Alliance for Progress

CONSULTATION ON ECONOMIC AND SOCIAL DEVELOPMENT PLANNING

DRAFT REPORT OF THE MEETING

N.B. This text is provisional and is subject to changes of substance and presentation before final publication.
INTRODUCTION

1. Under the Charter of Punta del Este "The American republics recognize that to achieve their goals, it will be necessary that comprehensive and well-conceived national programs of economic and social development, aimed at the achievement of self-sustaining growth, be carried out in accordance with democratic principles." (Title II Chapter I). The Charter states further that the "Latin American countries should, in addition to creating or strengthening machinery for long-term development programming, immediately increase their efforts to accelerate their development by giving special emphasis to the completion of projects already under way ... the initiation of projects for which the basic studies have been made, in order to accelerate their financing and execution, and to the implementation of new projects which are designed to meet the most pressing economic and social needs and benefit directly the greatest number of people". (Title II, Chapter III).

2. In accordance with these provisions, and in order to launch the economic and social development planning effort — particularly with respect to the immediate action programmes referred to above — the Secretary General of the Organization of American States on 4 December, 1961 organized a Round Table on Immediate Problems of Planning within the framework of the Alliance for Progress.1/

3. One of the results of the round table discussion was a general recognition of the need to assist the Latin American Governments and planning agencies in their task of formulating and implementing immediate action programmes as part of their long-term economic and social development planning. The Secretariat of the OAS felt further that, in order to allow the Latin American republics to learn from each other's planning experience and to provide the Latin American planning officials with an opportunity for

1/ A summary of the discussion was presented as a background paper for the Consultation as Document (CP/5 OEA). See annex II of this report.
consulting with one another, as well as with members of the Panel of
Experts and with the technical staffs of the regional bodies and
institutions, a special meeting of experts and planning officials should
be held at Santiago, Chile in February 1962.

4. The present meeting is the outcome of that decision. It was organized
under the joint auspices of OAS, ECLA and IDB, and consisted of two parts:
a Seminar on Planning, with the participation of experts from various countries
invited in their personal capacity and a Consultation meeting of government
planning officials, with the participation of the Panel of Experts, the
technical staffs of the sponsoring organizations, representatives of the
United States Governments and of the international financial institutions, and
of observers from the Organization for Economic Cooperation and Development
(OECD) and from various European countries and Japan.

5. The purpose of the Seminar was to (a) examine the fundamental objectives
and requirements for short-term economic and social development planning;
(b) set forth some methodological guide-lines for the formulation and
implementation of immediate action programmes, and (c) assess the technical
assistance requirements for launching the planning effort. Consultation
considered the findings of the Seminar on the basis of the working documents
and report of the Seminar, and discussed the major issues raised in the
light of the countries' own experience. The results of these discussions are
presented in the following section.

6. The Consultation on Planning of Economic and Social Development was
inaugurated on 26 February 1962; Mr. Humberto Díaz Contreras (Chile) was
elected Chairman and Mr. Raúl Páez (Ecuador) Rapporteur.

2/ Annex I contains complete list of the participants at the second part of
the meeting, and Annex III (page 21) contains a list of the experts who
attended the Seminar on Planning.

3/ See Annex III of this report for the main document of the Seminar.

/7. Discussions
7. Discussions were based on the following agenda:

1. Opening statements
2. Election of the Chairman and Rapporteur
3. Findings of the Latin American Seminar on Planning
4. Consideration and discussion of short-term planning problems with which the countries participating in the Alliance for Progress are confronted.

Documents

(a) Report of the Seminar, with a Note by the Secretariat (CP/3)
(b) Methodological Guide-lines for Short-Term Planning, with a Note by the Secretariat (CP/4)

5. Conclusions.

II. PROCEDURE

8. The Consultations were conducted both at the plenary level and at the level of bilateral discussions between individual country delegations on the one hand, and members of the Panel of Experts and the technical staffs of OAS, ECLA and IDB. Bilateral discussions were also held between national delegations and the observers from the Organization for Economic Cooperation and Development (OECD).

9. The plenary meetings were primarily devoted to an examination of the substantive and organizational issues of short-term planning, which emerged from the deliberations of the Seminar. They covered the following major aspects: (a) the objectives of short-term planning; (b) the instruments of immediate action, particularly the formulation of a capital or programme budget; (c) general supporting economic policies required for the execution of short-term plans; (d) project evaluation within the short-term planning effort, and (e) technical assistance needs.

10. During the first plenary meeting, the Panel of Experts was officially inaugurated and at the inaugural meeting the Chilean Development Plan was presented to the Organization of American States for evaluation.

/11. The
11. The bilateral discussions with the Panel of Experts were designed to give planning officials in the various countries a clearer idea of the process and requirements of plan evaluation and to give the members of the Panel of Experts an opportunity to assess the form and content of short and long-term planning in individual countries.

12. The bilateral discussions with the European observers were mainly intended to indicate to the latter the specific areas or projects in which technical assistance or financing from Europe and Japan might be desirable; it also gave the European observers an opportunity to familiarize themselves with the state of development planning, and the nature of specific development projects in individual Latin American countries.

13. All of these meetings proved highly useful in clarifying several points concerning the plan evaluation, the basic requirements for the submission of a plan. The discussions indicated that, while most Latin American countries have already begun to inaugurate either short or long-term planning efforts, but that in many cases there was a lack of specific projects for financing, as well as the administrative machinery necessary for effective implementation.

III. SPECIAL EVENTS

1. Statement by the Minister for Economic Affairs, Development and Reconstruction of Chile

14. Mr. Luis Escobar Cerda, Minister for Economic Affairs, Development and Reconstruction of Chile, officially presented his country's National Economic Development Programme for the period 1961-1970 and handed to the Executive Secretary of the Inter-American Economic and Social Council a summarized version of the plan. He expressed the hope that the plan would be financed on the basis of the over-all programme rather than project by project as had occurred in the past.
2. Assumption of office by the Panel of experts

15. Mr. Jorge Sol, Executive Secretary of the Inter-American Economic and Social Council, welcomed the delegations and the observers from Europe and various international organizations. He introduced to the delegations the experts on the Panel designated by IA-ECOSOC who would henceforth undertake the evaluation of the development plans submitted by the various countries.

IV. SUMMARY OF THE DISCUSSIONS AND WORK OF THE MEETING

1. Statement by the Coordinator of the Panel of Experts

16. Mr. Prebisch made a statement to the meeting in taking over as Coordinator of the Panel of Experts. He said that the Alliance for Progress was an original formula for accelerating the economic development of Latin America and ensuring an equitable distribution of the fruits of that development. Moreover, it had the merit of recognizing that the countries of Latin America were already ripe for a decisive series of far-reaching changes in its economic and social structure.

17. In his view, the political meaning of the Alliance was that it made possible a vast capital investment effort without producing undue compression of consumption, the rise in per capita income, in turn, would reach an income level which would in itself make possible an automatic growth of capitalization.

The new policy of international co-operation based on development plans raised the question of who was to evaluate the plans in accordance with the spirit of the Charter of Punta delEste. It would not have been possible for the international credit agencies to do so, as it would have meant their being diverted from their natural sphere of action if requested to pass judgement on the intensity and orientation of structural reforms and integration problems. That was why it had been decided to seek the advice of ad hoc committees in evaluating the plans, and it had been agreed

Footnote: Section IV.1 contains a summary of the statement made on this occasion by Mr. Raúl Prebisch, Coordinator of the Panel of Experts.
that the recommendations on a country's development plan submitted by an expert committee would be a major factor in the allocation of funds under the Alliance for Progress.

18. He pointed out that the Panel of Experts had three main functions: (a) to support, vis-a-vis the credit institutions, any plan which met the basic requirements of the Punta del Este Charter; (b) to support a gradual programme of Latin American integration; (c) to promote the concept of aggregate financing of an investment plan. He emphasized that now that the idea of planning had been accepted he could not conceive of a plan which would not receive the support of aggregate international financing, since this would provide an element of security essential to its implementation, it being understood that fulfilment of the commitment by the finance agencies would be subject to the presentation of specific projects.

2. Statements by the representatives of Bolivia and Argentina

19. Mr. Jordan, representative of Bolivia, said that in his view Bolivia had already complied with several of the prior conditions set in the Punta del Este Charter for entitlement to benefits under the Alliance for progress since it had already carried out far-reaching structural reforms. He cited the redistribution of land ownership; the establishment of rural communities; nationalization of the mines - against proper compensation to the farmer owners - and several other administrative and tax reforms. He went on to express the fear that undue delay in obtaining financial assistance might lead to severe frustration, and he hoped that some pre-investment expenditure essential to the presentation of more specific projects would be financed.

20. Mr. Sol, Under-Secretary for Economic and Social Affairs, OAS, explained that several international and regional agencies had pre-investment funds for that very purpose.

21. Mr. Solari, representative of Argentina, described the far-reaching reforms carried out in recent years in the structure and dynamics of his country's economy. He referred in particular to the rearrangement of the petroleum, natural gas and transport industries, the promotion of private
investment, and the securing of credit through which had helped to overcome the severe state of stagnation of the Argentine economy.

3. **Purpose of short-term programming**

22. A discussion on basic principles was then begun the purposes of a short-term plan obviously being different from those of a long-term plan. The discussion having taken this direction it was stated that a short-term plan should deal with pressing problems, such as social ills, especially in the field of housing, public health and education, as well as unemployment, balance of payments, etc.

23. Some representatives stressed that concrete short-term results were essential, and to that end action would have to be taken chiefly through sectors which could be easily controlled, such as the central Government and some semi-public and autonomous agencies.

24. It was nevertheless recognized that a short-term plan could not consist solely of action aimed at achieving immediate results or seeking basically to bring about a rapid rate of investment. It should rather be viewed as a set of decisions in the field of investment and economic policy alike, for the solution of emergency situations and current problems, but at the same time directed at coping with economic bottlenecks. In that sense, short-term action should include both the re-formulation of economic policy and the re-channelling of investment, the over-all purpose being to direct the economy towards the fulfilment of specific long-term objectives.

25. From this exchange of views emerged the conclusion that short-term action should be based on a broader outlook. It was pointed out that countries which already had an over-all economic development plan covering periods of five to ten years were in a relatively more favourable position, since the objectives and the corresponding targets had already been set. Countries which had not presented programmes of that kind were not in so favourable a position.

26. It was nevertheless agreed that even in such cases it was essential for the orientation of short-term action that the countries should clearly define an economic development and social betterment policy. In that way the
way the purposes of short-term action would be defined, at least in qualitative terms. There was a consensus of opinion to the effect that in the case of those countries an effort should be made to quantify the objectives with a view to defining medium and long-term targets as well.

27. In short, the conclusion was reached that the problem was not so much the formulation of a short-term plan but rather the short-term formulation of an immediate action plan with objectives and targets of wider scope which would be consistent with an over-all development policy.

28. After discussion of the purpose of short-term programming, the question of the conditions in which that effort should be made was broached. Some delegations felt that the "implementation" of a co-ordinated and coherent economic policy through which action would be undertaken immediately both in the field of investment and in that of economic policy measures was faced with two serious limitations: (a) a public administration which failed to respond to the dynamic new functions it had to fulfil as part of the planning process and, (b) the difficulty of short-term mobilization of the private sector of the economy for the purpose of securing its effective participation.

29. Reference was also made to the existence of limitations with respect to international co-operation for financing, particularly the rigid approach deriving from rules of action which reflected different concepts, and procedural delays. Several participants expressed the hope that those obstacles would be rapidly overcome in view of the new policy of international co-operation defined in the Alliance for Progress.

30. With respect to internal administrative limitations, several views were stated on the strategy to be employed in short-term action in order to overcome administrative and institutional rigidities, on the one hand, and to increase the effectiveness of economic policy and planning instruments.

31. For greater efficiency in the field of investment and in order to achieve positive short-term results, action should be concentrated mainly in the hands of the central government, since its organization enabled it more easily to initiate a planned development policy, even then it might be better to have the planning work started solely in sectors which specifically met
the immediate action programmed or which were particularly important in the investment field.

32. The debate indicated that there was concern regarding the relative importance, in short-term action, of economic investment as against so-called social investment. Some representatives feared that short-term action might be translated mainly into social investment, because of the strong social pressures which were making themselves felt in Latin America at present, the new sources of external financing and the channelling of that assistance towards projects of that type, the relative ease with which projects of that kind could be formulated, and the emphasis placed on those problems in the Punta del Este Charter.

33. It was pointed out that if that situation continued for long it might lead to disequilibria which might cause confusion in the economy of the Latin American countries. On the other hand, it was stated that if that type of investment were duly supplemented within a relatively short period by other which contributed to the growth of the production capacity of the basic sectors of the economy, they might not only have an encouraging short-term effect but, what was more important, they might help to overcoming the considerable lag in social services prevalent in Latin America.

34. It was generally agreed that the immediate plan of action should include programmes and allocations to finance the studies needed to achieve the institutional reforms required for economic development as well as pre-investment studies. This might include the preparation of engineering projects which would make possible the formulation and initiation of investment programmes for consideration in the overall economic and social development plan to be prepared by Governments.

35. Most of the representatives felt that in order to readjust the short-term action plan and to relate it to the results achieved through the application of economic policy and investment programming measures, machinery should be established for a periodic review of the plan and for the required changes to be made. It was pointed out that economic policy
decisions which Governments in any case adopted from day to day because of unforeseen changes normally occurring in any economy could thus be co-ordinated and directed with broader purposes in mind.

36. It was stressed in the discussions that the preparation of a short-term action plan would require several months, depending upon how far planning work had advanced in each country; but that should not prevent countries in the meantime from presenting the new high priority projects which they had prepared, nor should it delay the processing of those already submitted to international credit agencies for consideration. Those projects would, of course, be subject to the adoption of specific measures by the countries concerned to formulate the short-term action plan and to prepare the execution of the relevant structural reforms.

