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OF PLAN IMPLEMENTATION

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GENERAL ADMINISTRATIVE ASPECTS OF PLANNING

Paper presented by the secretariat of the  
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## Chapter I

## PREFATORY REMARKS

The undue importance attached at times to the planning difficulties caused by administrative inefficiency seems to have been a source of somewhat distorted conclusions or recommendations. It has been asserted, for example, that in many countries with a long history of self-government behind them, the personnel procedures and practices applied by the authorities make development planning totally impossible and that administrative deficiencies are not peculiar to the less developed countries, but are also observable in those at more advanced stages of growth. In the former, however, they represent a much more pressing problem inasmuch as they obstruct development.<sup>1/</sup> Administrative inefficiency is considered to be particularly prejudicial at the stage of plan implementation.

Other observers have attributed failures in plan implementation primarily to the technical defects and unrealistic character of the plans themselves.<sup>2/</sup> The lack of realism may consist in disregarding the fact that a number of public agencies are ill-equipped to attain the targets established, or in assuming that the necessary adjustments in the agencies in question can be made in a flash, despite the formidable economic and social obstacles that will have to be overcome. But the importance of the public administration for plan implementation is relative because "in most of the developing countries, most agricultural and industrial production and a

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<sup>1/</sup> Albert Waterston, "Administrative obstacles to planning", Information document N° 5, presented at the Seminar on the Organization and Administration of Development held under the auspices of the Latin American Institute for Economic and Social Planning (ILPES) at Santiago, Chile, in 1965.

<sup>2/</sup> United Nations, Committee for Development Planning: Report on the second session (E/4362); Organization of American States (OAS), "El control de la ejecución de planes generales de desarrollo en América Latina" (E/AC.54/L.20), submitted at the second session of the Committee for Development Planning; and United Nations Centre for Development Planning, Projections and Policies, "Some general conditions for the effective implementation of plans" (E/AC.54/L.8), submitted at the same session.

major part of investment are undertaken within the private sector; and while the influence which most governments can exert on the private sector is not inconsiderable, it is not so great that it can in any way ensure that the necessary decisions will be taken".<sup>3/</sup>

The importance of this statement is obvious, since in each individual country the possibilities of implementing development plans will depend upon how true it is. And it would seem, unfortunately, that in practice circumstances have often made it difficult for the public sector to manipulate the tax and financial instruments whereby it might induce the private sector to conform to the policies and meet the targets established in development plans. In some instances, the reason why the private sector has not acted in accordance with the plan is probably not merely that the objectives for the public sector are unrealistic; the technical defects of the plan may understandably be greater in relation to the private sector, on which comprehensive information is harder to obtain, inasmuch as it is far larger, more diversified and more independent. In other cases, however, non-compliance may have been due to problems arising in connexion with the use of tax, financial or strictly monetary instruments, either for want of flexibility in the institutional framework, or as a result of weaknesses in the financial systems concerned or in consequence of the extent to which a particular national economy is a market economy in the true sense of the term, or because of lack of co-ordination between the planning agencies and the monetary authorities. Any or all of these factors may of course operate in different combinations.

From the purely administrative standpoint, co-ordination between the planning agencies and the monetary authorities is of particular importance, since it is largely a matter of organization and procedures. It is true that organization alone cannot, in itself, reconcile opposing attitudes which are deeply rooted in scientific or technical convictions, especially when group interests or codes of values are involved.<sup>4/</sup> Fortunately, however,

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<sup>3/</sup> United Nations Centre for Development Planning, Projections and Policies, "Some general conditions for the effective implementation of plans", op. cit., p.3.

<sup>4/</sup> See ILPES, Seminario de planes operativos anuales, Santiago, 1966, mimeographed edition, vol. I, p.173.

this is no longer necessary. In the past, central banks in Latin America often withheld support from over-all planning, or openly opposed development policies that might produce inflationary effects, as indeed they were sometimes designed to do as a means of effecting transfers of income to the entrepreneurial sector.<sup>5/</sup> This opposition or indifference to planning on the part of the central banks probably stemmed from their short-term practices and techniques; concern for monetary stability on the other hand, has become a motive for a rapprochement between the central banks and the planning agencies, since the latter have invariably opted in favour of "development without inflation".<sup>6/</sup>

Although in practice the central banks and the central planning agencies are no longer at variance, perhaps the best of the possible organizational alternatives would be one providing for a division of labour, by virtue of which the central planning agency would undertake the formulation and supervision of medium- and long-term plans, and the central bank would prepare the economic, monetary and exchange budgets. Annual plans of operation would be drawn up jointly, in collaboration with the central office responsible for the fiscal budget.<sup>7/</sup> Such a division would make for unity. It would help to ensure that a part would really be played in plan formulation by the institutions that would subsequently have to supervise the attainment of urgent objectives set forth in the public sector's programme of expenditure or would be mainly responsible for inducing the private sector to follow the guidelines laid down. It would also serve as a means of assigning tasks of differing content and nature to the agencies possessing special qualifications and experience in the appropriate fields.

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5/ Jorge Ahumada, En vez de la miseria, sixth edition, Santiago, 1967, p.35.

6/ These questions are discussed at length in a study by Frank Tamagna, La Banca Central en América Latina, published by the Centre for Latin American Monetary Studies (CEMLA), Mexico, 1963. See also Roque Carranza, Development and stabilization policies in Latin America: some problems (E/AC.54/L.4).

7/ ILPES, Seminario de planes operativos anuales, op. cit., vol.I, pp.25-28.

Perhaps the co-ordination of the various functions allocated to such agencies would be facilitated in practice if the medium-term plan, besides coinciding with the government's term in office, established objectives for the last year of the period, rather than annual sectoral targets to be reached en route.<sup>8/</sup> The final targets or objectives would be broken down to the lowest level of aggregation consistent with political significance, for the purpose of obtaining the appropriate parliamentary sanction. They should be submitted to the Legislature together with, for purposes of comparison, a statement of what would probably be achieved by the end of the period, if the economy was left to the interplay of market forces and no attempt was made to adopt the development strategy and policies set forth in the bases of the medium-term plan presented by the Executive.

Given a medium-term plan with this type of structure, the task of determining annual operational targets would be the concern of the central bank, essentially on account of its monetary repercussions and the responsibilities the bank would have to shoulder in respect of the co-ordination of financial agencies; it would concern the central planning office, in particular because it would involve ensuring that sectoral targets were compatible, in terms of quality, quantity and timing, with the final objectives, strategy and policies established in the plan; it would concern the agency responsible for the fiscal budget and the sectoral government services, because it would virtually determine their work programmes for the following fiscal year; and it would concern the private sector, for a similar reason, and because of the repercussions of credit restrictions and of public income and expenditure on the level and structure of production.

