

A matter of some concern is that it is clearly simpler to reduce the State's role as a leading actor than to create the effective capacity needed to

establish a new profile, although these two processes do not necessarily conflict with one another. If we are to make headway in this direction we must focus the discussion on the quality of government involvement rather than merely its quantity. The question therefore is: What requirements need to be met as regards the quality of government intervention, in order to be in keeping with the changes mentioned above?

We will not attempt to provide an exhaustive analysis of this question here, but mention may be made of five such requirements that are of particular importance (ILPES, 1992b; Assael, 1992): i) a high degree of selectivity in defining critical areas; ii) efficiency and effectiveness of the action taken; iii) credibility and transparency; iv) explicitly-defined duration of the intervention; and v) advance knowledge of the cost.

Today, if governmental intervention is to be accorded legitimacy, society must be informed about the costs and benefits of government action, must have the right to evaluate them, and, above all, must know who is going to be receiving, who is going to be giving, why, how much, and for how long. All this must take place within a climate of unhindered expression of responsible public opinion.

The requirement of selectivity is an acknowledgement not only of the existence of spheres which properly fall within the purview of other economic and social actors, but also of the fact that the government has only a limited supply of managerial resources, funding and, ultimately, power. Quite apart from this fundamental circumstance, however, an explicit definition is needed of what the critical areas requiring government intervention are and what form that intervention should take. This means that we must shift the focus of the discussion away from the public-sector/private-sector balance and direct it instead towards these two sectors' emerging roles; in other words, we must shift our attention from the anatomy of the mixed economy to its physiology.

2. Emerging public functions

One difficulty that must be resolved in this connection is that, in various spheres, the State bears the ultimate responsibility because it alone among all the economic and social actors is supposed always to act for the general good. Its action in certain areas may be accorded top priority, which involves postponing the search for solutions to other problems. Postponing is not the same as ignoring, however, for to put it

simply, the government has the responsibility – a responsibility it cannot delegate to any other agent – to head up a collective effort to deal with all the various national problems.

Under a democratic system, a country is governed by a series of successive administrations, so that this responsibility to lead a collective effort therefore devolves upon a succession of different actors, and the commitments of a given administration are not necessarily binding upon the following one. An effective means of dealing with both of these difficulties is the conclusion of explicit or implicit agreements among all the major political forces regarding key aspects of the direction of development and the full operation of institutions.

In addition to such agreements concerning the direction and administration of public policy, the assets at the command of the government include the intertemporal framework in which it operates (since this gives it time to link up outputs and accommodate demands) and the different mixes of public/private interaction that can be used in taking action to promote the general welfare, which allows it to adjust the extent of its own participation in the design, execution, financing and administration of the relevant policies.

The government functions now emerging in the region can be grouped into three categories: functions relating to the catalytic role of the government in orienting and energizing the national development effort; functions relating to the government's arbitration, via government regulations, between individual and collective interests in areas where the two may come into conflict; and functions that are the exclusive prerogative of government. Of course, depending on the specific set of circumstances found in each country, the emergence of these types of functions will differ in intensity and in the degree of consensus surrounding it. Furthermore, their concrete expressions will necessarily reflect a given interpretation of development issues in the region. What substantive features should they have in order to build up a strategy for changing production patterns with social equity and environmental sustainability?

a) Building effective, modern mechanisms for guiding development

In order to meet the challenges arising out of today's development process, the strategy for bringing about change has four main pillars: investment, technology, markets and finance. The links among these elements do not form spontaneously, and it is the duty of the

government, in its role as a catalyst, to ensure that they develop in step with one another.

i) *Stimulating investment.* The maintenance of consistent ground rules, the credibility and sustainability of public policy, respect for property rights, and fair, prompt and swift settlement of contract disputes are some of the direct ways in which a government can help to encourage private investment; it can create these conditions either through its own acts or by promoting the necessary legal and administrative adjustments and the efficient operation of other State bodies. However, these conditions, although necessary, are not sufficient in and of themselves. An effort must therefore be made to promote an increase in public and private saving rates, the development and modernization of infrastructure, and the dissemination to the public of information on investment opportunities.