37. It was pointed out that submission of development plans to the Panel of Experts was optional for countries, and that they were free to apply separately to the different international credit agencies for the financing of their plans.

4. Frame of reference for short-term action

38. There was unanimous agreement that short-term action should be based on two principal factors: (a) a brief diagnosis of the economic, social and institutional situation, and (b) an explicit definition of long-term objectives and goals.

(a) Diagnosis

39. The secretariat outlined the content and purpose of such a diagnosis, and it was agreed that the following should be included:

(a) An analysis of a recent assessment of the economic situation and of the existing situation, designed to identify the urgent problems for which immediate action was both needed and possible, and consideration of the structural problems that must be solved if the country was to attain in the future a balanced and sufficiently vigorous growth to ensure the economic and social betterment of the broad masses in Latin America. It was felt that the analysis should include both macro-economic and sectoral aspects, with a view to the subsequent formulation of specific objectives and goals.
(b) A succinct evaluation of the main causes of particularly serious social situations calling for urgent remedies, together with a description of the general living conditions prevailing in each country, with a view to ascertaining and evaluating conditions with respect to food, nutrition, health, education, housing, etc.

(c) A short appraisal of the institutional conditions directly affecting the operational capacity of the public sector in relation to short-term action, both in formulating and carrying out new investment projects and speeding up those in course of study or execution, and in effecting changes in the direction of economic policy that might lead to more active participation and better orientation on the part of the private sector. This study should include an estimate of the investment capacity of the public and private sectors, and of the means of operation available therein at the moment, and also of the shortcoming hampering any improvement in the planning process, i.e., lack of statistical information, insufficient knowledge of natural and other resources, lack of trained workers, inadequate in planning organization, etc.

40. It was stated that the situation in each country with respect to information, basic data and qualified staff to carry it out should be approached with the maximum flexibility. However, the information made available during the debate justified the conclusion that in most countries it would not be a very arduous task to prepare such a diagnosis; there was generally more statistical data available than that currently published; moreover, in many cases diagnoses and studies of the economic situation in the various countries had been made by both national and international organizations.

41. It was also agreed that the existing gaps and shortcomings in information—particularly with respect to specific economic sectors—could be remedied on the basis of the informed views of officials, experts and private entrepreneurs with wide experience in and knowledge of those sectors.

42. It
42. It was made clear during the meeting that few countries carried out any systematic appraisal of the social conditions of the people, but it was likewise pointed out that in that field too there was ample information material available, and that many studies had been carried out by the national bodies responsible for the various aspects of social welfare, and by the relevant international agencies.

43. The field in which there appeared to be a serious lack of study — and even some lack of interest in achieving greater knowledge of the subject — was the operational and executive capacity of State bodies. Since that was the aspect that most limited and hampered short-term action, it was agreed to recommend that vigorous efforts should be made as soon as possible to remedy the situation.

44. In brief, it was considered that except in very few instances the preparation of a brief diagnosis would not constitute any obstacle to the formulation of plans for immediate action by the participating countries.

(b) Objectives

45. There was general agreement that a properly conducted diagnosis would make it possible to define the principal objectives of short-term economic policy and the steps to be taken for immediate action. It was pointed out that there must also be a precise definition of the main objectives of long-term economic policy, and determination of certain over-all and sectoral growth targets. Only thus would it be possible to ensure the right approach for short-term action and consistency in relation to development policy. Some participants stated that the definition of goals should as far as possible include quantification in physical terms, as a means of facilitating estimates of investment needs and thus determining the nature and scope of projects.

46. The comment was made that the agenda of the meeting did not include examination of how programmes should be formulated. Consequently the representative of Venezuela, who made that comment, was asked to prepare a statement on the subject. This provided an opportunity of learning of Venezuela's experience in that connexion.

47. The
47. The points touched on in the statement in question included the subject of the instruments for action in the public sector. There was general agreement on the basic importance of the budgets of the Government and of autonomous or semi-official bodies among such instruments, and it was recommended that a start be made to transform the system into programme budgeting and thus into an operational element. The first step in the transformation process might be the division of the annual budget into capital budget and an operational budget; the former would include all investment and the latter administrative expenditure (wages, salaries, subsidies, etc.).

48. An attempt should be made to ensure that the budget was allocated functionally, and not exclusively by administrative departments. Such a system would be helpful when external financing was requested for specific projects for which the central Government was responsible, since it would make it easier for international financial agencies to determine the contribution made by the country itself towards the projects to be financed.

49. Such a procedure might constitute a first step towards budgetary re-organization. For countries where that step had already been taken, it was recommended that an effort should be made to introduce what was thus far considered the best budget technique, namely programme budgeting, whereby the budget was allocated in accordance with the programmes decided upon, and the action proposed and the funds allocated for the purpose were specified. That method had the advantage of making possible not only a strictly accounting control, but also a control of the results achieved with the funds— which was what mattered. However, it was pointed out that such a change would require a period of at least two years.

50. As programme budgeting was that best suited for the execution of a development plan, there was general agreement in this meeting as to the advisability of introducing it in all the countries. If this were done, it was felt the budget might be prepared less as a legal instrument than as a supplementary one that would provide better budgeting control. The procedure adopted in Venezuela was to allocate the regular budget in the form of programme estimates in accordance with the development plan being implemented.
5. **Organization for planning**

51. With respect to point 3 of the document used as a basis for discussion (CP/4) \(^5\) and bearing the same title as the present section, all the participants were in agreement with the text and there was no comment.

6. **Special statements**

52. With regard to the scope of the document's subject matter generally, the representative of Mexico felt that the following points called for clarification:

   (a) Methods and procedures for incorporating additional external financing into short-term plans;

   (b) Ways and means of including private enterprise or securing its co-operation, so that it could contribute towards the implementation of short and long-term plans;

   (c) The need for inclusion a supplementary document if any, of a more detailed explanation of the technique of shadow prices and its applicability.

53. Referring to the points made by the representative of Mexico Professor Rosenstein-Rodan one of the Panel members, made some observations relating to the topics dealt with during the previous week's Seminar on Planning. His remarks may be summed up as follows:

   (a) The new external assistance should fulfil the following three conditions:

      (i) greater volume; (ii) greater continuity; (iii) greater flexibility. International credit institutions were undergoing a process of change, even those whose operation procedure was well established. Such changes tended to be directed towards the foregoing objectives. Projects and particularly current investment plans would continue to be financed while development plans were in course of preparation.

   (b) It was essential for plans to include an economic policy programme, comprising in its turn incentives and deterrents that would guide and set in motion the action of private enterprise.

\(^5/\) See Annex III, no.11, page 110.  
\((c)\) With
(c) With respect to shadow prices, it was recommended that some adjustment at least should be made in the prices of foreign exchange, labour and capital, in order to reduce the margin of error implicit in such prices when unadjusted, as manifested at present in the market.

55. In so far as technical assistance for development was concerned, the representative of Brazil pointed out that one of the principal functions of a planning agency was to co-ordinate technical assistance in order to channel and centralize it to prevent duplication of effort and make it more effective.

The representative of Brazil gave a lengthy account of planning activities in his country and the progress already made. His account gave a clear picture of the magnitude of Brazil's undertaking in that field.

56. Some observers took the floor to express their views on the subject of the planning process in Latin America. The Observer from the International Bank for Reconstruction and Development (IBRD) stated that the Bank was prepared to assume certain risks in financing projects when there was a sincere desire on the part of the requesting country to plan its development on a long-term basis.

57. The representative of the Organization for Economic Co-operation and Development (OECD) spoke of the new opportunities open to the Latin American countries to use Europe's knowledge and experience of the sources of funds that the European region could supply.

58. The United Kingdom representative informed this meeting that his country had undertaken a technical assistance programme involving the allocation of 100 000 dollars for scholarships in respect of Latin America.

/Annexes/
ANNEXES
Annex I

LIST OF PARTICIPANTS

1. Panel of experts appointed by IA–ECOSOC under the terms of the Charter of Punta del Este

Hernando Agudelo Villa
Ernesto Malaccorto
Manuel Noriega Morales
Felipe Pazos
Harvey S. Perloff
Paul Rosenstein–Rodan
Raúl Sáez
Ary Torres

2. Representatives of countries

ARGENTINA
Alejandro Solari, Executive Secretary, National Development Council
Alberto M. Tandurella
Héctor Guzmán Pinedo
Pascual Martínez

BOLIVIA
Roberto Jordán Pando, Minister for Rural Affairs and Vice–Chairman of Planning Board
Guillermo Bedregal, President, Bolivian Mining Corporation
Felipe Galarza
Adolfo Aramayo
Pablo Ramos Sánchez

BRAZIL
W. Pimenta–Bueno, Director, Division of Economic and Technical Co–operation, Ministry of Foreign Affairs

/CHILE
CHILE
Humberto Díaz Contreras, Managing Director, Development Corporation (CORFO)
Luis A. Fuenzalida

COLOMBIA
Alvaro Rocha

ECUADOR
Raúl Páez, Director of Technical Planning, National Planning Board
Germánico Salgado

EL SALVADOR
Francisco Aquino, Director, Central Bank

GUATEMALA
Raúl Reina Fosal

HONDURAS
Carlos H. Matute, Secretary-General, National Economic Council
Valentín Mendoza

MEXICO
Víctor L. Urquidi, Technical Adviser, Ministry of Finance and Public Credit

NICARAGUA
Antioco Sacasa Sarria, Director-General, Planning Bureau

PANAMA
David Samudio, General Planning Director
Jorge Riba, Technical Planning Director
Rodrigo Núñez
José T. Campodónico Córdova

PERU
Juan Bazo Santa María, Director, Central Office of Studies and Programmes

UNITED STATES
Jack Keeten, International Development Agency (IDA)
Richard Mallon, International Development Agency (IDA)
Alvin Mayne, International Development Agency (IDA)

/URUGUAY
URUGUAY
Yamandu Patrón, Ministry of Finance
Pablo Tarigo Schek, Ministry of Finance
Enrique Iglesias

VENEZUELA
Angel Monti

3. Observers for countries

FRANCE
Louis P. Blanc

ITALY
Pier M. Masotti

JAPAN
Shintaro Tani

NETHERLANDS
A. Brohim

UNITED KINGDOM
J.H. Kennedy

4. Experts from sponsoring organizations

Organization of American States (OAS)
Jorge Sol Castellanos, Under-Secretary for Economic and Social Affairs
Walter Sedwitz, Director, Department of Economic Affairs
Mohinder Bhatia
Louis H. Delwart
Michael J. Deutch
Leo Suslow
Luis Vera
José Miguel Ribas
Ramón de Lartundo Herrera
Lia Onega

/Economic Commission
Economic Commission for Latin America (ECLA)
Raul Prebisch, Co-ordinator of the Panel of Experts and Under-Secretary of the United Nations in charge of the Secretariat of the Commission
Oswaldo Sankel
Julio Melnick

Inter-American Development Bank (IDB)
Jose C. Cardenas, Chief, Department of Economics

5. Other observers
Hernan Santa Cruz, United Nations Food and Agriculture Organization (FAO)
William Diamond, International Bank for Reconstruction and Development (IBRD)
Munic Benjenk, Organization for Economic Co-operation and Development (OECD)
Ernest Parsons,
William Lowenthal, Agency for International Development (AID)
Ralph E. Holben, Agency for International Development (AID)
Robert S. Ray, Agency for International Development (AID)
Annex II

SHORT SUMMARY OF THE ROUND TABLE DISCUSSIONS ON "IMMEDIATE PROBLEMS OF PLANNING WITHIN THE FRAMEWORK OF THE ALLIANCE FOR PROGRESS"

January, 1962

Pan American Union
General Secretariat, Organization of American States
Washington, D.C.
SHORT SUMMARY OF THE ROUND TABLE DISCUSSIONS ON
"IMMEDIATE PROBLEMS OF PLANNING WITHIN THE FRAMEWORK
OF THE ALLIANCE FOR PROGRESS"

Moderator: Jorge Sol Castellanos, Executive Secretary
of IA-ECOSOC

Technical Secretary: Walter Sedwitz, Director, Department
of Economic Affairs of the Pan American Union

Rapporteurs: Louis O. Delwert, Chief, Planning and
Programming Unit of the Pan American Union

Armando Cassorla, Adviser, Sub-Secretariat
of Economic and Social Affairs of the
Pan American Union

Special Guests: Raúl Prebisch, Under-secretary of the
United Nations in charge of the Economic
Commission for Latin America

Felipe Herrera, President, Inter-American
Development Bank

Participants

Roberto de Oliveira Campos, Ambassador of Brazil to the
United States

Alfonso Petiao, Titular Delegate and Chief of the Delegation
of Colombia to the Special Meeting of IA-ECOSOC at the
Expert Level

José Rafael Oreamuno, Ambassador of Costa Rica to the
Council of the OAS

Israel Talavera Palomino, Alternate Delegate of Cuba to the
Special Meeting of the IA-ECOSOC at the Expert Level

Walter Müller, Ambassador of Chile to the Council of the OAS

Humberto Díaz, Managing Director of the Corporation for the
Development of Production of Chile

Geránrico Salgado, Technical Director of the Economic
Planning and Coordination Board, Republic of Ecuador

Stanley Avalos Miranda, Interim Chief of the Department
of Economic Policy, Republic of El Salvador

/Reül Reina
A special Round Table was called by the PLU Secretariat for Economic and Social Affairs to discuss the "Immediate Problems of Planning within the Framework of the Alliance for Progress". The discussions were held on an informal basis and took place during the morning and afternoon of December 4, 1961.