Interests as strong as these would undoubtedly constitute powerful motives for the co-ordination of the various fields of experience and specialization, which would be effected continuously throughout the year,

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<sup>8/</sup> This does not, of course, preclude determining which parts of the major public investment projects or programmes should be put into effect during each fiscal year in a given period.



in conformity with a time schedule for the preparation of the relevant instruments: an exploratory economic budget, an economic budget forecast, a fiscal budget, and an annual operational plan. It is in the formulation of the annual plan that the co-operation of the private sector - largely based on contacts maintained throughout the year between the various government agencies and the corresponding subdivisions of the private sector - would be most valuable; but during the last stage, when the final administrative decisions that would shape the annual operational plan were to be taken, an ad hoc advisory committee should be set up, composed of representatives of the central planning agencies, the central bank and the investment banks or financing centres, the central fiscal budget office, and the subdivisions of the private sector concerned with the main branches of agriculture, basic and intermediate industrial production, and transport.

It has been said elsewhere that administration for development is the sum of the action that the government should take in pursuit of the national development plan objectives. Such a definition, besides presupposing that the plan is technically sound and therefore that its implementation and supervision are practical possibilities, has the further merit of reducing "administration for development" to its proper proportions.

The formulation of a technically satisfactory plan raises preliminary administrative problems which were not solved at the right time in many Latin American countries and have consequently been among the causes of failure to implement development plans. A basic requisit would have been to improve information services and statistical systems <sup>9/</sup> and train enough personnel for the central and sectoral planning agencies. As an indicator of the technical backwardness of the Latin American countries in this respect, suffice it to say that only two or three of them have begun to use

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9/ See, for example, Alfonso Perea Posada, Chief, Statistical Section, Economic and Social Development Division, Inter-American Development Bank (IDB), "La organización de sistemas estadísticos nacionales para satisfacer las necesidades de desarrollo económico y social en la América Latina" (ICAP/EXT/024/1300/67).

economic budgets, and that difficulties are encountered in the shape of gaps, deficiencies and time-lags in the supply of statistical data, and lack of the highly-qualified personnel required. To remedy these shortcomings should be the first objective of administration for development.

The next essential step should have been to adapt the public administration for the task of plan implementation. It is here that a fallacy has been very commonly entertained. This adaptation is believed to involve an over-all administrative reform designed to rationalize structures and procedures, with a view to expediting and improving the decision-making process, defining responsibilities and reducing operational costs; to improve the quality of administrative personnel by means of a post classification, the introduction of the merit system and of other techniques; and to perfect and simplify auditing standards and practices. The favourable effects of these and other similar measures would make themselves felt in a relatively short time, appreciably sooner than the impact of planning.

This is a Utopian dream. In several Latin American countries the bases of the merit system have been in the Constitution for many years, yet appointments and promotions are still determined almost entirely by political considerations. Agencies set up decades ago to promote the rationalization of the administrative system have incurred the animosity of politicians and pressure groups, have lost prestige and have sometimes become virtually inoperative. Public posts have been created far in excess of real manning-table requirements, as a form of social welfare service, necessitated by the incapacity of the economic system to employ a substantial proportion of the new population contingents annually joining the labour force. These and other circumstances inevitably lead to administrative inefficiency, which is an effect of economic under-development, but also one of its most operative causes. The increase in the public sector's personnel expenditure, which is proportionally higher than the growth rate of the gross domestic product,<sup>10/</sup> has augmented the tax burden, which in its turn pushes up the

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<sup>10/</sup> See Gonzalo Martner, Planificación y presupuesto por programas, Siglo XXI, Mexico, 1967, chapter I.

costs of enterprises and reduces family income, through price mechanisms or direct taxation. The domestic market thus becomes smaller, and exports may be adversely affected. Furthermore, the rise in administrative costs, almost invariably stemming originally from heavier expenditure on staffing, has in many countries been among the causes of budget deficits, which are often financed by inflationary means. What is more, even if the budget was balanced, the parasitic nature of many public-sector posts implies that purchasing power is given to a sizable social group which contributes nothing to the market in the way of goods or services but, on the contrary, in order to keep up a semblance of employment, complicates procedures, increases red tape and makes the administrative machinery cumbersome. This is one of the structural causes of inflation or of economic stagnation in cases where an attempt is made to eliminate the fiscal budget deficit by reducing the capital outlays of the public sector.

The strategy and tactics for administrative rationalization that ought to be dictated by such a state of affairs would probably require that certain agencies immediately responsible for the attainment of plan objectives should be separated from the general system, so that they could be given priority treatment, almost inevitably under a régime of provisional administrative and financial autonomy. Alternatively, new agencies might be set up, whose personnel would preferably be recruited from among officials already in the services so as to obviate additional costs.

As the national economy developed and the new production structures became incompatible with the older institutions and practices of the traditional public agencies, broader and more general administrative reforms would gradually become politically feasible. In all probability, they would be called for by industrialists and their spokesmen in Parliament or in the Press, as has already happened in developed economies and in some of the Latin American countries where special circumstances have made for a high growth rate, even without any planning.<sup>11/</sup>

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<sup>11/</sup> See Freddy Arreaza Leñez, "Administrative reform in Venezuela" (ST/ECLA/Conf.30/L.3); and, for example, the reference made by Jesse Burkhead in Public Budgeting to the United States' prolonged campaign on behalf of more efficient budgeting methods, which was successful only when the private sector began to demand "more business in government".

Such an approach would facilitate the implementation of short-term plans. To give sweeping and politically impracticable administrative reforms precedence over the necessary adjustments in agencies directly responsible for short-term plan implementation (which constitute only a tiny fraction of the whole system) would doom to failure both plan implementation and administrative reform.

## Chapter II

## THE LINKS BETWEEN PLANNING AND POLICY-MAKING

On several occasions, official United Nations documents have drawn attention to the basic importance of policy decisions in the field of economic and social planning, and have pointed out that the existing legal institutions in the Latin American countries are inadequate to ensure that such decisions are of the highest possible quality and are taken at the right moment at each stage of the planning process.<sup>1/</sup>

It is true that ordinary law can institutionalize planning and can even determine the timing and to some extent the nature of the relevant government decisions; but it is equally true that the basic functions and relations of the Executive and the Legislature are regulated by the national Constitution and that, in normal circumstances nothing can be of greater political importance than fundamental decisions bearing on the economic and social life of the nation. Consequently, the over-all development plan and the fiscal budget, being the principal documents in which such decisions are embodied, must inevitably be the subject of constitutional provisions. Moreover, some of the financial and budget regulations established in Constitutions which pre-date planning are incompatible with the planning process or at least unfavourable to it.