ii) *Scientific and technological development.* The purposeful absorption and dissemination of technical progress plays a pivotal role in changing production patterns and ensuring their compatibility with a democratic political system and an increasing level of social equity (ECLAC/UNESCO, 1992). The absorption and dissemination of technical progress involves a great many elements, including human resources development and a whole array of mechanisms and incentives for facilitating access to new information and the generation of knowledge. The region's shortcomings in respect of the education-knowledge continuum lessen its chances of making headway in other aspects of the absorption and dissemination of technical progress, however. Such headway can therefore be made only with the help of broad-ranging reforms in the educational and vocational training systems and through the development of endogenous capabilities for utilizing scientific and technological advances.

iii) *Markets and competitiveness.* In order to stimulate competitiveness and the advent of a new, more technologically-intensive phase of export activity, interaction between the public and private sectors will need to be intensified in at least two areas: the reinforcement of those bodies responsible for monitoring the relevant external markets and opening up new markets, and the conclusion of free trade agreements and regional, subregional and binational integration accords (ECLAC, 1990b, chap. V). Competition is not confined to external markets, however. In view of its effects on domestic markets, the trade liberalization process should be steady but gradual, or should be coupled with temporary protective

measures or direct subsidies in order to give national sectors exposed to outside competition a chance to adapt to these new conditions within a reasonable period of time.

iv) *Raising funds for long-term financing.* The fact that some private firms are beginning to return to the international financial market relieves some financial difficulties at the microeconomic level but, with few exceptions, the crux of the problem at the aggregate level continues to be external financial constraints and the size of the public-sector debt. The reduction and stabilization of external debt payments and efforts to put public finances on a sound footing are processes that continue to be very necessary, although notable progress has been made on both fronts by a number of the countries in the region. None the less, although temporary inflows of external resources may be secured through privatizations and portfolio investment, the resumption of financial flows for productive investment is closely linked to the chances of establishing new trade flows with countries outside the region and reducing both costs and country risk.

b) *Creating the necessary capabilities for regulating markets and economic activities that require supervision*

Opening up the economy and moving towards greater reliance on the market make it necessary for the government to set up regulatory and supervisory mechanisms in certain specific areas in order to reconcile private and collective interests, ensure the sustainability of the system, and establish suitable commitments among different sectors. Four areas in which such mechanisms appear to be needed in the majority of the countries in the region are: the production of goods and services under monopolistic conditions, the financial system and the capital market, social security administration, and the labour market and labour laws. In some cases, there is clearly some form of interaction between two or more of these areas.

i) *Production of goods and services under monopolistic conditions.* The privatization of State-owned firms is a prominent feature of the economic scene in the region today. The governments' privatization schemes are quite ambitious, and there is no sign that this trend is beginning to wane. If the privatization process includes—as it sometimes does—goods and services that are provided under monopolistic conditions or that involve significant externalities, then the quality and effectiveness of governmental regulation will become a central element in determining

both the future impact and the sustainability of the policies applied. Therefore, governments must find a way to establish appropriate regulatory frameworks to ensure efficient allocation, reconcile the various interests that are at stake, develop effective instruments for enforcing those regulations and settling disputes and, above all, for adjusting those frameworks to changing technological and operational conditions.

ii) *The financial system and the capital market.* Regulatory and supervisory systems in this area have shown themselves to be of decisive importance in determining the success of liberalization and financial reform policies. Countries that have deregulated their credit markets and interest rates without establishing suitable regulatory and supervisory mechanisms have tended to suffer from crises of insolvency and a loss of financial control. The available information (ECLAC, 1992a) indicates that a suitable system should include a prudent degree of regulation to help banking and financial institutions guard against insolvency and illiquidity; financial regulations designed to ensure that domestic instruments will continue to function smoothly and remain competitive with external placements (in terms of exchange rates, interest rates, lead time, etc.) and to promote the development of instruments that will broaden the institutionalized sector's coverage (such as, for example, credit guarantee funds, insurance, and venture capital loans); and organizational regulation to ensure the system's operational efficiency through the attainment of economies of scale, the integration of activities and the promotion of competitiveness.