The session opened with a statement by Sr. Jorge Sol, who outlined the broad theme of the Round Table. The Charter of Punta del Este is concerned not only with long-range development programmes, Sr. Sol said, but also with short-term, high-priority programmes. These programmes will be of decisive importance in organizing the planning effort and in bringing immediately tangible achievements to the peoples of Latin America.

The Alliance has already passed the first stage, the sixty-day emergency period, Sr. Sol said, and the experience with this programme has not been entirely satisfactory; this is partly because of inadequate preparations and some misconceptions about the meaning of the emergency programme. It is the more necessary, therefore, that well-conceived short-term programmes (as distinct from the sixty-day emergency projects) be formulated for the next two years. The core of these programmes could take the form of investment budgets; for their preparation, the countries can count on the assistance of the Panel of Experts.

/Mr. Sedwitz
Mr. Sedwitz discussed the preparation of two-year investment budgets as a mechanism of short-term planning. He noted that investment budgeting is essentially a method of classifying and presenting public sector expenditures by functions. This has the advantage of establishing a systematic planning procedure, permitting an assignment of priorities to particular projects and studying their inter-relationships, and of assisting in making decisions about sources of financing. The investment budget, of course, must be supported by a wide range of economic policies for the realization of its objectives. It is not an end in itself, but rather a means of making economic planning operational in the short-term period.

Mr. Sedwitz then proceeded to a discussion of the categories of information needed for the preparation of an investment budget, and suggested functional groupings of expenditures. The investment budget does not require any change in the presentation of the fiscal budget, but it makes necessary a recalculation of budget items; it could, in fact, take the form of a "shadow budget". There are difficult conceptual problems to be solved in determining which expenditures are in the nature of capital items. In view of the need to formulate a short-term programme, however, a technically perfect presentation of a capital budget would have to take second place to its speedy preparation.

I. Integrating Short-Term and Long-Term Programmes

1. The Investment Budget and its Relation to the Two-Year Programme

The concept of investment budgeting and its relation to the short-term programme was the first subject under discussion. Sr. Mayobre pointed out that investment budgeting did not guarantee economic planning; planning requires, in addition, the setting of priorities. Sr. Salgado found the concept of investment budgeting to be a useful one. However, he was apprehensive of the difficulties that would be encountered in achieving adequate execution and control of a budget on a programme basis.
The importance of proceeding rapidly with a policy of incentives - even in the absence of an investment budget or a comprehensive plan - was stressed by Sr. Herrera, who related the success experienced by Chile in stimulating new export industries through a policy of economic incentives.

Sr. Díaz stressed two important limitations of two-year investment budgets or programs. One is the physical constraint imposed by the need to complete work in process; the other is the institutional constraint imposed by such requirements as the statutory earmarking of funds for specific projects. These constraints restrict substantially the freedom of action of planners; as a result, two-year programs can be little better than a continuation of work in process.

The consensus was that short-term programs could start from the investment budget, which would then be related to the economy as a whole. This means that fiscal, monetary, and incentive policies, including tariffs, would have to be considered jointly with the investment budget. It was felt that these policies would contribute to the success of the investment budget and, in addition, could aid in the realization of broad private sector objectives.

Planning is a continuous process and gradual improvement can be expected over a ten-year period. There was agreement that the Ad-Hoc Committees could be consulted by countries in the process of elaborating their investment budgets, and that the countries could also count on the cooperation of the Tripartite Committee in the solution of their technical difficulties.

2. The Need for a Sectoral Approach. The need for a sectoral approach to planning was stressed by Sr. Díaz. Project evaluation has two aspects: the judging of each project on its own merits, and its relation to the parent economic sector. The merits of individual projects often appear in a different light once they are studied within the context of their own sector. Sectoral studies of the economy are, therefore, a necessary step to competent project evaluation.

Mr. Campos favored the sectoral approach in the case of Brazil, even to the extent of being somewhat dubious as to the worth of a national program. Sr. Prebisch recognized the need for sectoral plans, but felt that national plans could not be ignored. For smaller countries the task of assembling national plans is likely to be less complex than in the case of Brazil.

Mr. Herrera pointed out the need for sectoral plans to be viewed in relation to the statutes of financial agencies. He cautioned the participants against the belief that general country programs would give automatic access to international financing.
There was general agreement that sectoral studies in depth should be increasingly emphasized in the future.

3. The problem of Balance between Social and Economic Projects. The problems of proper balance between social projects and projects of direct economic significance also held the attention of several speakers. According to Sr. Herrera, there was a fairly widespread feeling that an excessive number of social projects had been presented since the Bogotá Conference, and that many of these had not been given careful consideration. He took the position that this view was largely a misapprehension. Social projects were starved for funds before Bogotá, but he felt confident that a suitable equilibrium between social and economic projects would be achieved. Mr. Moscoso favored a substantial proportion of social projects; he noted that many such projects had, in fact, already been approved by his agency.

There was some disagreement among participants on whether the task of preparing social projects was more complex than that of assembling economic projects. There was consensus, however, that the difference between the two types of projects was somewhat arbitrary in that many social projects had a stimulating impact on the economy.

4. Securing Immediate Financing for Projects. The participants were also concerned with the problem of securing financing during the period when investment budgets and short-term programs were being readied. There was unanimity among participants that financing of valid projects would not be held up during the period of preparation and review of short-term programs.

5. The Duration of Long-Term Programs. The question of duration of long-term programs briefly occupied the attention of the participants. Sr. Matute expressed concern over the Charter’s apparent requirement of a ten-year planning period; he stated that his preference was for medium-term, five- or six-year, country programs. Sr. Sol explained that while the Charter of Punta del Este pointed to ten-year goals in fields such as education and health, the actual mechanics of planning would be left to the individual countries. Each country is free to prepare its long-range plans for the number of years it considers most convenient. There was unanimity on this point.

6. Two-Year Programs as a Training Period for the Long-Run. Concluding the discussion on the subject of the integration of short-term and long-term plans, Sr. Sol emphasized that the two-year period would be used to best advantage if it laid solid foundations for planning work in depth in later years. In this respect, he pointed out, effective planning could not be done by planning experts working in isolation. There is a crucial need for pre-investment studies in fields like aerial photography and soil analysis. Expenditures related to such pre-investment work should be an important component of public capital outlay in

/the next
the next two years. Several sources of financing pre-investment studies are already available, notably the United Nations Special Fund, the Inter-American Development Bank, and, on occasions, the U.S. Government. It is up to the Latin American countries to take the initiative in making better use of these funds, which has not been done in the past.

Sr. Sol also pointed out that the training of personnel, notably statisticians, necessary to the implementation of long-range development plans, is another area where massive effort will be required in the next two years. There seemed to be general agreement on these points.

II. Planning Agencies and Their Relation to the Rest of the Administration

The proper function of a national planning organization and its relation to the rest of the administration was the next topic for discussion. Sr. Díaz analyzed the Chilean experience with the Corporación de Fomento (CORFO), an autonomous agency operating below the ministerial level. This arrangement has the advantage of removing the planning body from the political arena, thus giving its management and personnel greater stability. However, the planning agency has found it difficult to enlist the cooperation of all sectors; contrary to expectation, cooperation with the private sector is at times easier to obtain than that of some of the government agencies. In this connection, Sr. Campos pointed to the difficulty of coordinating the planning work of state and federal agencies.

The meeting did not develop a consensus on the proper place of a planning agency and its relation to other organs of government.

III. Technical Assistance in the Formulation of Short-Term Programs

1. Coordination of Assistance. The problem of coordinating technical assistance efforts was discussed, with broad agreement that coordination was still imperfect, and that duplication remained a problem. It was suggested that countries could improve their coordinating mechanism by centralizing their requests for assistance, following, for example, the pattern set by Chile, where such requests are centralized in CORFO. There was agreement that the Tripartite Committee is already effective in coordinating the processing of technical assistance requests sent to the three inter-American agencies.

2. Quantity and Kind of Assistance. Participants disagreed on whether the amount of technical assistance received by their countries...
at present was generally sufficient. Sr. Samudio felt his country was experiencing delays in getting the technical assistance it needed. In contrast, Sr. Díaz felt that the problem was more one of absorbing fully the technical assistance already received. Chile, for example, was already receiving more technical assistance than it could usefully absorb, except perhaps for engineering advice in specific fields. Sr. Salgado observed that his country no longer had any pressing need for general programming experts, but it needed specialists in agriculture; these experts would be required mostly for periods of no more than six months. Sr. Prebisch noted, however, that general programming experts were still needed on a large scale in Latin America. They were in scarce supply, which made it difficult to provide individual countries with resident experts in this field; this makes it necessary in many cases to put technical assistance personnel at the disposal of several neighboring countries simultaneously.

The consensus seemed to be that, while a majority of countries still needed general programming assistance, future needs would concentrate increasingly in very specialized, technical fields.

3. The Relationship Between Foreign Expert and Host Country. A good relationship between foreign expert and host country was thought to be highly important. There was a consensus that the expert's role is to assist the host country in drawing up projects or programs; the expert is not to draw projects or programs of his own. Sr. Sol agreed readily that the experts were at the service of the host country. However, he pointed out that the sponsoring agency wanted to be sure that the official reports of its experts would not contain anything offensive to host governments, or recommendations incompatible with the agency's commitments; this would require some form of supervision.

4. The Rural Sector: An Area of Dire Need. Concluding the discussion on technical assistance needs, Sr. Sol pointed to land reform, community development, and more generally, the rural sector as areas of particularly grave deficiencies. Mexico is the only Latin American country with long-range experience in this field, and its experience should be valuable to other countries. Lessons could also be learned from the experience of Southern Italy, Israel and Japan; Sr. Salgado agreed with Sr. Sol that direct observation of these four countries' experiences would be very valuable for high-level personnel. At lower technical levels, such as that of land appraisers, some thought might be given to the advisability of organizing courses in Latin America to create a nucleus of skilled personnel. There appeared to be broad agreement with these comments.

IV. Regional Planning and the Enlisting of Public Support

The problems of regional planning, and of enlisting public opinion support for a country's plan were found to be closely related. Sr. Díaz indicated that
indicated that taking the plan to the provinces is a particularly effective way of demonstrating what tangible benefits the local communities would derive from a particular program or project; this approach has proved of great assistance in helping to build grass roots support for the plan. In Chile, provincial committees have been formed with public and private sector representation; they have a voice in the elaboration and the execution of the plan. These committees have been found to be a powerful tool of educating important sectors of the population in the advantages of planning. In Colombia, Sr. Herrera pointed out, the knowledgeable interest of local businessmen and economists often has been instrumental in inducing the central planning group to sharpen up its analytical tools.

The consensus appeared to be that drawing in representative experts of the community to help formulate the plan is a useful method of enlisting the cooperation of the country at the execution stage.

Conclusions

The participants at the Round Table reached unanimous agreement on three important points:

1. A two-year investment budget is a useful tool for making planning operational in the short run; the investment budget should, however, be supplemented by "framework planning" and incentive policies designed to stimulate private sector activities.

2. In addition to reviewing short-term plans and investment budgets, the Ad hoc Committees of the Panel of Experts may be consulted by Latin American countries in the preliminary steps of preparing their short-term plans or investment budgets.

3. Short-term plans should be related to the long-range objectives of the economy. Therefore, an important task for the two-year period will be the strengthening of administrative cadres and the improvement of the statistical basis needed for effective long-range planning.
Summary of Sr. Díaz's Remarks on Chile's Experience with an Autonomous Planning Agency 1/

Mr. Díaz analyzed the experience of Chile with the Corporación de Fomento (CORFO), a technical, autonomous planning agency operating below the ministerial level. This arrangement is different from that, more common in Latin America, where the planning council has its offices located in the Presidency.

The experience with CORFO has covered a period of twenty-two years, and the major advantages and disadvantages of the autonomous-agency approach in Chile have by now become quite clear. The principal advantage has been to keep CORFO completely outside of politics, thus permitting its management and personnel to work under conditions of freedom of research and stability of tenure. The weakness of the autonomous-agency approach has been that it has made it more difficult to enlist the cooperation of all sectors for the preparation of the plan. The private sector has by and large proved cooperative, but some of the government agencies have shown themselves reluctant to give assistance.

A new committee was created a few months ago, partly to ensure better inter-agency cooperation, but principally to supervise the execution of the plan. This "Comisión de Planificación de la Economía y de Reconstrucción" (COPERE) operates at the ministerial level. Its principal functions are approval of the plan and supervision of its execution. CORFO is the secretariat of the committee, continuing to be entrusted with the preparation of the plan and its detailed execution.

The regional aspects of the plan have also been given increasing attention in recent years. Provincial committees have been formed to enlist grass roots support of the plan. COPERE has been entrusted with the coordination of provincial activities, while CORFO is acting as the technical secretariat of the provincial committees. The provincial committees are composed of representatives of public and private sectors, including labor and managements groups. They play a very useful role in enlisting the support of public opinion; they also play a part in supervising the execution of the programs in their respective provinces.

Chilean public opinion has given good backing to the planning effort. This has been due in part to CORFO's particularly rapid and accurate assessment of the economic consequences of the earthquake of May 1960. Since that time, the provincial committees have done much to keep alive the interest of all sectors of the population in the planning effort and in its successful execution.

1/ This summary of the Chilean experience is presented separately because it highlights certain administrative aspects of planning that may be of interest to the members of the Round Table. (See Section II above).