1. The experience of the socialist countries

It was in the socialist countries that planning was first placed on a constitutional footing. Some of the principles expressed or implicitly adopted seem to have reappeared in the revisions of their Constitutions effected by other countries which, although their economy is pre-eminently based on free enterprise, have decided in favour of economic planning. Accordingly, these principles are of special interest.

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<sup>1/</sup> Committee for Development Planning: Report on the Second Session, op. cit., p.2. Economic Survey of Latin America, 1964, United Nations Publication, Sales N°: 66.II.C.1, p.328.

In the centrally-planned economies the national assemblies (Legislature) nominate the Council of Ministers (Government, Executive). The plan is drawn up by the Executive and approved by the Legislature, and so are the annual fiscal budgets. In some cases the president of the central planning agency is a member of the Executive. Over-all planning objectives are laid down in the national Constitutions, which usually contain provisions designed to ensure that the plans are as far as possible the product of a national effort in which most of the citizens share.<sup>2/</sup>

In the socialist countries the State budget is an instrument for the implementation of short-term economic plans, particularly from the financial standpoint. "The purpose of financial planning is to determine the funds required in order to implement the economic plan, to distribute them among the various economic sectors and different types of socio-cultural construction in accordance with the plan targets, and to bring about savings in materials and money.

"The main component of the entire financial system is the State budget ... the State budget is the main State financial plan and serves to combine the various financial plans into a unified system of financial planning."<sup>3/</sup>

Despite these characteristics, which make the State budget a kind of matrix of sources and uses of funds, linked to short-term plan implementation -- or precisely because of them --, its rejection by Parliament and the consequent carrying-over of the budget for the previous fiscal year, are unthinkable. Such a procedure would be contrary to the very idea of planning.

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<sup>2/</sup> Constitutions of: Albania (articles 6, 59, 60); Bulgaria (articles 12, 17, 39, 43); Hungary (articles 5, 10, 25); Poland (articles 4, 7, 8, 16, 28); Czechoslovakia (articles 12, 162-164); USSR (articles 11, 14, 60, 68, 70, 83); Yugoslavia (articles 15, 44, 81). References taken from: Mirkine and Guetzévich, Les Constitutions Européennes, Paris, 1951; and Planning for Economic Development, Report of the Secretary-General transmitting the study of a Group of Experts, United Nations publication, 64.II.B.3, annex II, p.153.

<sup>3/</sup> Ibid., p.134.

No reference is made to so unlikely an event in the Constitutions of the socialist countries, except in that of Poland article 8 of which provides that if the Diet does not pass the bills relating to the national economic plan and to the budget, the President of the Republic, acting through the Council of Ministers, shall make them law.<sup>4/</sup>

Notwithstanding the importance of the resources generated by what are known as productive services (public industrial enterprises, etc.) for the financing of public sector consumption and investment, tax revenue still plays a significant role. In this context, it is worth noting that tax autonomy is non-existent in the States members of the socialist federations and, as a rule, among their local authorities.<sup>5/</sup> Obviously, the central government's control over the economy is greatly reinforced by this restriction of the power to tax of the decentralized territorial units. It implies the strengthening of the machinery for the adoption of decisions directly linked to planning, which is definitely classified as a constitutional matter.

Hence it is clear that in the socialist countries those basic planning decisions which are primarily political in character are the prerogative of the supreme political authorities: the national assembly and the government.

## 2. The experience of developed countries with a free-enterprise system

In countries where the free-enterprise system prevails, parliamentary approval of plans has been sporadic, and it is thought that a number of problems arise. It is contended, for example, that the flexibility of the plan is incompatible with the inflexibility of the law, and that approval of general principles, rather than of a specific text, would leave the Executive free to modify the objectives established.<sup>6/</sup> It would seem, however,

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<sup>4/</sup> Mirkine and Guetzévich, op. cit.

<sup>5/</sup> Constitutions of: the USSR (article 14, (k)) and Yugoslavia (article 44, 21), op. cit.

<sup>6/</sup> Pierre Bauchet, La Planification française: IV. Le contrôle politique du plan; and John Hackett and Anne-Marie Hackett, Economic planning in France, chapter X.

that the decision contained in article 2 of the law sanctioning France's Fourth Plan constitutes an important step forward in the search for the best solution. Under the terms of this article, the Government will submit to Parliament, before sending its directives to the General Planning Commissariat, a bill approving a report on the principal options governing the formulation of the Plan, in particular those concerning: economic growth; the distribution of the gross domestic product between investment and consumption; the structure of final consumption that is to be desired; and the general lines of social and regional policy.

Stipulations such as these, which link the formulation of the plan to predetermined political directives, will clearly make it much easier for central and peripheral planners to co-ordinate macro-economic aggregates and annual sectoral programmes with a view to attaining the objectives established. The administrative importance of this legal provision could hardly be overestimated.<sup>7/</sup> However, whether in practice it does or does not succeed in producing all the effects envisaged will essentially depend upon the stability of the government, i.e., upon the materialization of the French ideal: "One Government, one Legislature, one Plan".

Even the oldest European constitutions seldom allow for the possibility of the Legislature's withholding approval of the fiscal budget. There is an obvious explanation for this. In the past, the precise purpose and basis of the annual meeting of Parliament was, firstly, to authorize taxation and, secondly, to sanction public expenditure. There was only theoretical discussion of the possible legal and administrative implications of non-approval of the budget. Denmark and Finland, however, in their pre-1939 Constitutions, do establish regulations to be applied in this unlikely event, empowering the government to submit provisional appropriation bills to effect essential expenditure, etc. The reformed Constitutions of the Federal Republic of Germany and of France, which include provision for economic planning, solve the problem in different ways. The Government

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<sup>7/</sup> See Mary Parker Follet, "The Process of Control", Papers on the Science of Administration, ed. Lather Gulick and L. Urwick, New York, Columbia University Press, 1937.



of the Federal Republic of Germany is authorized to maintain services previously established, to pay State commitments and to continue the execution of public works, drawing upon resources allocated in the previous fiscal year and on reserves of capital. The solution adopted by France (similar to Poland's) is more compatible with planning: if the government finance bill is not passed by Parliament within a period of seventy days, it can be brought into force by Executive Orders.

A noteworthy feature is the brevity of the period allowed for parliamentary action on the finance bill in France. The government is thus enabled to present the draft fiscal budget at a date nearer to the beginning of the next fiscal year, and can more easily adjust it to actual conditions.