iii) *Social security administration.* The crisis of traditional State-run social security systems is prompting a number of governments to undertake reforms in this area. Some of these reforms provide for adjustments in the traditional system, while others entail discarding it entirely and replacing it with a privately-run, individually capitalized system or a combination of these two systems (ECLAC, 1992b). The situation now taking shape appears to point to the possibility of a greater role for private organizations in the administration of large-scale funds in the future and to the concomitant need for governmental regulatory mechanisms which will not only open up investment opportunities for those funds, but will also ensure the administering bodies' continued solvency, financial stability and competitiveness.

iv) *The labour market and labour laws.* An important element in the development of competitiveness is the maintenance of a sufficient degree of

flexibility in the labour market. The modernization of production is not a smooth or integral process; it carries with it the risk of tensions and imbalances, and human resources may lag behind newly emerging demands both in terms of technical knowledge and their ability to adapt to a production environment subject to frequent major changes. If a national economy is to reduce this lag and retrofit its uncompetitive sectors, it will have to marshal its public and private resources in order to mitigate the social impacts of the process by creating mechanisms for the payment of unemployment benefits, providing vocational training geared to new markets, and ensuring an orderly transition through the preparation of sectoral baseline analyses and prospective studies, the adjustment of the legal and institutional structures and the establishment of efficient labour retraining mechanisms.

c) The performance of exclusively governmental duties

Despite the trends mentioned above, the State –by virtue of its economic importance, its ability to levy taxes and the power that it holds– remains the paramount organization in the countries of the region; moreover, there are many tasks for which it bears virtually sole responsibility. Therefore, the planning of its acts and the skill with which it manages its activities are matters of very high priority. Three topics should be considered in this connection: the management of global imbalances; the accumulation of social, physical and human capital; and the distribution of duties and powers within the State apparatus.

i) *Management of global imbalances.* The government must keep macroeconomic imbalances under control in order to permit growth within a context of stability, which, in its turn, is a necessary condition in order to meet the challenges involved in changing production patterns with environmental sustainability and social equity. Within this framework, fiscal management must be geared towards achieving structural stability of income together with budgetary flexibility so that the public sector's financing needs will be kept in line with the resources actually at its command.

In order to meet the other challenges it faces, however, a government must also maintain a progressive fiscal policy (ECLAC, 1992c, chap. IV). This progressivity needs to be measured in terms of the net impact on the various social groups of all the government's acts taken together: taxation and public-sector

rates and prices, on the one hand, and the various types of expenditures, on the other. Thus, the management of economic, social and environmental imbalances could be based on the proper articulation over time of measures affecting the amount and stability of public resources, the possibility of reallocating funds from one budget item to another and, in particular, more efficient expenditure patterns.

ii) *Formation of social, physical and human capital.* Given the systemic nature of the concept, in order for significant progress to be made in promoting genuine competitiveness, physical infrastructure must be developed and must run efficiently at international prices. The region's physical infrastructure was allowed to deteriorate so much during the fiscal crisis of the 1980s that its rehabilitation is now a high-priority task. The fact that the public sector does not have sufficient resources to cover the necessary levels of investment and current expenditure has led governments to undertake deregulation programmes, privatizations, decentralization schemes, and subsidized or toll-based leasing arrangements with the private sector in order to pay for the restoration work, the necessary expansion, and the maintenance and operation of major components of the system. Apart from the above-mentioned regulatory function of government-controlled monopolies, mention should also be made of the complementarity that must exist between public expenditure and private investment within the framework of effective government policies to ensure the harmonious development of a country's infrastructure and to guard against negative impacts in relation to social equity, territorial equity and the environment.

