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Review

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Recent ECLAC publications

CEPAL REVIEW No. 31

Planning today

*Yoshihiro Kogane**

Using the experiences of Japan as a basis, the author examines a number of today's major planning issues. He begins by outlining the characteristics of planning during and after the war, when the State exercised considerable control over the economic process. Once this period had passed and the functioning of the market had been re-established, the complex State/market relationships characteristic of all mixed economies emerged. Both the State and the market have important roles to play, and each influences the other. The economy as a whole has objectives it must meet in order to provide satisfactory conditions for its members, but these objectives are often contradictory; the main function of planning is to lend them greater consistency and efficiency from a strategic standpoint.

In the traditional approach to planning, this goal has been pursued by means of input-output tables and the paradigm of econometrics; however, the validity and usefulness of the plans formulated on this basis have become more and more questionable. Two of the main causes of these difficulties would appear to be the flimsy foundation provided by the underdeveloped social sciences and the institutional problems which often disrupt articulated action by the State apparatus. Planning may regain its importance, however, if it can succeed in shaping a consensus among a number of public and private decision-making centres, and this is perhaps the most important lesson to be drawn from Japan's experiences.

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I

Planning during and after the war

The roots of national economic planning may be found in the plans for the production and distribution of individual commodities during the Second World War. At that time, the States were controlling a large part of the production and use of the main commodities with a view to their goal of winning the war. Coherent plans were needed in order to increase the efficiency of these activities just as in the case of a construction project in which blueprints, time schedules, budgets, etc., are essential for achieving the builder's objective.

These plans thus expressed the State's decisions with respect to the allocation of production factors (i.e., material and human resources) to productive activities involving specific commodities which could be assigned to various purposes, e.g., fighting, reproducing and living. The demands and constraints of productive activities were supposed to stem from mainly physical and/or technical conditions. For example, the demand for munitions depended on military technology; the demand for food resulted from physiological requirements; production technology and available production factors limited the output volume of a given commodity; and the availability of production factors was subject to natural conditions, transport facilities, and so on.

Plans cannot be derived directly from such conditions, however, because the demand for individual commodities may be met to different degrees, while production constraints set only the upper limit of output. Thus there could be a variety of different production/distribution combinations. The planners' task was to choose the combination which would be most efficient for achieving an exogenously-determined objective. The aim of planning methods such as operations research and linear programming, which were developed in the United Kingdom and the United States, was to carry out this task not by means of craftsmanship but by means of modern technology based on a new scientific paradigm. However, these methods were utilized only in plans for military operations and/or specific

production activities, not in the macroeconomic planning of the State.

Postwar continental Europe and Japan felt the necessity for an efficient mobilization of production factors in order to accelerate their recovery from war damages. Most national economic plans were produced against this background. The mode of planning was, however, at least in Japan, judging from the data available to this author. Plans for specific production units did not employ a "scientific" methodology, and the macroeconomic plans were nothing more than an aggregation of individual production plans. New planning techniques did not become available until several years after the end of the reconstruction period. In the United States, in the meantime, there was no need for an overall reconstruction plan, so the use of advanced planning technogy was confined to private business management, except for the articulation of high-level policy, such as national defence.

II

Macroeconomic planning in the market economy countries

Once a country had completed its postwar reconstruction process, it ceased to have a single goal, particularly when the legitimacy of free competition through the market had been restored. The microcomponents of a macronational economy (i.e., individuals, households, enterprises, local communities, etc.) once again began to pursue their own interests openly. This did not mean, however, that the State as a whole no longer had national goals to pursue. On the contrary, its success or failure in attaining them could have a great impact on the efficiency of the task of individual decision-makers. On the one hand, the achievements of the State as a macrosystem depend on the behaviour of its microcomponents, while on the other hand, the latter are affected by the former.

The national economy, as a macrosystem, obviously has various goals to pursue in order to provide desirable conditions for its microcomponents, i.e., individuals and their groups. Some examples are: a high rate of economic growth to permit full employment and rising living standards; the stability of prices; an equilibrium in its international balance of payments; fairness in income distribution; the adjustment of the industrial structure in order to increase medium- and long-term growth potential without incurring inflation and balance-of-payments deficits; etc.

These goals are often contradictory; moreover, they cannot be attained directly by the State or the public sector of the country concerned. They may be achieved by intervening in the activities of microcomponents through what are usually referred to as economic or social policies, such as, for example, policies designed to: change the rules of the market; supply public goods, including money and information; acquire products from the private sector; produce certain kinds of market goods; redistribute the income of the private sector; discourage or encourage specific activities of the private sector; and so on. The system of such policies has a rather ramshackle structure, with little coherence among its various parts; consequently, its level of efficiency tends to be quite low.