Obviously, this necessary reduction of the time-limit should not imply a parallel weakening of Parliament's basic function: the determination of government policy. The technical machinery whereby this undesirable effect can be forestalled is defined in the theory and partly established in the legislation and practice of a number of countries. Reference must be made to the following procedures: making a distinction between the budget law and the operational budget - the former being of more over-all character and constructed on the basis of programmes, the latter presenting details of the combination of measures proposed by the government for the implementation of the programmes in question -; justifying the projects presented in both documents, in relation to medium-term plan objectives, special combinations of circumstances, etc., in the form of a Presidential message, having a study of the budget made by joint committees representative of the upper and lower Chambers; and, lastly, the passing of the bill by Parliament.

It would be unreasonable to cut short the period assigned for budget procedures in Parliament, only to allow the administrative agencies an unnecessarily long time to prepare and co-ordinate their partial budgets. Given the reduction of the time-limit for parliamentary proceedings, the recommendations on socio-economic and financial policy transmitted annually by the central institutions to the peripheral planning and budget agencies

as a guide to the formulation of their budgets could be issued later in the year. By that time data would be available not only on the results of the previous year, but also on the most indicative facts and prospective results relating to the current year, recommendations could then undoubtedly be couched in much more precise terms, thus facilitating the whole of the subsequent work of adjustment and co-ordination. In many countries, however, including some of those with the most highly-developed economies, too much time is spent on the preparation of budget estimates by the administration. Where this is the case, the equally desirable tightening-up of deadlines will depend, first, upon the establishment of a network of programming and budget agencies commensurate with the number and size of the sectoral units involved; and, secondly, upon how far the structure and functions of these agencies are so designed that, the higher the decision-making level, the smaller will be its responsibility for administrative matters and the greater its responsibility for policy-making. It is here that great difficulty will be encountered in breaking time-honoured habits, which still lead some political assemblies to interfere even in administrative minutiae, just as in the nineteenth century, when the budget law had to include an itemized classification of expenditure by purpose, in order to promote a control of budget execution which would not let the Executive overstep the bounds of quiet regularity.

### Chapter III

#### PLANNING AND THE LATIN AMERICAN CONSTITUTIONS

To study the administrative problems of planning from the standpoint of its constitutional bases may seem a somewhat futile approach, in view of the inherent stability of the governing principles thus laid down. Nevertheless, it can be justified on several grounds. In the first place, the public administration acts within a framework of specific legal regulations, and, as has often been said, the titles of the chapters of administrative law are to be found in the Constitution. This increases the risk that the possibilities of adapting secondary regulations to planning needs may be restricted undesirably by constitutional provisions, either because they date from pre-planning times, or because an obvious intention to restrict planning, at any rate at the over-all level.

Secondly, a number of constitutional provisions of importance for planning are more often conspicuous by their absence than by their adverse implications, especially where relations between the branches of government are concerned. In this case too it is worth-while to discuss the prospects for the solution of administrative problems apparently opened up by such omissions. The non-existence of an explicit regulation does not in itself preclude the existence of implicit restrictions in the text of the Constitution.

##### 1. Incorporation of planning in national Constitutions

Even before the Punta del Este Conference, some of the Latin American countries had incorporated the idea of planning in their Constitutions. For example, the Colombian Constitution of 1886, with its several revisions (the last reform having been introduced in 1957), empowers Congress to determine the plans and programmes which should govern the development of the national economy, and the plans and programmes for all public works to be undertaken or continued. Plan formulation and implementation are not expressly stated to be constitutional functions of the Executive, whose

/responsibilities are

responsibilities are confined to fulfilling the classic obligation to put before Congress, once a year, the income and expenditure budget for the coming fiscal year.

Haiti and Honduras, whose most recent Constitutions were adopted in 1957 also, lay down more detailed planning regulations than Colombia, and even provide an institutional framework for the principal bodies responsible for plan formulation. The same course is pursued in the Constitution of Uruguay following its amendment in 1965.

Brazil's 1967 Constitution authorizes the Federal Union to establish the national road communications plan, and to draw up and implement national education and health plans, regional development plans (article 8, X, XII, XIII and XIV) and land reform plans (article 46, III), although no specific reference is made to over-all medium- or long-term plans. However, the powers of the Federal authorities, especially the Executive are greatly strengthened in all fields relating to instruments for the control of short-term economic policy. These points will be discussed elsewhere in the present document.

The varying degrees of efficiency with which over-all development plans have been implemented in Latin America would seem to suggest that it makes little difference whether planning is incorporated in the Constitution or not. The inference apparently is that legal regulations cannot easily withstand the pressure of circumstances; but this is only partly true, for ill-success has often been due to the inconsistency or inadequacy of the basic provisions in this field. This question too will be discussed in the following sections.

2. The presidential system and its possibilities as regards the requisite political support for plan formulation and implementation

With the exception of the former British colonies, all the developing countries of the Americas have adopted the presidential system of government. This may make it easier for Latin America to put into practice the formula already quoted - one Government, one Legislature, one Plan -, on which the political support essential for plan formulation and implementation depends; and, conversely, it may make for the frustration of planning efforts, if

/each government

each government aspires to bequeath a medium-term plan to its successor. The problem, therefore, is to establish machinery which will maximize the favourable and minimize the unfavourable possibilities of the system.

In the first place, it must be borne in mind that an over-all medium-term plan takes several years to formulate, and that, to judge from the experience of the countries which have drawn up and implemented the largest number of plans, it would be difficult, at the present level of information and technology, to prepare plans of the type considered ideal: i.e. "rolling" or continuous plans, whereby another final year is annually added to the over-all medium-term plan, as each year of the current plan is completed.<sup>1/</sup> (The validity of these statements is, of course, relative, depending on the essential nature and the complexity of the economy involved.) On the other hand, it is true that once the over-all plan has been formulated, modifications can be introduced, in line with whatever economically feasible policy options are formulated.

As a general rule, all or part of each new government's first year in office is covered by a fiscal budget adopted under the preceding government. The degree of flexibility of this instrument will determine, up to a point, how far the new government can begin to take action in accordance with its own political directives, which in principle will also be those of the party or coalition that won the last election. Accordingly, part of each government's first year in office should be devoted to the following tasks: a study of the over-all medium-term plan drafted by the central planning agency under the previous government; the establishment of guidelines for the planning agency's revision of this draft in conformity with the policy options agreed upon; and the submission of the revised plan by the Executive to the Legislature for its approval, which should precede or coincide with the adoption of the government budget for the next fiscal year.