/Annex III
Annex III

PRINCIPAL DOCUMENTS OF THE LATIN AMERICAN SEMINAR ON PLANNING
LIST OF PARTICIPANTS

1. PANEL OF EXPERTS APPOINTED BY IA-ECOSCC UNDER THE TERMS OF THE CHARTER OF PUNTA DEL ESTE

Hernando Agudelo Villa
Ernesto Malaccorto
Manuel Noriega Morales
Felipe Pazos
Harvey S. Perloff
Paul Rosenstein-Rodan
Raúl Saez
Ary Torres

2. EXPERTS SPECIALLY INVITED

Juan Emilio Althaus
Francisco Aquino
Hollis B. Chenery
Gerhard Colm
Celso Furtado
Diogo Gaspar
Norberto González
Edgar Gutiérrez
Alvaro Marfán
Manuel Pérez Guerrero
Carlos Quintana
Germánico Salgado

3. EXPERTS FROM OTHER AGENCIES

(a) International Bank for Reconstruction and Development (IBRD)

William Diamond

(b) Agency for International Development (AID) of the Government of the United States of America

Alvin Mayne
Don McClellon
4. TECHNICAL EXPERTS FROM THE SECRETARIATS OF THE SPONSORING ORGANIZATIONS

(a) Organization of American States (OAS)
    Jorge Sol Catellanos, Under-Secretary for Economic and Social Affairs
    Mohinder Bhatia
    Louis Delwart
    Michael Deutch
    Walter Sedwitz
    Leo Suslow
    Luis Vera

(b) Economic Commission for Latin America (ECLA)
    Raúl Prebisch, Under-Secretary of the United Nations in charge of the secretariat of the Commission
    Ricardo Cibotti
    Gonzalo Martner
    Julio Melnick
    Osvaldo Sunkel
    Pedro Vuscovic

(c) Inter-American Development Bank (IDB)
    José C. Cárdenas, Chief, Department of Economics

OBSERVERS

Agency for International Development (AID) of the Government of the United States of America

Paul Fisher
J. Koteen
Richard Mallon

Economic Mission of the United States in Chile

Otto K. Korican

Pan American Sanitary Bureau

Alvaro J. Simoes
Hernán Durán
AGENDA

I. Basic approach to short-term action

1. What should be the nature of short-term action
   (a) The present approach; possible risks
   (b) Necessity for basing short-term action on:
       (i) An investment programme covering all internal and
           external resources; and
       (ii) Basic definitions of economic policy and structural reforms.

2. Requirements implicit in short-term action
   (a) Identification of the main problems impeding development or
       aggravating social tensions;
   (b) Distribution of resources in the light of long-term objectives;
       Problem: How to combine rapid action with the need to establish
       definitions.
   (c) Creation or bringing to completion of the institutional organi-
       zation for the formulation and execution of plans.

3. External requirements
   (a) Methods of financing;
   (b) International technical assistance

4. Economic and social projects in a short-term plan

II. Content and methodology of short-term plans

1. General frame of reference as a guide to planning.
   (a) Identification of the principal economic problems (bottlenecks,
       idle capacity, unemployment, poor use of natural resources,
       external or fiscal disequilibria, wastage of resources, etc.)
   (b) Description of the living conditions of the population (food,
       housing and related services, health, education, etc.)
   (c) Identification of the main causes of social ills (general and
       specific causes)
   (d) Definition of long-term aims for improving living conditions and
       their economic implications;

   /e) Evaluation
2. The investment programme

(a) Inventory of public investment projects under way and projects or draft projects under study or in preparation;

(b) Private investment projects under way that are of significance for development purposes, and projects or draft projects under study;

(c) Series of projects to be included in a short-term plan and their justification;

(d) Evaluation of the feasibility of the projects selected;

(e) Identification of activities in which the shortage of specific projects is particularly serious.

3. The economic policy programme

(a) Determination of the basic outlook and primary objectives of short-term economic policy;

(i) Identification of the main spheres of action for short-term economic policy (unemployment, stagnation, inflation, external, fiscal and regional disequilibria, etc.);

(ii) Evaluation of the most appropriate short-term instruments of economic policy for use in any given case (fiscal, monetary, exchange, wage policy, etc.);

(iii) Compatibility of short-term measures with the fundamental aims of economic and social development (e.g. stabilization, public works, exchange policy, etc.).

(b) Immediate measures in the different fields of economic policy

(i) General measures relating to the vital short-term objectives;

(ii) Specific measures required to ensure the implementation and subsequent functioning of the investments projects included in the investment programme;

(iii) Examination of the policy of the principal executive and regulatory agencies of the State with respect to the present outlook and the modifications that are both necessary and feasible;

(iv) Planning
(iv) Planning or implementation - as appropriate - of structural reforms: agrarian, tax, educational, social security.

(c) Problems presented by the new types of external assistance

(i) Implications of blanket external financing of short-term projects and plans;

(ii) Implications of external financing of social projects (in which the import element is relatively small);

(iii) Additional external financing in relation to the volume and structure of the external debt.

III. Preparation and execution of plans: Problems, organization and administrative machinery

1. Administrative organization for the formulation, execution and supervision of plans

(a) The need for an institutional planning system

   (i) Need for the planning to be a permanent process

   (ii) Information and study machinery

   (iii) Participation of the administration as a whole in the planning process

   (iv) Training of technical staff

(b) How the planning system can be introduced gradually

   (i) High-level organ for the formulation of development policy

   (ii) Technical organ for central planning

   (iii) Departmental offices for sectoral programming

   (iv) Regional planning bodies

(c) How the instruments and organization for the execution of plans can be improved

   (i) Improving the budgetary, tax and banking machinery

   (ii) Machinery for executive co-ordination

   (iii) Improving public administration organization and procedures

   (iv) Establishing systems for verifying the results of plans

2. Role of public investment machinery

(a) Analysis of the public sector

   (i) Evaluation of the composition of public investment

   (ii) Difficulties
(ii) Difficulties in the way of increasing or changing the composition of public investment (commitments for the completion of projects, piecemeal plans, institutional organization and financing systems, operational capacity, etc.)

(iii) Policy, objectives, plans and projects of the executing agencies

(b) Criteria governing the allocation of resources

(i) Criteria deriving from the general development programme

(ii) Criteria deriving from the special analysis of the public investment system (maintenance, completion of works in progress, inclusion of new projects, supplementary projects, capacity to execute projects, etc.). Investment required to increase the efficiency of the investment system.

(c) Machinery for formulation of the programme

(i) Financial programme (allocation of resources by units, directives to be complied with)

(ii) Programme of action and projects

3. Problems relating to the preparation of specific investment projects

(a) Function of the projects in development programming

(b) Some aspects relating to the study of the projects

(i) Social and economic projects

(ii) The concept of preparation, presentation and evaluation

(iii) Problems of evaluation

(iv) Qualitative and quantitative differences in the study and execution of projects. Effects on financial and staff requirements and on the programme as a whole.

(v) Identification of possible new projects

(vi) Public and private projects

(c) Organization for the study of projects

(i) Promotion needs; identification of the causes of existing shortcomings

(ii) Constituents of and design for an effective structure for the promotion and execution of projects

(d) International co-operation

IV. International technical and financial assistance in the formulation of programmes and projects
EVALUATION OF A SHORT-TERM DEVELOPMENT PLAN

Introduction

An optimal short-term plan can logically be only determined within the framework of a long-term plan. When a long-term plan has not been completed, practical sets of rules can be devised for a short-run plan (of, say, two years); they provide a guide towards a best possible ("second-best" but not "tenth-best") solution. In a short-run plan many bottlenecks must be accepted as unavoidable. In a more flexible long-term plan they can be changed. If the economic (rate of growth) and social (equality of opportunity) objectives are given and the situation at the starting point is known, short-term aspects of a long-run plan can be worked out. Standards for presentation of such programs are indicated below.

I. Diagnosis

1. National income, gross and net investment, average and marginal savings rates, foreign capital inflow, balance of payments.
2. Inventory of existing public investment and the absorptive capacity of the public sector.
3. Rough estimate of existing excess capacity.
4. Occupational structure. Open and disguised, long- and short-term unemployment; its sectoral and regional distribution.
5. Over-all judgment on bottlenecks to growth:
   a) short-term bottlenecks (e.g., social overhead capital, shortage of skilled workers, balance of payments, regional problems, social unrest);
   b) longer term bottlenecks.

II. Categories of Priorities

1. Investment for a fuller utilization of existing capacity (including projects in advanced process of construction). Such projects have obvious high priority. They provide a...
"once for all" increase in income—essential in a short term—but are not sufficient to generate sustained growth.

2. Projects of "obvious" high priority (which would have a high priority in any long-term plan).

3. Projects ready for execution which are well prepared and meet strict criteria (including shadow pricing, see III.1):
   a) removing existing bottlenecks, b) short gestation period,
   c) export gaining or import saving, d) near an optimum technological dimension which would stand up in a common market.

4. Labor-intensive projects designed for a rapid increase in employment (rural public works). See III.1.c and III.3.

5. Social development projects:
   a) Criteria: The relative importance of economic (rate of growth) and social objectives has to be evaluated. If too high a proportion of total investment were channeled into "social" sectors the rate of growth would be low. Social investments must be viewed, therefore, within the framework of total investment of which they should not form so high a proportion as to reduce the rate of growth below an agreed minimum.
   b) Distinction between projects with short- (vocational training, selective education projects) and long- (abolition of illiteracy) gestation periods. The productive efforts of a project determined by discounting the flow of future benefits to present value, taking account of the gestation period. The social objective of equality of opportunity may justify a somewhat higher priority. On the whole, however, the amount allocated for social investment should be determined residually.

III. Methods of Evaluation

Besides familiar cost-benefit calculations, three special problems deserve consideration:

1. Shadow-pricing (of general importance for project-evaluation)
2. Adequacy of national effort (how to increase savings)

/3. Employment (how
3. Employment (how to reduce unemployment without undue sacrifice of income.)

1. Shadow-pricing (Precios de cuenta)

Market prices under perfect competition are a signalling device steering economic resources into their optimum allocation. Prices of factors of production reflect their opportunity costs and should be equal to their marginal value productivity. Competition, however, and the investment market are imperfect in reality. Shadow prices of three factors of production must be used in the evaluation of an investment program instead of market prices. This is not the place to expound the full theory of the subject. An excellent and succinct presentation is available.\(^1\) Three operational points only may be mentioned:

i) Shadow prices are equal to the opportunity costs. If there were only two goods in existence, the cost of one good is equal to that of the second good foregone. ii) If there are more than two goods it is not so simple to identify the opportunity costs. The shadow prices enable us in this case to measure them. In the terminology of programming they are the Lagrange multipliers of a constrained optimization problem. iii) To solve a constrained optimization problem for many sectors is a very complex task. A good approximation can be obtained, however, by calculating the shadow prices of factors of production for a simple two sector model and to apply them then for each of the many sectors. Shadow prices can be used, therefore, as a computational short-hand method for each project without having to solve each time the optimization problem for the investment program as a whole, of which the project is a part.

While an exact determination of the shadow prices is not always possible, operationally useful approximations (within a lower and an

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upper limit) can be calculated. They are indispensable for the elaboration of an investment program in underdeveloped countries.

Since conditions change in the course of development a time path of shadow prices has to be assumed for a long-run plan. This does not apply in the case of a short-term (two years) plan.

a) The shadow rate of interest

Capital should not be invested in a project if thereby the opportunity is foregone of investing in another more profitable project. Since capital markets are notoriously imperfect the market rate of interest does not reflect those more profitable investment opportunities foregone. An approximate shadow rate of interest should therefore, be used as a computational shorthand in order to rank projects. The lower limit of shadow rates of interest in Latin America is around 8 - 12 per cent, say, 10 per cent. No project should be included in the investment program which would not cover interest costs of, say, 10 per cent.

Private investors follow this rule in practice. No investment project is undertaken, if it does not promise a return of 15 - 20 per cent. Public investment projects, however, neglect in general

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2/ Using R. M. Solow's formula (as an approximation) the shadow rate of interest $\rho$ is:

\[
\rho = \frac{g}{\sigma_R + \frac{1 - D}{\sigma_W} \cdot \frac{1}{D}}
\]

where $\rho$ is the rate of interest, $g$ is the rate of growth, $\sigma_R$ is the savings rate of the profit receivers, $\sigma_W$ is the savings rate of the wage earners, and $D$ is the share of profit income in total income. We guess that in a "typical" Latin American country $\rho$ varies between 55 - 75%, $R$ between 15 - 30%, $W$ between 3 - 6%.

Assuming a rate of growth (g) of 4.5%, $\rho = 65\%$, $R = 20\%$, $\sigma_W = 5\%$ the rate of interest $\rho = \frac{4.5}{0.20 + \frac{1 - 0.65}{0.65} \cdot \frac{1}{0.523}} = \frac{4.5}{0.523} = 8.6\%$ (rounded).

If the rate of growth were 5%, the rate of interest under these conditions would be 9.6%.
shadow-pricing—with grave consequences of waste of capital. Faulty allocation leads to the selection of wrong projects, wrong technologies, wrong location, wrong pricing of the product—and to insufficient savings of public enterprises, which should contribute to the national capital formation.

Electric power may be used instead of numerous other examples. A shadow rate of interest of 10 per cent will in many cases lead to the substitution of thermal for hydro-electric projects, to a location of thermal projects nearer to the market than the often distant hydro-electric projects, and to higher tariffs for electric power. Where specific subsidies are justified, they should be granted from the general budget. It is wasteful and too costly to give them indiscriminately to those who need it and to those who do not need it through lower prices of electric power. Prices which do not reflect costs cause a direct waste of resources (via lost profits) and an indirect increased and continued waste by inducing the location of power-intensive industries in high-cost areas.