The purpose of national or macroeconomic planning is to make the economy more coherent so that it may become more efficient in the long run from a holistic and strategic point of view. However, it is very difficult to foresee accurately the possible impacts of specific policies and the repercussions they will have within the economy and society concerned. The modern natural sciences have increased the accuracy of the forecasts of physical phenomena tremendously, and this has led to remarkable advancements in productive and military technology; in contrast, contemporary social sciences, which should provide

the basis for designing economic and social policies, are still underdeveloped as regards their accuracy in forecasting future social phenomena.

The methodology of national economic planning in market economy countries has been based on the system of national accounts statistics, including input-output tables and the paradigm of econometrics. The former has provided the framework for identifying the relationships between a given phase of the macrosystem or national economy and the situation of micro-components such as households and corporations; the latter has provided the framework for the explanation of demand-supply relationships with respect to production factors and products (Tinbergen, 1956).

In most of the market economy countries, the formulation of a national economic plan is, in general, the task of the central planning authority, which is more or less the successor of the planning office in existence during the war or reconstruction period. This work has been carried out by utilizing the planning techniques mentioned above (Tinbergen, 1964). In Japan, however, traditional commodity-by-commodity plans or forecasts co-existed for a certain period with "modern" economic plans. The manner in which national plans are prepared in developing countries, except for Communist ones, seems to be patterned on the model of the Western European countries.

III

Problems and possible solutions

The utility and validity of national economic plans —especially medium- and long-term ones— in market economy countries have become more and more questionable from both methodological and administrative points of view.

As mentioned earlier, planning technology depends on the contemporary social sciences, particularly economics, whose paradigm is basically the same as Cartesian atomism and Newtonian determinism. A scientific revolution comparable with the invention of quantum or relativist theory would appear to be necessary in order for a technological innovation in national planning to come about. Even without it, however, practitioners in a planning office could do a better job than at present by improving their set of available tools. The accumulation of such efforts to raise the level of forecasting capacity could lead to a scientific revolution or the invention of a new paradigm in the social sciences.

What seems to be a more intrinsic and difficult problem lies in the relationship between the planning sector and the executing sector (including the budget office) of the central government. Their co-existence within the government may seem logical in view of the fact that such a plan, by its very nature, involves two different parts of a macroeconomic system. Nevertheless, this has been causing persistent disturbances which impair the utility and validity of national, particularly long-term, plans (Maldague, 1982).

When the planning sector is subordinate to the executing sector, e.g., when it is a division of the Ministry of Finance which is responsible for preparing the central government's annual budget, the planning staff's way of thinking about long-term or structural problems is often distorted by short-term and political considerations. Plans produced in such an environment may have an adverse impact on the medium- and long-term development path of the State. Conversely, when the executing sector is subordinate to the planning sector (e.g., when the office of the budget is a branch of the Ministry of Planning), the development of the State may be harmed by adherence to an unrealistic model of policy-objective coherence. When the two sectors are equal and independent from one another, the executing sector may try to carry out its task "autonomously", while the planning sector may come to play no more than a "decorative" role if it is excluded from the actual decision-making process.

In spite of these problems, some long-term plans have proved, under certain circumstances,

to be useful in shaping a consensus among various decision-makers with different interests as to the national goals and/or means which should be adopted at the time or in the near future. Once such a consensus is shaped, no coercive measure is needed in order to make a smooth shift to the desired development path. If a national plan could serve this purpose, the question of whether or not it predicted the future accurately would no longer be of any great importance. In this case, the plan would have played the role of a public good which takes the form of information shared by the members of the community.

This good, which may be produced by either the public or private sector, has to serve both sectors equally in order to be of a "public" nature. Usually, its "production cost" is so high compared to the possible price that the central government has to bear the total cost or subsidize it to a large extent. This does not mean, however, that it is either necessary or desirable for its production to be part of the work of the government service. Even when a branch of the central government does produce it, the nature of the task should be considered to be the same as that of a State-owned institution specializing in creative endeavours such as research, art, education, etc.

Thus, the future of the public sector or of the economic and social policies described in such a plan cannot —and should not— be taken as a commitment on the part of the government, which may deviate from the "planned course" in order to cope with problems that were not anticipated by the plan. Instead, the plan should provide information about the relationship between the option chosen by the State and its possible outcomes for all those concerned. If this information is reliable, it will still serve as a public good even if the course of development differs from the planned path.

In addition to the methodological difficulties mentioned earlier, a problem is posed by the type of information needed to ensure that the national plan is a useful public good. The planning office not only requires published information, such as statistics, but also needs data from both policy-makers and private decision-makers. Without it, the plan will be reduced to no more than a decorative function; but the availability of such information will be quite limited if there is little mutual confidence between the producers and users of the plan.

Most of what has been said here may be applied to a plan for a group of nation-States which perceives a need for efficient and equal co-ordination and co-operation among its members. The relationship between a planning office, if any, and international bureaucrats is more or less the same as that existing between a planning office and policy-makers within the central government of a State.

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