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1/ Planning for Economic Development, op. cit., pp.7-8; and Seminario de planes operativos anuales, op. cit., vol.I, pp.26 and 29.

For this mechanism to work well, consistency between the policies of the Executive and the parliamentary majority would have to be ensured, at least during the first year of each presidential term of office. Unfortunately, hardly any of the Latin American Constitutions seek to promote this. A first essential would be for the terms of office of the Executive and of the members of the Legislature to coincide at all levels (Federation, states, provinces and municipios). This would pave the way for a full consultation of public opinion at regular intervals, with a view to complete policy overhaul. Although some regional differences of opinion might arise, on the whole the probable and desirable outcome would be that the victorious political forces would present a united front, particularly at the national level.

Only the Constitutions of Brazil (articles 76 and 77) and Venezuela (articles 40 and 42) expressly lay down the foregoing principle. Under those of Haiti, Mexico, Nicaragua, Panama, Paraguay and Peru, the terms of office of the President of the Republic and the members of the Legislature are of the same duration, but there is no stipulation that they must coincide. The other national Constitutions establish different periods of office for the Executive and the Legislature.

Another principal of importance from the standpoint of the political strength of the Executive is that the President of the Republic must be elected by an absolute majority. Only the Constitutions of Argentina, Bolivia, Brazil and Costa Rica contain such a provision.

Although consistency between the policies of the Executive and the parliamentary majority should perhaps be based on the coincidence of their terms of office and on the election of the President by an absolute majority, electoral legislation can undoubtedly do much to sustain it. This would be a case in which planning could be supported by secondary regulations, either designed to fill lacunae in the Constitution, or complementary to its provision.

3. Planning and the possibility of carrying over  
the fiscal budget

If the fiscal budget is thought of as an instrument for the short-term implementation not only of that part of the medium-term plans which directly concerns the public sector, but also of a great many of the measures designed to influence the behaviour of the private sector, the power to carry it over is of course essentially inimical to planning.

Express provision is made for the budget to be carried over, if the budget law is not passed in time, in the Constitutions of Bolivia, Colombia, Guatemala, Haiti, Honduras, Nicaragua and Uruguay. The potential dangers of successive carry-overs are lessened in the Bolivian Constitution by the terms of article 114, which establishes that "should the budget not be adopted by the Legislature in two consecutive years, the most recent draft submitted by the Executive and not approved shall come into force for the next fiscal year".\*

The Constitution of Uruguay affords three opportunities for the tacit rejection of the budget, inasmuch as it establishes (in articles 217 and 218) time-limits of forty-five days in the case of each Chamber and fifteen days in that of the General Assembly for the issue of a pronouncement on the draft or on amendments thereto, and adds that if no opinion is expressed by these institutions within the time-limits set, the draft shall be taken as rejected. As pointed out elsewhere in the present document, Uruguay has incorporated planning, together with programme and performance budgeting for the public sector, in its Constitution.

The Constitutions of Brazil, Chile, Ecuador, Paraguay, Peru and Venezuela expressly state that the draft submitted by the Executive shall become law if it is not approved by the Legislature within the time-limits stipulated. Thus, they adopt the same solution as France and Poland.

No reference to the hypothetical possibility of the budget's not being approved at the appropriate time is made in the Constitutions of Argentina, Costa Rica, the Dominican Republic, Mexico and Panama.

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\* Provisional translation.

None of the countries in these last two groups has incorporated over-all planning in its Constitution.

Wherever it is legally possible for the fiscal budget to be carried over, the only way to safeguard planning will be to forestall the actual application of such a measure. The machinery for precluding this possibility may be classified as pre-eminently political or technical.

Obviously, the importance of the distinction between the appropriation act and the operational budget, from the standpoint of facilitating the work of Parliament, increases proportionately to the volume and complexity of the government services. It will be negligible in small countries where the administrative structure is simple, and vital where the opposite is true; but in both cases, if the appropriation bill is drafted on the basis of programme and performance budgeting techniques, and the allocations are made at appropriate levels of aggregation, the voting process will not only be expedited, but will really come to signify policy-making, which is the specific function of the Legislature. It is here that the existence of a medium-term plan previously approved by the Legislature may facilitate decisions and help to ensure that the bill will be passed within the time-limits established in the Constitution. Of course, an essential condition will be that the appropriation bill reflects the policy options agreed upon by the branches of government and incorporated in the plan, and that possible deviations, whether tactical or strategical, are duly justified in the message from the Executive. In fact, it would be desirable for such deviations to be jointly decided upon beforehand by the Executive and the Legislature.

If the co-ordination between the branches of government is to be close enough to ensure concerted action right from the initial stages of policy formulation, the organization and procedures required will be of a kind that depend less on being spelt out than on acceptance of the necessity for them at the operational level. One of the most useful means to such an end is to see that the president of the central planning agency is a member of the government, where this is a corporate body with no permanent president. The prospects for this solution, which is commonly

/adopted in



adopted in the socialist countries, would be poor in most of the countries of Latin America, which have generally opted in favour of the presidential régime. Under governments of this type, statutory provision would have to be made for the leaders of the majority and of the opposition, or their representatives, to serve on the inter-Ministerial councils or commissions normally authorized to undertake the final co-ordination of medium-term plans and fiscal budgets. They should also participate in the adoption of annual operational plans and economic budgets.<sup>2/</sup> The central planning agency should also take care to keep the members of the Legislature individually informed of the significance and technical bases of the policy proposals formulated. This task, which would obviously be performed almost entirely through the transmittal of documents, would not be a mere public-relations function, but largely a matter of training political representatives to think in terms of economics and to understand national development problems.

Another important means of facilitating the punctual adoption of plans and programmes is to ensure that some part is played in their formulation by the social groups most directly interested and capable of making useful contributions. This point has been fully discussed in the technical literature on the subject.<sup>3/</sup>

#### 4. Constitutional bases of taxation

The well-known possibilities of taxation as an instrument of economic policy<sup>4/</sup> give unique importance to the possibility of centralizing the control of the tax system, and as far as possible avoiding decentralization of the power to levy taxes and determine their percentage rates. This is

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<sup>2/</sup> For a discussion of the organization of planning systems, see Economic Survey of Latin America, 1964 op. cit., pp.328-381; Carlos Matus, "Planning systems and their enforcement in Latin America" (ST/ECLA/Conf.20/L.13); and United Nations Centre for Development Planning. Projections and Policies, "Some general conditions for the effective implementation of plans", op. cit.

<sup>3/</sup> See Planning for Economic Development, op. cit., pp.4, 145-150.