In general, shadow rates of interest will give a lower ranking to capital-intensive and long-gestation period projects.

b) The Shadow Rate of Exchange

Foreign exchange must be considered as a specific factor of production in underdeveloped countries. Low price elasticities of exports and imports are the cause of a foreign exchange market which either works imperfectly or works at an excessive expense of income growth. The scarcity of foreign exchange should be reflected in a shadow rate of exchange which is higher than the market rate of exchange. In various Latin American countries shadow price of exchange can be estimated at 10 to 50 per cent above the market rate. They give a measuring rod for the need of import-savings and export-gaining. While it is still uneconomical to produce bananas on the North Pole, shadow rates of exchange indicate to what extent projects, which

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3/ The use of an accounting price of foreign exchange is not necessarily a substitute for devaluation; it does not imply that devaluation is necessary.
produce goods at costs higher than prices of equivalent imported goods, should be included in the national investment program.

c) The Shadow Rate of Wages

Where there is open and disguised unemployment shadow rates of wages are markedly lower than the market rates. Theoretically the shadow rates of wages (Lagrange multiplier) is zero in such cases. Operationally, however, an "incentive shadow rate of wages" is necessary in order to induce the unemployed to work and to take account of the fact that the families of the unemployed will not save all they gave their family members as support, once those found an occupation, but will increase their consumption. Many projects which would not meet the criteria of priority if market rates of wages are assumed, should nonetheless be included in the development program on the basis of shadow rates of wages which are 20 - 50 per cent lower than the market rates. These should be primarily labor-intensive projects which use little or no capital. An important example are Rural Public Works (II.4) (fencing, bunding, terracing, digging for minor irrigation) which use little capital and increase the productivity of the land, although at first they do not produce an increase in agricultural goods. If the workers live in villages and work nearby a wage rate lower than the market rate may induce them to work. If they work away from their homes a market rate of wages might be paid and subsidies would be justified. (For other examples and a fuller discussion, see III.3).

The timing of such projects and good diagnosis of the unemployment situation is important here. Disguised unemployment is not ample in most South American countries and is mostly concentrated in a few regions. It may not be very important in five years' time— but it is a vital problem for any short-term program at present.

2. **Adequacy of National Effort**

   a) Foreign aid should only add a proportion to the national capital formation. If the national effort is inadequate only a small amount or no aid should be forthcoming. The better the national effort and the nation's absorptive capacity the higher will be the amount of foreign aid. An important task of the Development Plan is, therefore, to evaluate the national effort and to propose measures apt to increase it.

   The best symptom and measure of national effort is the average and marginal rate of savings—and notably the deviation between the two rates. An underdeveloped country with a low income per head may not be able to save a high proportion of her income; her average rate of savings may vary from 5 - 8 per cent. It can save, however, a very much higher proportion out of her increase in income; her marginal rate of savings can be twice or more than twice as high (15 - 20 per cent) as her average rate of savings.

   The mobilization of national effort must therefore be directed to raise savings. Three sources of savings had best be considered:

   i) **Private savings.** They can be increased by prospects of currency stability, by housing cooperatives savings associations, and in the long run by fiscal reforms exempting savings from taxation (expenditure tax). While the average rate of savings in this sector is 4 - 7 per cent, the marginal rate can be 8 - 12 per cent.

   ii) **Corporate savings** of the business sector are usually high already since the "ploughing back" of undistributed profits reinvests 20 - 35 per cent of profits. As development proceeds the proportion in the GNP of income originating in this sector will rise, leading to an increase in the national savings rate.

   iii) **Savings in the public sector** can be vastly increased even in the short run by making profits in public enterprises (see III.1.a on shadow pricing in the public sector) and by budget /surpluses. This
surpluses. This is an essential part of raising the national effort; its adequacy or inadequacy in the short run will largely have to be assessed on realizations in this sector.

b) While foreign aid can only form a part of national investment, a higher proportion may be justified in the initial period if proper measures are taken to achieve high marginal rates of savings.

3. Employment and Unemployment

Full employment is undoubtedly the first step for providing a minimum of equality of opportunity and for realizing the objectives of the Alliance for Progress. Full employment in an underdeveloped country is a structural problem quite different from that in developed countries. The conflict between productive efficiency and greater equality in income distribution makes it impossible to realize all social objectives overnight. Fortunately most South American (unlike Central American) countries are not heavily overpopulated. To reach full employment need not take as long a time as it must take, for instance, in South East Asia. In the shorter interval, however, social growing pains of an underdeveloped economy are unavoidable. What matters primarily is not to lose sight of the final goal and to see to it that vested interests and inertia should neither delay nor prevent its achievement. Some alleviating measures can make the path less painful even though they may well prolong it. Economic development planning can both accelerate growth, i.e., shorten the interval before a satisfactory standard of living for all is reached, and indicate the selection of some welfare measures which do not widen the interval excessively. The economic development operation is unavoidably painful, but progress in economic knowledge in the twentieth century can make it shorter and can provide anesthetics which did not exist in the nineteenth century.

A higher rate of growth will in the long run lead to more employment. In the short run, however, there is a conflict between "maximum output" and "maximum employment". More labour-intensive but less efficient methods
efficient methods of production can increase employment today at the expense of producing a lower-value output, and notably less surplus which provides investible funds for more output and employment tomorrow. A choice has to be made: more employment in the 1960's may mean less employment than would otherwise have been possible in the 1970's.

A well thought-out development program can nonetheless substantially reduce the area of conflict between "maximum output" and "maximum employment" through a series of measures:

a) A high shadow rate of interest will encourage more labour-intensive methods of production. With the exception of construction and road building, however, the effective variability of coefficients of production in modern industry is not great, although it is not negligible in those parts of industrial activities which deal with "handling and bringing" of raw materials and products. The practical effects are, however, small in the short run.

b) Construction and road building offer a considerable range of choice between labour-and capital-intensive methods of production. Secondary roads can be built with a minimum of fixed capital (bulldozers, earth moving equipment, etc.) and with plentiful labour. They may not cost appreciably less per km, since the savings on fixed capital are eaten up by very much higher maintenance costs—such roads may have to be repaired every year—but they provide plentiful employment. The same may apply to the construction of hydro-electric barrages. It is important to overcome two obstacles to the realization of such a program which can have a considerable impact on employment in the short run:

i) Secondary labour-intensive roads take a very much longer time for their construction. A long-run road-building plan must exist if "hand-to-mouth" decisions of roads to be quickly built are to be eliminated.

ii) Contractors prefer capital-intensive methods of production /since they
since they reduce problems of labour-handling and labour supervision. If they are offered "cost plus profit" contracts, they will choose labour-extensive methods of production. Contracts for secondary road building must therefore specify a labour-intensive method of production.

c) While 90 per cent or more of total investment will be channeled into efficient agricultural and industrial sectors, which are the foundation for a high rate of growth—they may be insufficient in the short run to establish full employment. A special effort in drive and organization as well as a small part of investible funds (5 - 10 per cent) should be diverted into Rural Public Works (see II.4 and III.1.c) which contribute to agricultural capital formation without at first producing more agricultural products. Such activities absorb very little capital goods or foreign exchange but they can usefully employ many of the disguised unemployed in rural areas. Out of the wages paid to the additionally employed in Rural Public Works—up to one-half will be spent on food (which can be obtained if needed by P.L. 480 surplus products) and another 25 - 30 per cent on home produced wage goods (textiles and household goods). There is no doubt that resources for this form of useful employment-creating activities can be found. The real problem here is organization rather than capital. To create it is an urgent task of the short-run plan.

d) Timing of modernization projects is finally a part of the short-run plan. If unemployment exists in an area then employment-reducing and efficiency-increasing projects may have to be postponed unless additional employment-creating projects are sufficient to absorb more than the numbers of displaced workers. Thus super-markets may have to be delayed even though they may reduce the cost of living and thereby stimulate in the longer run an expansion in other industries. The same may apply to modern factories displacing handicrafts.

/IV. Economic Policy
IV. Economic Policy as an Instrument of Short-Term Growth

Any purposeful development program consists of two main parts:

A. "What is to be done?" (often outlined sketchily in a "Framework for Development")

B. "How is it to be done?"

Objectives, priority criteria and evaluation methods for project selection, and program composition do not suffice for a successful implementation of the Plan (Part B). A coherent well coordinated economic policy must be used throughout as a purposeful instrument of growth. A functional economic policy for growth is only another word for development programming. It will have to determine what part of investment is to be undertaken in the public sector, but an even more important part of it should consist in a system of incentives and disincentives apt to encourage or discourage private investment in certain sectors, regions or technologists— as well as providing effective stimuli for over-all savings and investment. Three main instruments may be considered:

1. Monetary Policy

   a) Is a selective credit policy possible in certain countries? Can it secure, for instance, a sufficient supply of credit for a fuller utilization of existing capacity (see II.1) or to discriminate successfully between credit for productive investment and for consumption? Can it provide good agricultural credit supply as well as credit for small enterprises and handicrafts?

   b) Methods of avoiding either inflationary or deflationary pressure.

   c) Methods to reduce an undue balance of payments deficit. etc.

2. Fiscal Policy

   a) Tax measures to stimulate savings (see III.2) including a budget surplus.

   /b) Tax measures
b) Tax measures as incentives and disincentives for investments in different sectors (for instance, a "discriminatory" high tax on luxury buildings, and a low tax on cheap building).

c) Over-all fiscal policy to achieve stability. etc. etc.

3. Wage Policy

Monetary and fiscal policy alone may not suffice to achieve growth and stability. A social consensus must be built up on principles of a wage policy. This is, however, only possible in the long run.

4. Commercial Policy

The degree of a selective infant-industry protection must be determined, taking the shadow rate of exchange into account (see III.1.b.).

5. Incentives for Small Enterprise

Construction of industrial estates or zones, besides credit and fiscal incentives. Industrial extension service.

6. Form of Desirable Cooperation with Private Foreign Investment

V. Organization and Planning

1. For short-term

2. For long-term

The institutional organization of planning may have to be different in various countries. Experience from inside and outside Latin American should be examined.

VI. Form and Amount of Technical Assistance

What measures can be taken to improve and accelerate the preparation of projects.

VII. Action during the Short-Run for the Preparation of the Long-Run Development Program

Paul Rosenstein-Rodan
1.4. PRESUPUESTO DE INVERSIONES DEL GOBIERNO
EN PLANES DE CORTO PLAZO

1.5. PREPARACIÓN DE PLANES DE DESARROLLO DE
CORTA DURACIÓN

* English translations of the documents issued during the Seminar in Spanish only will be included in the final edited report.
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I. INTRODUCTION

Some recent works on problems of economic development have emphasized one important proposition, i.e., that in underdeveloped countries one should use "shadow prices" of productive factors rather than their observed market prices in determining the priorities in an investment programme. \(^1\)

By an investment programme we mean a design for determining an optimal product mix as well as an optimal technology for the productive sectors.

It is the purpose of this paper to discuss critically a range of issues connected with the use of shadow prices in programme evaluation. The issues are the following:

(a) What exactly do we mean by shadow prices.

(b) The problem of estimating shadow prices of the relevant productive factors.

(c) If there exist ways of determining them approximately even though an exact solution may be out of reach.

(d) What the conditions are under which shadow prices would enable an optimal assignment of priorities.

(e) And finally to examine if there are situations where although shadow prices do not lead in general to a proper assignment of priorities, yet within the context of an over-all optimal programme determined directly, they may still be used to choose between relevant alternatives within somewhat narrower specifications. To mention a conclusion reached much later in discussion, it would be noticed that in the more realistic situation with which we are likely to be faced, it is only an affirmative answer to question (e) which assigns a proper measure of importance to shadow prices in programme evaluation.

So far as the estimation problems are concerned, we shall illustrate our argument with reference to the shadow prices of capital and foreign exchange, which figure in common discussion as two of the most important productive factors in the context of planning in underdeveloped areas. It may be thought a little surprising to use capital and foreign exchange as two separate factors. Because our usual definition of a factor of production runs in terms of a group of productive agents which have a very high elasticity of substitution among themselves, but between which and other productive agents, the elasticity of substitution is zero or nearly zero. On this basis, it may be questioned if capital and foreign exchange are such imperfect substitutes for each other as to be described as separate factors. It must be conceded that there is nothing a priori about this division. It is based on the assumption, a very realistic one for many underdeveloped countries, that possibilities of exporting and importing commodities at roughly unchanged prices are extremely low or roughly, non-existent. This means that substitution possibilities are very severely limited as to make it a convenient simplification to use them as separate factors.

II. THE CONCEPT AND RATIONALE OF SHADOW PRICES

In the language of programming, shadow prices are nothing but the Lagrange multipliers of a constrained optimization problem. An equivalent way of describing them is in terms of the optimal solution of the so-called symmetric "dual" problem. Their plain economic meaning is none other than that of marginal value productivity of the productive factors in an optimal situation when all alternative uses have been taken into account. The reason why shadow prices are considered to be important for an economist is that neo-classical theory of resource allocation tells us that the value of the national product at given prices of final commodities is maximized if productive factors are employed so as to equate their value-productivities with their rentals.
It so happens that the rules of the game associated with perfect competition also lead to an identical result, e.g., equivalence of marginal productivities with rentals. But the connection with institutional aspects of perfect competition in this context is incidental. What is, however, important is the use of prices as parameters in deciding how much to produce. Now, there are a variety of reasons why observed prices in an underdeveloped economy deviate from prices as calculated from the optimizing solution of a programming problem: (a) the institutional context of perfect competition is almost entirely absent; (b) there are structural shortages which do not respond to price changes. In some cases this is not an unmixed evil from the wider sociological point of view, for example, where marginal productivity of labor is zero, and the corresponding shadow price of labor should also be zero, but the market has to assign a non-zero wage level to labor just to keep them alive (c); connected with (b) there is the problem that prices do not reflect and hence do not transmit all the direct and indirect influences on the cost as well as on the demand side, which under smoother conditions, they would.

Now, it should be obvious that if our objective is to maximize the value of national income, then prices which should be regarded as pointers in planning investment are not the market prices, but what are called shadow prices.

There are, however, several questions which may be raised at this stage:

(a) How do we know these shadow prices.
(b) Even if we know them from an optimal programme in the sense discussed above, they may not be the appropriate ones, because the interest of the planner may lie not in maximizing current national income, but some other objective or a combination of objectives.