In the area of social benefits, the region is also witnessing a mounting expansion of quasi-markets for social security, health and education oriented towards the upper- and middle-income sectors. The sharp decline in the quality of public services in recent years has hastened the transition to these new systems, even in cases where families must make sacrifices in other areas of their household budget. The great majority of the population, however, has no choice but to rely on public services. In addition to increasing the resources made available for such services, a determined public-sector effort is required to establish realistic policies, design effective programmes, target expenditure, coordinate the actions of the institutions involved and, above all, establish efficient systems for providing the highest-quality services possible.

iii) *Distribution of duties and powers at the various levels of government.* The deconcentration and decentralization of many of the central government's duties have been prompted by two mutually-reinforcing factors: the demand for greater autonomy, and the shrinking supply of resources and capacities available to the central government. This shift has three dimensions: corporate management, which is the typical case of State-run companies; the provision of social services; and territorial divisions at the levels of national regions, provinces and municipalities. The process is not a linear one in any of these dimensions, nor is it free of conflicts between the opposing forces of centralization and autonomy, between subsidization and obligatory autarky, and between standards imposed by the central government and private or local resistance thereto. Two facts should be borne in mind in this regard. First, the necessary degree of financial autonomy should be strictly commensurate with the duties and responsibilities assumed while seeing to it that the central government's leeway for dealing with macroeconomic imbalances is reduced as little as possible. Second, deconcentration and decentralization bring about a reorganization of the functions of the entire State apparatus, so that it is not merely a question of strengthening the technical and institutional capabilities of the bodies to which duties and powers are being delegated; this shift also involves redefining and organizing the functions of central or sectoral bodies in order to formulate national policies, define and enforce standards and regulations, speedily detect any major variations in the quality of deconcentrated or decentralized management as measured by national standards, and take corrective action to support their fulfilment.

The profile of the type of State capable of performing these functions differs from the traditional State structure. While the State may have to be smaller, it will also need to be sturdier and stronger; it will have to specialize its various functions while at the same time achieving greater unity between its leadership and implementational roles; it will need to interact more closely with political and operational organizations and with those of civil society, but it must also retain a sufficient degree of autonomy in respect of its decision-making functions. This transformation, whose specific aspects will differ in each country, is perhaps one of the greatest challenges to be faced by the countries of the region in the coming years.

3. A new kind of planning

The incipient functions of government which we have been discussing in this article serve as a necessary point of reference for efforts to update the content and methodologies of planning as a technique of governance. What form will this new type of planning assume, and, in terms of the government's performance of its three types of functions (i.e., its role as a catalyst, arbitration between individual and collective interests, and the exclusive duties of government), what contributions can it make?

In considering the catalytic role of government, one important factor is the need to produce information about the future, i.e., to provide some idea, however minimal it may be, of the scenarios towards which each national society could be evolving. There are at least three reasons for this: it fosters greater unity and inter-temporal consistency in governmental decision-making; it provides a marker for private economic calculations by permitting more accurate estimates of the risk involved in long-term investments; and it offers a picture of the possibilities open to all the members of the social structure. This is perhaps planning's chief contribution to a government's ability to govern, since in order to put together any agenda whatsoever, we must travel a two-way road between the present and the future; without this movement back and forth between present reality, a vision of what is possible and a vision of what is desirable, there can be no leadership or strategic consensus-building.

In times of rapid change such as the present, this task involves much more than simply extrapolating existing trends, but on the other hand it should not be confused with the now disavowed type of planning praxis which sought to dictate the future. Planning's job is to serve as a catalyst for an interconnection of different perspectives that goes beyond what any market or any social actor or group could do on its own and to anticipate what consequences, over different periods of time, the government's decisions will have. Although some countries' governments do take these types of factors into consideration, their efforts in this respect are usually unsystematic and lack a solid basis. A suitable technical foundation for such an effort can be provided by a prospective, scenario-based methodology in combination with a system of leading current indicators. The task cannot be accomplished in isolation from the decision-making process at its highest level, however, although the preparatory work

may, of course, be the responsibility of a specific agency (usually the national planning body). There are two reasons for this: first, it involves managing information and articulating rationales that find expression only at that level, and second, it serves as a tool for strategic decision-making within the government and as the technical basis for consensus-building outside the government.