<sup>4/</sup> In this connexion it is enlightening to refer to Hollis Chenery's classification of instruments of economic policy, reproduced in OAS, "El control de ejecución de planes generales de desarrollo en América Latina (Algunos aspectos vinculados con los presupuestos económicos y por programas)", op. cit.

traditionally considered a matter to be dealt with in the Constitution ... mainly because of its implications as regards the autonomy of decentralized territorial units.

As a general rule, the relevant provisions in the Constitutions of the Latin American countries would be no hindrance to the adoption of better solutions through ordinary law; but in some instances the position is less favourable. Cases even exist in which regulations intended to protect the individual taxpayer against surprise measures actually cause a lack of flexibility that it would be difficult to remedy.

There is a possibility of achieving maximum centralization, allied to maximum flexibility in respect of decision-making in this field, if and when all the following conditions are fulfilled:

- (a) Taxes can be established, and their distribution among territorial units determined, only by the law of the country concerned;
- (b) The Constitution does not fix time-limits for the application of taxes instituted by decree or of changes in existing taxation;
- (c) The Executive is empowered to alter specific tax rates during the fiscal year, within the limits and in the circumstances stipulated by law.

All these conditions in conjunction are not to be found in any Latin American country but, as is to be expected, the smaller the country, the higher the degree of centralization. For example, in the Central American countries, the Constitution invariably leaves the distribution of revenue among the central government and such local authorities as exist to be settled by the law of the country; and where taxes are instituted locally, they are usually centrally-controlled, either by the Legislature (as in Costa Rica) or by the Executive (as in Guatemala and Nicaragua). In El Salvador, the proposed tax schedules of the municipios have to be submitted for legal sanction at the national level. Elsewhere, the provisions of the Constitution warrant the conclusion that local tax powers are even more limited.

(a) The situation in the unitary States of South America

A wide variety of procedures is to be found in the unitary States. In Bolivia, national law determines which taxes are to be applied at the level of the country as a whole, of departments and of municipios, and the municipios can neither establish nor abolish taxes without the prior approval of the Senate. Thus the degree of centralization is decidedly high.

In Colombia, national revenue and the power to tax accorded to the departments and municipios are established by Congress. The Constitution sets time-limits of six months for the application of new or increased indirect taxes, and of three months for the initiation of the process of reducing import duties, which is spread over ten months. Any increase in import duties will be applied in three instalments, in the three months following the passing of the Act. Taxes and assessments cannot legally be collected unless they are incorporated in the budget; and, lastly, it is a precept of the Constitution that the annual budget must balance.

Unquestionably, these provisions would hamper the use of taxation and the budget as instruments for obtaining short-term financing, and, in part, for promoting the reallocation of funds for economic development purposes.

In Chile, the power to levy taxes comes under ordinary law. The relevant constitutional provisions create no particular difficulty.

It would seem that under the Constitution of Ecuador no power to legislate on taxation and assessments is delegated to local or provincial units. This power is apparently centralized in Congress, and there is no requirement which runs counter to the objectives under discussion.

In the Constitution of Paraguay, the only clause relating to taxes is article 76 (3), which empowers the Chamber of Deputies to legislate on taxes and assessments in general.

The Constitution of Peru specifically allocates the power to levy many taxes to the departments, and authorizes the State to add others to the list. The taxes concerned are not among the most important as instruments of economic policy, except for the progressive income tax, which is one of the sources of revenue of the departments. On the other hand, this allocation of resources does not apparently imply that the departments are endowed with the corresponding power to legislate.

/Given these

Given these features of the Peruvian Constitution, and the fact that it does not establish time-limits for the application of new taxes or tax changes, it would apparently be no bar to the use of taxation for the purposes of economic policy.

(b) The situation in the federal States

Argentina, Brazil, Mexico and Venezuela have adopted differing procedures as regards the distribution of resources among the three levels of government and the determination of each one's power to tax.

Under the Constitution of Argentina, import and export duties and all other assessments levied by the National Congress are allocated to the Federal Government. Import and export duties are the only indirect taxes over which the Federation has entire control; direct taxes are considered exceptional, and also fall within the competence of the Federal Government (article 67). In other tax fields, similar powers are granted to the provinces, which exercise all those not expressly assigned to the Federation (article 104).

It might be thought that so large a measure of tax autonomy would make co-ordination between the Federation and the provinces difficult, especially if it is to be as close as over-all planning would probably require; but the length of time that these principles have prevailed (the Argentine Constitution dates back to 1860 and was amended in 1866, 1898 and 1957) suggests that in practice a high degree of co-ordination has been achieved, through ordinary law, agreements and less formal procedures.

In Brazil, by long-standing tradition, the distribution of tax revenue and of the corresponding powers to legislate among the Federal Union, the states and the municipios is strictly governed by the Constitution. The provisions of the latest Constitution (1967) have been tightened up still further, obviously with the aim of establishing the conditions for the centralized control of economic policy. Thus, it assigns to the Federal Union import and export duties and taxes on all the following items: rural real estate; income; credit, exchange and insurance operations and those relating to securities (including bearer bonds); transport and communications services (except where they pertain strictly to the municipios); electric power; and mineral products of domestic origin. In other words, the taxes

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of greatest importance for the short-term control of the economy and for the reallocation of resources for development are assigned to the Federal Union. The sole exception would seem to be the purchase tax, which, despite its influence on price formation, still falls within the competence of the states (which absorb 80 per cent) and the municipios. However, the rate is uniform, i.e., it is unaffected by the nature of the goods taxed, and cannot exceed the limits set by the Senate; moreover, the tax is not of the cascade type, but is levied on the value added by each separate operation in the marketing process. These characteristics are intended to limit the use of the purchase tax as a weapon of economic policy; in other words, any attempt to ensure the progressiveness of indirect taxation seems to be made through the tax on manufactures (which is likewise levied on the value added) and through import duties, which are heaviest in the case of products consumed by the higher income groups. Where import duties are concerned, this principle is not very strictly observed, since the aim of the tax is primarily to protect domestic production, and only secondarily to provide revenue.

The intention to construct the tax system in such a way as to facilitate its use as an instrument of economic policy can be inferred not only from the foregoing decisions, but also from others whereby: (a) the product of export duties and taxes on credit, exchange and insurance operations or on those relating to securities (including bearer bonds) can be allocated under ordinary law to the formation of monetary reserves (article 23, 3); (b) the Executive is empowered to alter, in the circumstances and within the limits established by law, the rates or bases for calculation of the taxes referred to and of export duties, in order to bring them into line with the objectives of the monetary policy.