Question (b) is, however, in a sense, not an important one, because the logic of using shadow prices is quite independent of the nature of the specific preference function that has been set up. Shadow prices in the programming interpretation are perfectly neutral with respect to the type of maximization.
of maximization that is employed; although their interpretation as prices which would be realized under perfect competition, is not. But there is a somewhat related question, though a different one, which is not purely semantic. This is concerned with the empirical proposition that planners suggest, and given the power, carry out certain types of investment which yield results over finite though long periods of time. In certain extreme cases these projects do not yield results at all for some time to come. In evaluating such projects, to take into account only the impact on current national income is not appropriate. But if future experiences are to count, shadow prices calculated as of contemporary scarcities would not be proper. In planning for economic development, the endowments of the relevant primary factors are continually changing and their scarcity aspects are therefore shifting. Hence, what we need for such purposes is not merely the shadow price relating to one point of time, but the development of shadow prices over a period of time, i.e. the time path of shadow prices. Without such an estimate of the time path, there may arise a systematic bias against the use of long-run projects, if the "shadow prices" implied in maximizing current production were the only ones to be used.

Once, however, the values and time paths of these prices have been ascertained, there is no doubt they would greatly simplify the lack of assigning detailed priorities. Construction of adequate "benefit-cost" ratios for the investment projects is possible on the basis of these estimates only. They could then be employed to discriminate between projects, in view of all the interdependences existing at a point of time as well as over a period of time.

Granted what has been said above, we have to turn to question (a), which in a sense is the crucial one: how do we know these proper shadow prices? If they are known, then, the optimal pattern of capital accumulation is already known and vice-versa. Thus, we are not offering the planners anything immediately practical when we advise them to solve a problem in dynamic programming, however simplified its structure may be. 2/

At this stage, the argument for shadow prices rests on our ability to devise certain approximations, which do not require the solution of a full-scale dynamic programming problem. Thus we may first solve a programming model on a relatively very high degree of aggregation and determine the time path of prices of important groups of productive factors such as labour, capital and foreign exchange. Having attained these broad estimates, we may be justified in using them for purposes of assigning detailed priorities to the investment projects in various sectors.

Thus, the derivation of shadow prices on a more aggregative and hence approximative basis together with the decision rule to maximize net incomes or net discounted value of earnings at these prices would already go a long way to devising more efficient methods of programme evaluation.

An even more approximate procedure would be to use some general qualitative features of capital accumulation in an economy whose structural characteristics are well-known to make certain approximate estimates of ranges within which shadow prices of important productive factors might be expected to lie. This is attempted in our discussion of shadow rate of interest on the basis of the qualitative characteristics of a multi-sector growth process. Discussion on this point is meant only to suggest certain limits without pretending at quantitative exactitude.

Since the present practice in development programming is based almost exclusively on the current market prices of primary factors which are heavily out of line with their "intrinsic" values, even the use of such approximate shadow prices would lead to a more efficient resource allocation, provided the estimates are correct in a qualitative sense.
III. THE PROBLEM OF ESTIMATION

(a) The Shadow Price of Foreign Exchange

It is a well-known observation that the shadow price of foreign exchange in many underdeveloped countries suffering from chronic balance-of-payments difficulties is substantially higher than the official rate of exchange. The reason for such maintained prices of foreign currency is that price elasticity of the exports and imports being quite low, the mechanism of letting price find its own level by equating the total demand for foreign currency to the total supply of foreign currency either does not work or works at the expense of income growth. Further, there is a widespread opinion that balance of payments difficulties of newly-developing countries are transitional in character, so that once certain structural changes have been well under way, excessive demand for imports or diversion of exports to home uses may cease, thus making it possible to approximate closely the equilibrium rate of exchange.3/

Thus while it is necessary to maintain an official rate of exchange different from the shadow rate, the shadow rate will still be the appropriate one to use in order to discriminate between alternative programmes or, in marginal cases, between alternative projects. Since sectors as well as the processes within any sector differ remarkably with respect to foreign exchange requirements, direct and cumulative, such discrimination is essential in order to satisfy the constraint relating to balance-of-payments equilibrium. If these constraints refer to different points of time, a time path of the shadow rate of exchange will be involved, rather than a single rate of exchange to be applied indefinitely. The standard procedure to determine the "shadow rate of exchange" at a point of time is to solve a programming problem of the following type:

\[ \text{Maximize } a \]

3/ One may, however, argue for a devaluation of the home currency instead of letting the exchange rate seek its own level. This, however, runs into problems that are not entirely economic in character. Further, too frequent devaluations, depending on the variations in the import composition of the successive plans, will introduce nearly the same type of destabilizing influence as the method of floating exchange rates.
Maximize a certain preference function, e.g. value of national income, subject to a specification of technology and a prescribed level of primary factors, including foreign exchange availability. Such models have been extensively studied by Chenery, who normally expresses the preference function in terms of minimizing capital needed subject to final demand restrictions, technology and foreign exchange earnings. Chenery also includes import substitution as a built-in choice problem, even when alternative techniques are ruled out. When exports are not infinitely elastic, we have a problem in non-linear programming which has also been considered by him. In keeping with what has been said in I, if the type of problem considered by Chenery in its static aspects is extended to take into account interdependences in time, in the form of usual recursion relationships that characterise a dynamic model, then, the corresponding preference function can be expressed in a large number of ways. Some details along these lines have been investigated in a somewhat different context. But the upshot of the whole thing is to pose a problem having significant dimensions, although part of the dimensional difficulties may be reduced by taking advantage of block-triangularity, characterizing dynamic Leontief-type models. The way out of these difficulties from the computatorial point of view is the following:

4/ The more general approach including balance-of-payments deficit (or surplus), as well as the rate of growth of income in the social welfare function cannot be implemented unless we have some method of numerically estimating the relative rates of substitution between the different policy objectives. No very convenient method exists in this connexion, notwithstanding the contribution of Frisch. R. Frisch, "The Numerical Determination of the Coefficients of a Preference Function", Oslo, (mimeographed).


/Develop a
Develop a programming model, linear or non-linear, which emphasizes heavily the sectors which engage in international trade either through earning foreign exchange or through consuming foreign exchange on a significant scale. Aggregate the remaining sectors considerably. Solve the resulting maximization problem and, then, compute the shadow rate of exchange from this approximate analysis. This preserves a certain notion of optimization, which we associate with shadow prices of primary factors.

The alternative to this procedure is to compute the demand for and supply of foreign exchange and then to determine the rate which equilibrates the two. We should be clear that since equilibrium is attainable at many different levels of income, there is no guarantee that this equilibrium rate of exchange is the same as the shadow rate of exchange defined in the preceding paragraphs. However, such an estimate may be useful to know as summarizing all the relevant information involved in a development plan bearing on the foreign exchange situation. This computation may be done on a very aggregative level, as well as on relatively disaggregated levels. Naturally, the accuracy of the estimates would improve, depending on how detailed the data happen to be.

What we elaborate in this paragraph is how all the components of demand and supply for foreign exchange may be. The following notations are employed in the formula for determining the shadow rate of exchange:

\[
\begin{align*}
\{e\} & \quad \text{Column vector of exports.} \\
\{e^T\} & \quad \text{Is the corresponding row vector.} \\
\{w\} & \quad \text{Column vector of investment delivered by the sectors.} \\
\{w^T\} & \quad \text{Column vector of investment received by the sectors.} \\
\{c\} & \quad \text{Column vector of final consumption.} \\
\bar{p} & \quad \text{Price level of goods produced at home.} \\
\{p\} & \quad \text{Vector of domestic prices.} \\
P_m & \quad \text{Price of imports, here assumed to be homogeneous for simplicity.} \\
k & \quad \text{The shadow rate of exchange.} \\
m_l & \quad \text{The quantity of raw materials imported.}
\end{align*}
\]

\[
\frac{1}{m_2} \quad \text{The} \]
The quantity of investment goods imported.
Import of consumer goods.

Coefficients:

\{a\} - Leontief's matrix of flow coefficients.
\{v_1\} - Row vector of imports per unit of gross output. These may also be called non-competitive import requirements per unit of output.
\{v_2\} - Row vector of imports per unit of investment received. This gives the import composition of the investment programme.
\nu_3 - The functional dependence of imports of consumer goods on home consumption and the relative prices at home and abroad.
M - Total value of imports (measured in domestic prices).
E - Total value of exports (measured in domestic prices).
D - Permissible balance-of-payments deficit. This need not be a single number, but may only indicate a range within which the deficits should lie.

The problem then consists in determining the value or values of \(k\) so that the balance of payments deficits are confined to a certain pre-assigned range determined by possibilities regarding foreign aid. Since the estimates are seldom precise, it is useful to work out alternative values of \(k\) corresponding to a whole range of possibilities relating to \(D\). In principle, we can solve the various numerical situations to get a step-function relating the shadow rate of exchange to the parameter \(D\) assumed variable over a certain range. Assuming, however, that the plan specifies a set of values of \(e\), \(w\), and \(c\), and the coefficients are inflexible, then \(k\) is the only variable to adapt itself to such predetermined magnitudes. It will, however, be desirable to determine the sensitivity of \(k\) to adjustment in some of the physical magnitudes which are subject to some degree of control, e.g. \(w\) which gives the import composition of investment or \(c\), the import of consumer goods. We have the following final equation for this purpose:

\[
\frac{D}{D} = M - E
\]
\[
\bar{D} = M - E
\]
\[
= kp_m - e'p
\]
\[
= kp_m \left( m_1 + m_2 + m_3 \right) - e'p
\]
\[
D = kp_m \left\{ \{v_1\} (I - a)^{-1} (e + w + c) + v_2 \{\bar{w}\} + v_3 (c, \bar{p} - p_m) \right\}
\]
\[
= \left\{p_1 e_1 + p_2 e_2 + \ldots + p_n e_n\right\}
\]

We give 'n' export quantities for generality, but some of these will be identically equal to zero, since we have sectors which do not export anything, like services for example. The dimensionalities in matrix multiplication are also properly observed in as much as \(\{v_1\}\) is \((1 \times n)\), \((I - a)^{-1}\) is \((n \times n)\), \((e + w + c)\) is \((n \times 1)\). Thus the whole expression is \((1 \times 1)\) and may be multiplied by \(p_m\) to get the value in foreign currency of the required amount of imports of raw materials. 

\(\{\bar{w}\}\) and \(\{w\}\) are connected by the following matrix equation:

\(\{w\} = [w]\{\bar{w}\}\) where \([w]\) is the matrix of investment coefficients.\(^7\)

Each 'p_i' may be written in the following way: \(p_i = A_{oi} kp_m\) \(i = 1 \ldots n\) other terms, indicating the influence of whatever other primary factors are assumed to be important. Thus we have \((n + 1)\) equations to determine the \((n + 1)\) unknowns, the shadow rate of exchange, 'k' and 'n' domestic prices. This circularity arises because the production of domestic goods needs imports, and as such prices of domestic goods are dependent on prices of imports as expressed in domestic currency.

The above analysis may be easily extended to take into account the heterogeneity of imports, and thus we need not assume only one composite type of imports which is capable of being used for various functional purposes. The extension is of merely algebraic nature and is thus relegated to an appendix.

It should be apparent from the above discussion that exports for this purpose have been assumed to be exogenously prescribed. This is a simplification, although of a nature that is not difficult to justify.

\(^7\) For a discussion of this matrix, see R. Chakravarty, The Logic of Investment Planning, Chapter V, North Holland Publishing Company.
especially when price elasticity of exports is very low or low in relation to the other factors involved. These other factors involve the level of world demand as determined by rising world incomes, as well as the domestic expansion of demand for export commodities. If the price elasticities are assumed to be significant, then this may also be taken account of by a further complication in analysis. But, then, to retain manageability we should have to restrict the number of sectors very considerably.

(b) **The Shadow Rate of Interest**

The shadow rate of interest is commonly regarded as a concept more difficult than the shadow rate of foreign exchange. One reason for this is that in the case of foreign exchange we are concerned exclusively with flow magnitudes; so much imports representing a flow demand for foreign currency and so much exports representing a flow supply of foreign currency. The shadow rate of exchange equilibrates the demand and supply of foreign currency. With the shadow rate of interest, however, we are concerned with relations between stock and flow, and a very large variety of stocks at that. Further, these stocks have different degrees of durability. All these become extremely complicated if we want to get one single measure of these stocks, as we normally do in talking about "the amount of capital" and "the rate of interest".

The presence of double index number ambiguity, one due to cross-sectional aspects and the other due to longitudinal or intertemporal aspects of capital, makes the interpretation of this single measure somewhat dubious. Nonetheless, it has heuristic significance, as more rigorous models involving multiple capital goods seem to indicate.\(^3\) The logically rigorous way of deriving these interest rates, one for each stock, which under certain circumstances equal each other, is to specify the decision problem as one in dynamic programming, with appropriate initial and boundary conditions. Choice of natural boundary conditions is not an easy question. For absence of "compactness" in the policy space, infinity does not serve as a proper boundary condition in most economic problems extending over time.\(^2\)


\(^2\) For a discussion of this point see: S. Chakravarty, On the Existence of an Optimum Savings Program, CENS, 6/60-II.
All these theoretical considerations are, however, poor consolation for the planner, if the policy maker is concerned with rationing out scarce capital amongst a number of competing projects. True enough that if we know the solution to a full—fledged dynamic programming problem, we know at the same time the shadow rates of interest, because the optimum programme of capital accumulation determines the shadow rates of interest. In that context, they may be used to decentralize decision making by permitting simple decision rules: to be specified. But when that is not feasible, we still need a kind of computational shorthand in order to rank projects. Whatever approximations we may devise for computing the shadow rate of interest, even though they are correct in only a qualitative sense, will be more useful than relying on the observed market rate of interest in economies characterized by market imperfections, etc.