The role of a new form of planning in the second category of emerging governmental functions –i.e., arbitration between individual and collective interests in spheres of activity in which the presence of private agents is significant– can also be a pivotal one. First, it can help pinpoint critical areas requiring government regulation and supervision; second, it can contribute to the early detection and monitoring of any problems or undesirable effects caused by policy changes; third, it can be of assistance in the development of the necessary technical and negotiating capabilities within the government apparatus; and finally, it can contribute to the expression and reconciliation of different interests, to the public transparency of the process and to the establishment of automatic, institutionalized mechanisms for the settlement of disputes. As in the case of the preceding category, this last task entails negotiation and consensus-building; however, in this case the relevant spheres are more limited in terms of the actors involved and more specific as regards the nature of possible disputes.

The third and final category –functions that are the special prerogative of government– also calls for

a considerable planning effort, particularly in relation to the programming, assessment and follow-up of government action. In these activities, economic logic and substantive knowledge of the relevant sector must be systematically applied in the government's detailed decisions at the respective sectoral or global levels, based on the corresponding data systems and operational criteria.

It is important to be aware of the fact that, as part of the State reforms currently under way in the countries of the region, the content and procedures of a number of these fairly routine planning tasks need to be modified or reoriented. Examples of processes which are going to require strategic intervention at some point include the restructuring of the budgetary process; the reorganization of the system of investment planning and the evaluation of investment programmes and projects dealing with social, physical and human capital; the redefinition of the relationship between public-sector enterprises and the central government; and the redistribution of areas of competence and resources among the various levels of government. The common denominator of such intervention will be the promotion of organizational, methodological and procedural adjustments on a concentrated, selective basis over a limited period of time; in other words, planning is, in these cases, associated with the idea of establishing a new system of government management in specific areas, in accordance with the current profile of governmental functions.

VI

The relationship between planning and the budget

The relationship between planning and the budget has always been regarded as a crucial nexus in terms of a government's ability to take action, since, in effect, it sums up the reciprocal links between decision-making and resource allocation.

The usual difficulties involved in arriving at institutional and methodological arrangements that will serve as effective links between these two processes have recently been compounded by the interruption –to a greater or lesser extent depending on the country– of one or the other of these tasks.

At the same time, however, some lessons have been learned that now make it more urgent, but also more feasible, to find suitable solutions for this recurring problem in respect of government action. These lessons concern the following: i) the prime importance to be assigned to fiscal matters in the management of macroeconomic disequilibria; ii) the need to consolidate and integrate policies on public revenues, decisions regarding spending, and the methods to be used to finance any deficits that arise; iii) the importance assumed, in a situation marked by

resource constraints, by the concepts of priority, productivity and substitution in comprehensive expenditure programmes; iv) the need for the explicit definition of a certain time span in which to seek ways of satisfying latent or deferred demands; and v) the need for better understanding of the interaction between capital and current expenditure, as well as of some of the shortcomings in this way of classifying certain items of expenditure.

From a technical point of view, it is not too difficult to visualize the array of instrumental and informational capabilities needed to configure an integrated public expenditure programming and management system. Such a system would include: i) a macroeconomic framework, means for interaction with fiscal programming, and a set of leading indicators for short-term analysis; ii) a fiscal plan with income and expenditure projections for a number of different assumptions with respect to continuity and innovation; iii) a multi-year, renewable physical and social investment programme, with expenditures spread out over the programming period and updated yearly; and iv) a physical/economic and financial budget performance and expenditure control system.