The disparities in regional income levels in Brazil, and all their implications, are well-known. With the aim of reducing them to a minimum over the long term, the national legislation has for some years past included tax policy measures which have been very successful and which make for a redistribution of investment, especially investment in industry, to the benefit of the relatively less developed areas. Moreover, as a general rule the states have established their own tax instruments, with a view to promoting public and private investment.

/The latest

The latest Constitution endorses the foregoing policy, and contains several provisions that should help to reduce the inter-regional disparities by guaranteeing the states and municipios a supply of funds that is not dependent on regional income, and by promoting co-ordination between the Federal, state and local authorities. Thus the states and municipios are assured of a share in the most productive Federal taxes, and that share may be increased if they sign agreements with the Union to ensure co-ordination of the respective investment and tax administration programmes. In addition, they have to use 50 per cent of their quota for financing capital outlays.

Under the Constitution of Mexico, it is the Federation that is authorized to levy taxes on foreign trade, mineral products (including coal and petroleum) and other natural resources, the operations of credit and insurance institutions, electric power, tobacco, matches, certain alcoholic beverages and forest industries.

The states receive a proportion of the yield of these taxes which is fixed by ordinary Federal law; and the state Legislatures determine the share of the municipios. Apparently the Constitution, which makes no mention of income tax, empowers the states to establish other taxes, but forbids them to institute customs duties or taxes affecting passengers or goods in transit.

The use of taxes as instruments of economic policy is expressly provided for in article 131, paragraph 2, besides being implicit as an objective in the distribution of revenue among the different levels of government and in the conferring of powers on the Executive to change the percentage rates of export and import duties.

The Constitution of Venezuela (article 21, 4) lists the taxes that can be levied by the municipios, which are those generally considered to be local in character. Neither the states nor the Federation can exercise any control over the municipios in respect of taxation. Thus conceived, the autonomy of the municipios might in some circumstances become a stumbling-block to co-ordination between the local, state and Federal authorities where industrial development, housing programmes or net wealth taxes are concerned, given the extent of the municipios' powers in respect of business or industrial licences and taxation on urban real estate.

/The states

The states cannot establish import, export or transit duties on domestic or foreign goods, or on other items taxable by the national Government or the municipios; nor can they tax consumer goods prior to their entry into circulation in the state territory, or ban the consumption of goods produced outside the state, or tax the latter differently from goods produced within the area of their jurisdiction.

The attributions of the national Government include the power to establish, collect, inspect and control rates and taxes and other revenue not assigned to the states or municipios.

Taken in conjunction, the provisions relating to the spheres of tax competence of the Federation and the states lead to the conclusion that it is for ordinary law to define how the sources of revenue are to be distributed between the two levels of government, since the Constitution does not seem to countenance duality of competence in any area of taxation.

In principle, the breadth of scope left by the Constitution to secondary legislation should facilitate co-ordination.

Article 124 lays it down that no tax or assessment can be increased or reduced until after the expiry of a term to be fixed in every case, except when special powers have been granted to the Executive. Should the term in question not be defined in the Constitution, its establishment by ordinary law would not appreciably undermine the efficacy of possible economic policy measures. How far this is true will obviously depend upon court decisions as to the length of the periods concerned.

(c) Administrative questions

From the strictly administrative standpoint, the use of taxes as instruments of economic policy within the framework of planning would call for a close linkage between the tax administration agencies and the central and - where they exist - the sectoral planning units. These questions were discussed at a seminar on operational plans held by the Latin American Institute for Economic and Social Planning (ILPES) at Santiago, Chile, in 1966.<sup>5/</sup> The following extremes of opinion were expressed: (a) that the

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5/ ILPES, Informe del Seminario de Planes Operativos Anuales, vol. I,  
pp. 37-40.

planning agencies should draft taxation bills and any others required to provide the instruments for plan implementation; (b) that this responsibility should be carried by the appropriate agencies of the public administration. Perhaps the best solution would be for the planning agency (central or sectoral) to specify the changes (short-term or structural) that should be introduced into the tax system, and to prepare the requisite draft legislation in collaboration with the fiscal departments. This would have the merit of associating the units that would subsequently be the executing agencies with the formulation of the measures, and would obviate the need for the planning agencies to overload their manning-tables with technical experts in all the innumerable fields of public-service activity, as would otherwise be inevitable, since the provision of instruments for plan implementation does not entail tax measures alone.

Furthermore, in view of the special importance of taxation in relation to economic planning, it should be established by law that no bill to create or modify taxes should be submitted by the Executive or, if proposed by members of the Legislature, discussed in either Chamber, until the central planning agency had expressed an opinion on it.



Chapter IV

CONCLUDING REMARKS

Although over-all administrative reform cannot be envisaged as a short- or medium-term objective, as demonstrated in the first section of the present document, it should undoubtedly constitute one of the essential targets of the long-term plan, to be attained by successive annual stages. It has already been pointed out that "administration for development" has a restricted meaning, and represents a requisite for plan implementation; in contrast, "the development of administration" is a permanent objective, whose importance, vital in the early years, may not grow less with the passage of time, notwithstanding the law of diminishing returns; for the present phase in the history of the public sector is one of marked expansion.

No Latin American country has carried out an over-all study in depth of the productivity of the public sector, but partial analyses, almost always made with a view to the rationalization of procedures and structures, have invariably brought to light an immense waste of human and material resources. To take the findings of this research as generally applicable would probably be to exaggerate the inefficiency of the region's civil services as a whole, for the mere fact that this research was undertaken is in itself an indication that existing conditions were seen to be abnormal. However, the a priori statement that low productivity is a characteristic feature of the civil service in Latin America is probably true enough, if allowance is made for possible exceptions that confirm the rule. This state of affairs stems from deep-lying historical, sociological and economic roots.<sup>1/</sup>

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1/ See Helio Jaguaribe, O Estado Cartorial (The Notary State), Higher Institute of Brazilian Studies (Instituto Superior de Estudos Brasileiros) Rio de Janeiro, 1960; and Investment and Economic Development Commission (Comisión de Inversiones y Desarrollo Económico - CIDE), "Estudio Económico del Uruguay", Montevideo, 1964, mimeographed edition. In the latter study the Uruguayan civil service is said to have become a "refuge for redundant manpower".