In the subsequent paragraphs, certain considerations relating to the shadow rate of interest are discussed under the following sets of assumptions.

a) Where capital stocks are growing at the same proportionate rate and the production functions are linear and homogeneous;
b) Where the relative rates of growth of the capital stocks are different, but we still maintain the linear homogeneity assumption;
c) Where the production functions are no longer assumed to satisfy the linear homogeneity conditions, and the equiproportioante rate of growth of all the sector does not hold.

We shall discuss these various cases in the order presented above.

a) The situation (a) may be further subdivided into the following two cases: (i) where there is no final demand; and (ii) where the system admits of final demand, i.e. not all the net product is reinvested. An illustration of case (i) is the closed dynamic model enunciated by Von Neumann in the early thirties. The specific set—up of the Von Neumann model is well known and does not require any repetition. Von Neumann stated as the main conclusion of his investigation the now famous equality between the rate of interest and the maximum rate of balanced growth that

/ the system
the system can perform. The maximum rate of balanced growth is known to satisfy the criterion of intertemporal efficiency. But, as such, it is one among an infinite number of efficient paths. But what Solow and Samuelson have shown is that for situations referring to sufficiently distant points of time, and preference function involving terminal stocks of different commodities, the maximal rate of steady growth is the best way in which the system may be allowed to grow, expecting for a finite number of time periods. The length of the period for which the system is allowed to deviate from the Von Neumann model of growth is independent of the time horizon. Admittedly, this is true for "closed systems", e.g. systems admitting no autonomous consumption. But as a first approximation foreconomies on a very low level of real income, a closed model, particularly one such as Von Neumann's, which allows for different patterns of consumption in the same way that it includes different techniques for producing a particular commodity, may not be entirely dismissed out of hand. Hence, the above consideration is not entirely irrelevant from the empirical viewpoint, although from the purely logical point of view, its special nature should be clearly understood.

The Von Neumann model of a closed expanding economy has been generalized by Solow and Halinvaud, who relax the assumption that all the net product is reinvested. In other words, they assume the savings coefficient to be less than unity. Despite differences in presentation, the relationship between the rate of interest and the rate of growth given by the above authors is the same.

The following expression of the relationship is due to Solow who considers both the capitalists and the wage earners to be saving constant proportions of their incomes:

10/ R.M. Solow, Notes Towards a wicksellian Theory of Distributive share (mimeographed).
\[ \rho = \frac{g}{\sigma_R + \frac{(1-D)}{\sigma_W}} \]

where \( \rho \) is the rate of interest
\( g \) is the rate of growth
\( \sigma_R \) is the savings coefficient for profit receivers
\( \sigma_W \) is the savings coefficient for wage earners
\( D \) is the share of profit income in total income

It is evident that the \( \rho \geq g \) according as the denominator is \( \leq 1 \).

Now the denominator may be written as follows:

\[ \frac{D\sigma_R + (1-D)\sigma_W}{D} \]

The expression \( \frac{D\sigma_R + (1-D)\sigma_W}{D} \) is nothing other than the weighted average of the two savings coefficients or the savings coefficient for the economy as a whole. Thus we may write \( \rho = \frac{s}{s+D} \) where 's' is the global savings ratio. That this relationship is merely a generalization of the Von Neumann result may be seen easily. On the specific Von Neumann assumption that \( \sigma_R = 1 \) and \( \sigma_W = 0 \), the above formula indicates \( \rho = g \). When \( \sigma_W \) is allowed to assume positive values, there are other constellations of the coefficients for which equality holds. Although the formula indicates the theoretical possibility that the rate of interest may be lower than the rate of growth, whatever empirical evidence we have rules out this as a realistic case. Thus we may be justified to consider the equality as the limiting case.

From the data given by S.J. Patel, (Indian Economic Review, February 1956) it appears that 's/D' in India may lie somewhere between .5 and .3 depending on how one classifies income in the household sectors. Thus, if we assume a maximal rate of steady growth of income at 4 per cent, the rate of interest lies between 8 per cent and 12 per cent. It is obvious that with a larger rate of growth, the equilibrium value of the rate of interest goes up, or with a higher rate of savings, it falls.

The use of the above formula may enable us to calculate limits for the shadow rate of interest if our a priori knowledge strongly indicates that the "real scarcity" of capital is greater than would be indicated by the
by the currently ruling rate of interest. In that case, the limits are given by the current rate, on the one hand, and by the formula connecting the rate of interest with the maximal rate of steady growth, on the other. The maximal rate of steady growth may be calculated on a first approximation from the set of data usually given in the two Leontief matrices. With the Leontief assumptions the maximal rate of steady growth is determined by the Frobenius root of the matrix $B (I-A)^{-1}$, which is naturally non-negative. For more general situations, the computational difficulties would be much greater.\(^{11/}\)

There are two points that one should remember in this context:

(a) The rate of interest as calculated on the above approach is not "the rate of interest" as usually understood in connection with the capital or money market. This should be obvious, because the model does not introduce uncertainty and corresponding distinction between various types of assets.

(b) The rate of interest as deduced from the Solow formula is different from the pure rate of time discount. It takes into account both productivity and thrift. The influence of productivity is taken into account in the numerator, while the savings coefficient subsumes the influence of thrift. Behind thrift lies the factor of time preference. The rate of pure time discount that is involved may be estimated if we assume that the observed savings rate is the result of an operational decision to maximize the sum of discounted values of consumption over a period of time. This is similar to the famous Ramsey model of optimal savings. The difference consists in introducing a nonzero rate of time discount which Ramsey would have found ethically inappropriate, and in the further restriction that is involved in reducing the 'path maximum' problem to a 'point maximum' problem. By a 'point maximum' problem we mean the problem of maximizing an integral of discounted utilities, by a once-for-all choice of savings rate. The period of time may be finite or infinite.

\(^{11/}\) In using the formula for the generalized Von Neumann situation, we should consider whether the decision on the savings rate is an optimal one or not. If no optimality considerations may be adduced for the savings coefficient, the rate of interest calculated from the Solow expression would not measure the intrinsic scarcity of capital.
depending on the planner’s point of view. In the finite case, there
should be a provision for terminal equipment. Then, for every savings
rate, we can find the underlying rate of time preference.

This problem has been investigated by Tinbergen.\textsuperscript{12} He gives a
number of equilibrium relations involving the rate of time discount, the
savings rate, and the capital coefficient, each based on a specific
hypothesis relating to the utility function. The utility function under-
lying the simplest problem is in his case a logarithmic one. It should,
however, be noted that our problem here is the logical inverse to Tinbergen’s
problem. He is interested in finding out the optimum rate of savings
corresponding to any given values of the capital-coefficient, and time preference.
In our case, we want to know the underlying time preference, assuming that the
savings rate is already an optimal one, other parameters remaining the same.

The Tinbergen result can be generalized by introducing more general
types of production functions and utility functions other than the loga-
rithmic or hyperbolic ones considered by him. There is scope for much
further investigations along these lines.

(b) We now consider the situation when all the sectors are not assumed
to grow at the same proportionate rate, but all the relevant production
functions have the needed convexity properties.

In this case, the relative prices and the interest rate are no
longer constant. Further, since the rate of growth is not a unique number
characterizing the entire process, we have to deal with the constantly
changing moving equilibria, as it were, and the relation in which the
growth rate stands to the rate of interest would therefore be continually
shifting. Further, ‘the growth rate’ in this case is itself a somewhat
ambiguous concept. Also, the various own rates of interest do not any
longer equal the own rate of interest for the numeraire commodity. It
therefore inescapably appears that we could say very little on the question
without going the whole hog of solving a problem in dynamic programming.
In principle, an optimal solution is always possible in case (b). But to
do that we have to specify first the appropriate terminal conditions, the

\textsuperscript{12} J. Tinbergen, "The Optimum Rate of Savings", \textit{Economic Journal}, 1956.
initial stocks and the time profile of consumption over the entire period. Having done that, we have to apply the usual techniques of maximization over time. Such problems have been considered in the earlier paper entitled "A Complete Model of Programme Evaluation." For a general reference, see Dorfman, Samuelson, and Solow, Linear Programming and Economic Analysis, Chapter 12.

IV. THE CALCULATION OF PRIORITIES

In this section we consider the method of calculating priorities in an investment programme by using shadow prices. We must bear in mind that while we calculate the benefit-cost ratios for a single project, we do it as of a given programme, and not for the project in isolation. This follows out of the fact that the projects are necessarily interlinked, and imply certain assumptions about the rest of the economy. Thus one project may be chosen from a set of competing projects, if the rest of the programmes may be assumed to be relatively unaffected by this choice.

We may also consider a more generalized situation where there is a technically nonseparable collection of projects which can be singled out for piecemeal decision making. Now in this case this whole collection has to be treated as one unit and the benefit-cost calculations have to be calculated for this one unit as a whole. The word 'technical nonseparability' is important in this connection. The assumption of linear homogeneity is crucial to the applicability of the shadowprice argument, as usually understood. This is because the logic of applying shadow prices is, in essence, an argument piecemeal decision-making. Piecemeal decision-making in situations characterized by increasing returns or significant external economies either leads to insufficient output or to no production at all. This causes difficulties with respect to the remainder of the programme where the outputs of the above sectors serve as technologically necessary ingredients. Thus, it appears that in these situations the better procedure is to solve the entire problem simultaneously as an example of coordinated decision-making.

13/ Possibilities of decentralized decision-making in situations characterized by the absence of classical homogeneity or independence assumption have been investigated in the important paper by Arrow, K.J. and Hurwicz, Lionel, in "Essays in Honour of Harold Hotelling," edited by R.W. Pfouts, Chapel Hill, North Carolina. The advantage
The advantage of the shadow price technique becomes considerably greater if the complex of planning problems may be assumed to be decomposable into the following stages:

a) How much to invest in total over a number of years;
b) How to distribute the total investment resources among different sectors of the economy;
c) How to choose the best method of utilizing the resources allocated to a sector.

If the stages are strictly consecutive, we may think that the decision on level (b) is reached on the basis of maximizing income over a period of time subject to all the interdependencies in production, investment and consumption. This would roughly indicate how much to invest in each sector. If there are sectors like social overhead capital where investment is made on grounds independent of any maximization process, then we should consider the remaining sub-set of sectors for our decision purposes.

The decision on stage (c) can be reached on the basis of utilizing a shadow rate of interest and for a given time profile of production, on the requirement that the costs are minimized.

In theory as well as practice, the stages may not be that distinct, in which case decisions on (b) and (c) may have to be reached simultaneously. The shadow rate technique should then be replaced by the general methods of dynamic programming.

Now let us consider the problem quantitatively. We use the following notations:

- $W_i(t)$ - The investment in the project per unit time.
- $F_i(t)$ - The foreign component of investment per unit time.
  \[ F_i = aW_i \text{ where } 0 \leq a \leq 1. \]
- $g$ - The length of the gestation period.
- $n$ - The length of the operating period.
- $r$ - The shadow rate of interest.
- $k$ - The shadow rate of exchange.
- $D(t)$ - The current operating expenses of a project.

Then the cost of a project may be calculated as follows:

We have $F_i = aW_i$

/Therefore $H_i$
Therefore $H_i = (1-a)W_i$ where $H_i$ is the domestic component of investment.

Since we value the foreign investment component at the shadow exchange rate, we have:

$$kaW_i (1-a)W_i = W_i (ka + 1 - a)$$

$$= W_i \{1 - a (1 - k)\}$$

Let us assume that we know the timeshape on construction effort: $W(t)$. Then the cost of investment in the project may be calculated as:

$$C = \sum_{t=g}^{n} W(t) \{1 - a (1 - k)\} (1 + r)^{-t} + \sum_{t=0}^{\infty} D(t) (1 + r)^{-t}$$

The first term on the left-hand side indicates the investment that is made during the gestation period of the project and the second part indicates the cost that is incurred during the exploitation period. Now the decision rule consists in minimizing "C" for a given time profile of output. To put it differently the projects to be compared are those which give the same time profile of output, given by the over-all planning problem. Out of these projects, the one will be chosen which minimizes total cost, over the combined gestation and exploitation period of the project.

V. CONCLUSION

In this section we may briefly review the conclusions reached in the earlier sections and indicate the relevance of the shadow price concept with respect to a few practical problems encountered in Indian planning.

Briefly stated, our discussion has clearly indicated that the technique of using shadow prices serves as a useful computational short-hand in devising a relatively "efficient" system of programme evaluation. The qualification on "efficiency" arises because in the presence of non-convexities in the production processes of certain sectors, the shadow price device does not enable one to reach the "efficient" constellation of the system. The advantage from using shadow prices holds good even though the shadow prices we use are not exact, but merely approximations, although it
although it is important that they should be in the right direction. Given the data, the calculation of the shadow rate of exchange does not raise great difficulties. The simplified procedure indicated in this paper, or the more elaborate linear programming method discussed by Chenery may be usefully employed. With respect to the shadow rate of interest, the conceptual difficulties are greater. But if we use the approximation procedure outlined earlier in this paper, we get a range of 8 per cent to 12 per cent for the shadow rate of interest under Indian conditions. The exact shadow rate of interest may be higher than this, but it is unlikely that this would be lower than given by this range. This already gives us a basis for how to judge projects which are economic only if the rate of interest is 4 per cent or 4 1/2 per cent.