These components entail tasks requiring different amounts of time to complete: a sliding, medium-term programming period (from three to five years, with biannual or annual updates) is therefore called for in order to provide the time horizon needed to gain a full picture of the process. It is worth stressing that it is perfectly possible to put together an analytical frame of reference such as the above, although, of course, the process will not be problem-free (there may be theoretical or methodological controversies, difficulties involved in linking up its various components, and questions as to the relevance, up-to-dateness and reliability of the databases, to name only a few of the main pitfalls).

The fact that these governmental activities are performed by the civil service raises some major problems. The institutional dimension is crucial, however, for converting mere technical possibilities into routine administrative procedures that can promote the necessary organization and stability of the government decision-making process. The problems involved in the institutionalization of this process are by no means negligible: strong inertial forces have to be overcome, coordination mechanisms need to be designed and set up and, most importantly, a way must be found to ensure that the relevant information

—which is by no means a free good—flows properly throughout the system.

Two vital institutional needs in this regard deserve special mention: the need to have technocratic and administrative machinery capable of interacting efficiently with government leaders, and the need for a sustained and cumulative process of innovation in respect of public-sector programming and administrative procedures.

With respect to the first of these needs, many would agree that the civil service often suffers from an oversupply of staff and an undersupply of operational capabilities at one and the same time. There is also probably a consensus, however, that most of the countries in the region do have a critical mass of qualified human resources. Wherein, then, lies the problem? Public-sector wage levels are surely a major factor, but not the only one. What inducements to become and remain a career civil servant can be offered by a government service that is the target of the types of charges that have been levelled so persistently in the region? It is imperative that the image of government service should be transformed into that of a socially-esteemed endeavour characterized by transparency and effective action. This renovation should be headed by the political leadership, but all the various segments of society, especially the business sector, must take part in it. The reason for this is simple but compelling: the successful development of the private sector of an economy cannot take place in the absence of a modern public sector capable of performing its key tasks efficiently, particularly with regard to the allocation of the resources entrusted to it by society.

This political decision should also, however, be reflected in a corresponding restructuring of legal provisions, new administrative regulations and the adoption of procedures that will reinforce the reform process and sustain it over time so that its results will be cumulative. Under normal circumstances, this will also require that political agreements be reached to maintain the direction of change beyond the term of any given administration. Perhaps, paradoxically, State reform must be a State policy. The institutionalization of a solid technical foundation to support the process of public resource allocation does not appear to be so controversial an issue as to prevent the conclusion of agreements allowing for substantial progress in this area, and it therefore seems to be a good starting point.

It is not, of course, simply a question of building up a techno-bureaucracy within the civil service, since the process of allocating public resources also has an important political dimension. The true basis for this process is a certain balance between the technical and political criteria applied at nodes of the public-sector apparatus at different decision-making levels. The widespread, aggregative nature of the process has three main consequences: there are many different decision-making centres which advocate different types of expenditures; these units' behaviour is largely determined by their own interests and their own particular rationales, and the extent of the power they bring to bear in pushing for their own initiatives varies widely for technical and political reasons.

Hence, rather than being a purely technical matter, the process of allocating public resources entails a considerable amount of institutional negotiation. To put it more precisely, the complex process by which political decisions are taken can be made more efficient and more rational in an overall sense with the help of better analyses, but it cannot be replaced by mere technical calculations. What is truly essential is

that this process should, through a positive form of interaction, serve as an explicit means of setting forth options and that the corresponding decisions on expenditure should be such as to further the true objectives of the government and of the political forces represented in the country's parliament.

The governments of the region are trying to respond to some of these demands in the wake of an extremely severe crisis. Because of the diversity of national situations, the countries are likely to go through several different stages in developing their operational capabilities: i) putting their houses in order (coping with urgent imbalances); ii) arriving at a better understanding of where they stand and where they are going (logging of data and follow-up); and iii) plotting out a desired course (*ex ante* appraisal) and determining why the goal was or was not reached (*ex post* evaluation). The establishment of a suitable time horizon is crucial for the organization of the relevant tasks and their priorities and, above all, for the development of the technical and institutional capabilities needed to provide a sound basis for politically significant decisions regarding public resource allocation.

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