Any increase in the productivity of the public sector in Latin America would probably be linked primarily to the labour factor, and would have a multiplier effect upon the development of the region. There are a number of grounds for this assertion. The first point to take into account is the great and growing relative importance of the government's share in the gross national product, which ranges from 42 per cent (in Bolivia) to a proportion which is probably never less than 14 per cent (Costa Rica), public enterprises being included in every case. The average figure is about 25 per cent. Again, an economic breakdown of expenditure shows that approximately 75 per cent corresponds to consumer outlays (mainly on salaries and wages and other forms of personnel remuneration), leaving 25 per cent for real and financial investment and capital transfers.<sup>2/</sup> Almost the whole of the government's capital expenditure is effected through the private sector, on the basis of contracts for the execution of public works, purchases of equipment, etc. In other words, an improvement in the productivity of the public sector should signify a corresponding reduction in its unproductive consumer expenditure, which in turn would permit of an equivalent increase in State investment or a parallel expansion of current expenditure on services of real value to the public, with no aggravation of the tax burden.

Unfortunately, these effects are seldom seen in practice. Rationalization generally results in the release of manpower, which, owing to administrative inertia, is kept on in offices whose methods have been simplified, automation has been introduced, and unproductive activities have been reduced or eliminated. The only consequence is that the disguised under-employment situation becomes worse than ever. Yet with a little relatively modest investment, genuine conditions of full employment could be established in the public sector. Indeed, administrative inefficiency masks one highly favourable feature: the potential availability of substantial human resources, whose wages are paid by the government, and, on a smaller scale, of materials, facilities and buildings owned by the

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<sup>2/</sup> See Gonzalo Martner, op. cit., chapter I.

public sector. All this potential could be mobilized to expand the country's productive capacity.<sup>3/</sup>

Opportunities for applying this potential in these and other ways should be sought by the planners, or perhaps more specifically by technical experts in budget administration and administrative rationalization. This is a crucial aspect of the work of providing instruments for plan implementation. Latin American development plans place emphasis on particular measures considered to be of basic importance, such as land, tax and administrative reforms, which have little or no immediate political viability, and they omit more practical recommendations relating to specific projects and to the practical steps that must be taken to mobilize resources for their execution. Planners seem to have adopted a somewhat idealistic approach - the advocacy of structural changes to make development possible - when perhaps the converse would have been a more realistic and fruitful formula, i.e., the promotion of certain types of development to make structural changes possible.

One pointer to the abstract nature of the Latin American plans is that none of them contains proposals for the creation of development funds out of tax revenue. Yet a lesson might have been learnt from France, whose Economic and Social Development Fund has been one of the main instruments for the execution of the projects envisaged in the plans, and also for operations designed to increase productivity.<sup>4/</sup> Again, thought might have been given to the example set within the region by Brazil, which for many years has been using fiscal savings to finance projects for building

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<sup>3/</sup> The existing disguised unemployment also implies, at least in some measure, a disguised savings potential. See Ragnar Nurkse, Problemas de formación de capital, Mexico City, Fondo de Cultura Económica, 1955, p.50.

<sup>4/</sup> See P. Bauchet, *op. cit.*, annex II, for the relevant legal texts.

infrastructural facilities or for launching privately-owned or semi-public industrial enterprises;<sup>5/</sup> or the recommendations of economic theory might have been followed.<sup>6/</sup>

The establishment and operation of efficient instruments for the promotion of development has perhaps been a good deal more fruitful than planning in itself. Although no research has been undertaken which would either substantiate or invalidate this postulate, it is borne out by such cases as that of Mexico - with its Nacional Financiera - Colombia - which has similar institutions - and Brazil as mentioned above. These countries achieved very satisfactory rates of industrial expansion, despite their relatively low per capita income levels, throughout the long period extending from 1950 to 1964.<sup>7/</sup> Mexico has not adopted over-all planning. From the foregoing, it would seem that the administrative organization of planning involves a special problem. It is essential that the planning units should be provided with personnel qualified to define the nature and scope of the instruments for plan implementation and, in co-operation with the appropriate agencies of the public administration, or with the private sector, to draft the pertinent measures and see that they are really put into effect.

One such instrument might be the establishment of public or semi-public financial, industrial, agricultural or transport enterprises to be responsible for launching and subsequently managing projects relating to

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<sup>5/</sup> Tax resources earmarked for the promotion of development are applied mainly through Federal banks (Banco Nacional de Desenvolvimento Econômico, Banco do Nordeste do Brasil, Banco da Amazonia). The states have adopted similar procedures, and have even been able to safeguard the continuity operation of some of their planning agencies "in principle, by an instrument linking them to tax revenue..the proceeds of which were permanently allocated to them on their establishment" (see "Economic planning in Brazil at the level of the states", Economic Bulletin for Latin America, vol.XI, N° 2, 1966, United Nations publication, Sales N°: 67.II.G.4, p.72).

<sup>6/</sup> For example, the comments and arguments formulated by R.Nurkse, *op. cit.*, pp. 170 ff.

<sup>7/</sup> See Roque Carranza, *op. cit.*, tables 1 and 160, and Economic Survey of Latin America, 1964, *op. cit.*

important plan objectives, especially when the amount of capital required is likely to exceed the sums that could be contributed by voluntary saving. Such enterprises would generate their own resources, and, by absorbing some of the disguised unemployment in the public sector, would help to reduce fiscal-budget deficits and to ensure that resources formerly tied up in parasitical or obstructive activities became productive.<sup>8/</sup>

In proposing measures of this kind, planners should follow the lines of least political resistance. It is highly unlikely that any significant social group would raise objections, for example, to the execution of industrial projects. As they were put into effect, however, there would be clashes with the old bureaucratic, agrarian, tax and other structures, which would make for their reform, even at the cost of a certain amount of friction. That would be inevitable and useful, for as Mary Parker Follet points out, "Like engineers we must set friction to work for us".<sup>9/</sup> Planners must deliberately seek such clashes, but only at judiciously chosen intervals so as not to create undue social tensions. The clashes would be planned, and also inevitable, for if a country was in a position to apply the principle of balanced growth, it would not be an under-developed country.<sup>10/</sup>

Since the present document is concerned with the administrative aspects of planning, it would be out of place here to embark upon the long and thorough discussion that such questions require. They are mentioned only because of their importance in relation to the viability of administrative reform.

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<sup>8/</sup> Some public enterprises in Latin America are run at a loss, especially railway and shipping companies. This does not invalidate the argument.

<sup>9/</sup> Quoted in United Nations Development Programme, Briefing of International Consultants, New York, United Nations, January 1967, p.16.

<sup>10/</sup> Albert Hirschman, quoted by Albert Waterston in "What is the function of the Public Administration" (provisional translation, English text unavailable), in Finance and Development, International Monetary Fund and International Bank for Reconstruction and Development, Vol. IV, No. 3, September 1967.