The relevance of the shadow prices to practical problems may be understood if we take into account the problem of choosing between importing fertilizer, or setting up a fertilizer plant, or a machinery for manufacturing fertilizer producing equipment. In the simple Austrian models, where choice is confined to a pair of alternatives, the cost of one is the opportunity foregone with the other projects. This is difficult to apply if there exists a manifold of possibilities for each unit of investment. Under such conditions, the opportunity cost of a unit of investment is measured by its shadow rate of interest. Similarly, the cost of a unit of import should be valued at the shadow rate of exchange, rather than at the official rate. Now, if we take, for example, a shadow rate of exchange of Rs. 6 to a dollar and a rate of interest lying between 8 per cent and 12 per cent, we may calculate the cost of each type of project, over the gestation period, given the time shape of the construction effort. Further, with a given time profile of 'output,' in this case agricultural production, we can calculate the total costs for each project, e.g., investment costs and operating costs. Naturally, with other things remaining the same, the project with the lowest cost should be chosen.
The same line of reasoning may be applied to other problems such as the choice between various types of power stations. An interesting contribution in this regard is the paper of Professor P.N. Rosenstein-Rodan on the contribution of atomic energy to India's development programme.\(^{14/}\)

All this is to suggest the fruitfulness of the shadow price method in practical policy making, if appropriate qualifications are borne in mind.

\(^{14/}\) P.N. Rosenstein-Rodan, Contribution of Atomic Energy to a Power Programme, C/59-15.
Appendix

The Shadow Rate of Exchange: The General Case

This appendix deals with the case of how to determine the shadow rate of exchange where imports consist of different types of goods. The price of each domestic commodity in domestic currency is given by the following equation:

\[ P_i = k \left( A_{n+1}, i \cdot P_{n+1} + A_{n+2}, i \cdot P_{n+2} + \ldots + A_{n+j}, i \cdot P_{n+j} \right) (i=1, 2 \ldots n) \]

+ contribution of other primary factors.

Here \( A_{n+1}, i \) is the cumulative coefficient of the first import commodity in the production of \( i \)th domestic commodity. We have 'n' such equations for 'n' domestic commodities.

In addition we have the equation relating to the permissible balance of payments deficit:

\[ C = k \left\{ \left\{ (p_{n+j})' \cdot \left[ v_i \cdot (I-a)^{-1} \right] \right\} (e \cdot w + c) + \left\{ (p_{n+j})' \cdot \left[ v_2 \right] \right\} \right\} - (p)' \cdot (e) \]

Thus we have \((n+1)\) equations to determine \((n+1)\) prices, 'n' domestic prices and one shadow rate of exchange.

The dimensionalities of above matrices and column vectors are as follows:

(i) \((p_{n+j})'\) is a row vector of the dimension \((1 \times j)\).
(ii) \(v_i\) is a matrix of dimensions \((j \times n)\).
(iii) \((I-a)^{-1}\) is a matrix of dimension of \((n \times n)\). Thus the product has dimension \((1 \times n)\), hence a row vector.
(iv) \((e \cdot w + c)\) is a column vector of dimensions \((n \times 1)\). Thus the first term in brackets is a scalar, indicating the total amount spent on imports of raw materials.
(v) \(v_2\) is a matrix of dimensions \((j \times n)\).
(vi) \(\{w\}\) is a column vector of dimensions \((n \times 1)\).
(vii) The second term in brackets is \((1 \times 1)\), also a scalar, indicating the amount spent on imports of investment goods.

(viii) \(v_3 (c, p_{n+j})'\), \((p_i)'\) is a column vector of dimensions \((j \times 1)\). The third term is also a scalar, indicating the amount spent on imports of consumer goods.

(ix) \((p')'\) is also a scalar since \((p')\) is \((1 \times n)\) and \((e)\) is \((n \times 1)\).

In this case, exports have been exogenously determined. We may also consider the more general case, where exports are determined from within the above set of calculations. This, however, requires a more complicated approach.
1. **Commitments under the Charter of Punta del Este**

Upon signing the Charter of Punta del Este, each country has made specific commitments to prepare both social and economic projects. The objectives of the Charter are not limited to a 2.5 per cent minimum rate of per capita growth. They also include specific goals in the fields of education, public health, potable water, and others.

2. **Competition for scarce resources**

Economic and social projects compete for scarce resources; however, their effects on the economy are somewhat distinct. Economic projects have generally higher benefit/cost ratios, partly because of generally shorter gestation periods. They also have a generally greater indirect impact on output through greater backward and forward linkages; in addition they usually make a greater contribution to the supply of entrepreneurship, of industrial skills, etc. On the other hand, social projects often have a greater employment multiplier effect, as their low foreign-currency content reduces import leakages. However, they have the disadvantage of creating structures which may require excessively large maintenance and operating expenditures for the future.

3. **A definition of economic and social investment**

Most definitions of economic investment revolve around the concept of a direct contribution to productivity, as opposed to a social investment whose effects on productivity are generally felt in the long run. Finer distinctions can undoubtedly be made.

It might be desirable to adopt an operational definition such as used by the institutions likely to provide the foreign financing; one might consider the definition of the Inter-American Bank for example, which considers eligible for social development loans in its Social Progress Trust Fund projects in the fields of land use, community water supply and sanitation facilities.
sanitation facilities, housing for low-income groups, and supplementary financing of facilities for advanced education and training.

4. **Historical ratios of social and total investment**

Historical ratios of social and total investment in Latin American countries have been 15-25 per cent, the highest ratios being found generally in the more developed countries.

Recent tendency for larger increases in foreign-financed social investments. These may be a temporary phenomenon, traced to the long-enduring scarcity of foreign financing for these projects.

5. **A first attempt at choice between social and economic investments in the short run**

First priority: Mandatory investments, or "crisis" investments. These investments (economic or social), must be necessary to avoid a breakdown in the economic and/or the political structure of the country, (e.g. to avoid a violent social eruption in a given area; to avoid the immediate breakdown of the transportation system). This category of "mandatory" investments should be understood very narrowly.

Second priority: All the economic investments necessary to bring the country to its pre-chosen (say 5 per cent) yearly rate of growth.

Third priority: Non-mandatory social investments, which will then become a residual.

This suggested classification is meant only as a first approximation; it will be revised in the light of political and other considerations; it may also have to be revised somewhat to allow for the inter-industry impact of each category of investment.

6. **Dual nature of economic and social investment**

Virtually all economic investments have a (small or large) social impact; the reverse holds true for social investments.

There are, however, types of economic investment with high social impact. This applies, for example, to all investments which tend to reduce the cost of basic necessities, such as processed foods, clothing,

/furniture; it
furniture; it applies also to all investments which are highly labor-intensive. Inversely, on-the-job accelerated training is a social investment with high economic impact; the same can be said for most aspects of preventive medicine.

Social investment need not be very expensive to produce noticeable results (country schools with just a thatch roof, four poles, and no walls; water supply to poor urban areas by means of a single copper tube).

7. Constraints placed on a choice between social and economic investment in the two-year program

Physical restraints: All work in progress must have priority, whether it be of an economic or of a social nature.

Institutional constraints:
- such as imposed by budgets already voted, even for the next year;
- legislation providing for the earmarking of funds (gasoline tax receipts must be spent on highways);
- inhibiting local legislation;
- absence of the necessary executive or administrative mechanisms to carry out certain types of otherwise desirable economic or social projects within the two-year period;
- constraints placed by the fields of operation of the various financial agencies; each agency prefers to finance certain types of operation; the foreign financial component of a country's program will have to adjust to the composite preferences of the financial agencies.

8. Non-investment effects of a social policy

The "qualified residual" method of arriving at social investment may have a relatively small ratio of social investment in a given country. However, a strong social policy can be followed without vast expenditures on social projects, provided however, that vigorous policy measures are taken in the fields of wages, tariffs, taxes, credit and land reform.

Louis Delwart
8. EL PLAN DE ACCION DE SAO PAULO.
UNA EXPOSICION SOBRE LA TECNICA
DE PLANIFICACION ADOPTADA

*English translations of the documents issued during the Seminar in Spanish only will be included in the final edited report.*
TECHNICAL ASSISTANCE IN REGARD TO NATIONAL PLANNING

1. The magnitude and variety of needs of the various planning agencies in the preparation of national plans, sectoral programmes, and individual projects is going to create an enormous demand for technicians and specialists of a high calibre to assist nations in their planning tasks. The supply of such personnel by international agencies is difficult because of (a) the lack of explicitly spelled out requirements from the planning agencies; (b) a shortage of high-level personnel experienced in planning and programming (this shortage is being aggravated by multiplicity - if not duplication - of technical assistance missions abroad); and (c) pay scales that are insufficient to secure the services of top notch experts.

2. Since this problem is both immediate and critical, it is imperative it be evaluated at once. This might be done by a small task force made up of individuals with extensive experience in economic planning, programming, and feasibility analysis through an intensive study over the next 4-8 weeks. Such a task force would study: (a) the best methods of assisting the planning agencies to formulate their requirements; (b) the methods of procuring an adequate number of trained persons; and (c) the relation of this question to the problems of training planners and of research in the planning field. What is needed here is not a thick report but experienced judgement as to what to do with regard to the shortages of high-level personnel which is such an obstacle to sound formulation and execution of plans and programmes.

3. In certain countries there are already trained technicians, but there is need for special training which would enable them to participate in - or launch - appropriate research in areas that require specialized planning or project study that is unprecedented in their country. For instance, a certain experience in scheduling, cost and progress analysis of the first construction projects of a given type may be lacking even in planning offices of great ability.

4. Since the Secretariat of OAS has already initiated surveys and attempted co-ordination, it is suggested that a small task force of this kind be appointed forthwith.

By Michael J. Deutch
PROVISIONAL REPORT ON THE FINDINGS OF THE
LATIN AMERICAN SEMINAR ON PLANNING

Editorial note: The present text is still provisional and changes in
substance and presentation are being made. It is included here as part of
Annex III in the form in which it was presented (with a Note by the
Secretariat) at the Consultations on Planning of Economic and Social
Development.
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\[1\] /INTRODUCTION

\[2\] See p. 21.

\[3\] See p. 23.
I. INTRODUCTION

1. The present report reviews the activities of the Latin American Planning Seminar, held at the headquarters of the Economic Commission for Latin America (ECLA), Santiago, Chile, from 19 to 24 February 1962, under the auspices of the Organization of American States (OAS), ECLA itself and the Inter-American Development Bank (IDB).

2. The purpose of the meetings was to study and discuss the experience acquired by the Latin American countries in the field of economic and social development planning, with a view to the promotion and intensification of the activities which the Governments have pledged themselves to undertake by virtue of the Charter of Punta del Este. In consideration of the need to put the commitments and objectives of the Charter into practice without delay, the Seminar devoted special attention to the analysis of the most urgent tasks involved in the formulation, preparation and implementation of short-term plans, as well as to some of their most important technical aspects.

3. The proceedings of the Seminar, which was not officially inaugurated, opened on Monday, 19 February 1962, with a statement by Mr. Raúl Prebisch, Executive Secretary of ECLA, who expounded in broad outline the problems to be considered and referred to the potential importance of the discussions for the development of Latin America within the framework of the new policy of international co-operation.

4. The Seminar was attended by thirty-seven experts, eight of whom were members of the panel recently appointed by the Inter-American Economic and Social Council (IA-ECOSOC) to evaluate development plans, twelve were technical experts with wide experience in the work of economic and social planning, fourteen were experts from OAS, ECLA and IDB, and three were specialists from other agencies. The complete list of participants is given in Annex I to the present report.

5. Observers were sent to the Seminar by the Pan American Sanitary Bureau, the Agency for International Development (AID) of the Government of the United States of America.

1/ The ninth expert, Mr. Gonzalo Robles, was prevented by illness from attending the Seminar.
States of America, and the United States Economic Mission in Chile (see annex I).

6. It should be placed on record that the experts specially invited to the meetings by the sponsoring agencies took part in the discussions in a purely personal capacity, and that the views they expressed were based on their own private convictions and opinions and did not necessarily reflect those of the Governments of their countries, or of the institutions they serve.

7. The Seminar elected as Chairman Mr. Raúl Sáez and as Rapporteur Mr. Manuel Noriega Morales. Mr. Benjamín Hopenhayn acted as Secretary to the meeting.

8. The discussions were based on the following agenda, presented here in abridged form.

I. Basic approach to short-term action
   1. What should be the nature of short-term action
   2. Requirements implicit in short-term action
   3. External requirements
   4. Economic and social projects in a short-term plan

II. Content and methodology of short-term plans
   1. General frame of reference as a guide to planning
   2. The investment programme
   3. The economic policy programme

III. Preparation and execution of plans: problems, organization and administrative machinery
   1. Administrative organization for the formulation, execution and supervision of plans
   2. Role of public investment machinery
   3. Problems relating to the preparation of specific investment projects

IV. International technical and financial assistance in the formulation of programmes and projects

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2/ The full text is given in Annex II.

9. Although
9. Although the items on the agenda were discussed at the plenary meetings of the Seminar, various working groups had to be appointed to formulate conclusions in connexion with specific topics. The findings of these groups were reflected in working papers, 3/ and are incorporated in summarized form in the substantive part of the present report.

10. In the following pages (drafted by the Rapporteur of the Seminar with the help of the technical personnel of the secretariat), the main ideas expressed at the meeting are reproduced, together with the conclusions reached in the course of the discussions.

3/ For the complete list of these working papers, see annex III.
II. MAIN FINDINGS OF THE SEMINAR

11. The present review of the most important findings of the Seminar closely follows the ideas and opinions expressed in the course of the discussions on the various technical problems implicit in the practical application of the principles underlying the Alliance for Progress, especially in relation to short-term action.

12. The main focus of the Seminar was on an examination of the problem of short-term action, not only because of the urgency of the situation, but also because short-term action may help to launch a long-term planning effort, and incidentally because it was with respect to short-term planning that the absence or insufficiency of a proper orientation or of practical guide-lines was felt the most. It should be made quite clear, however, that, in the unanimous opinion of the participants, the problems of planning in the short term cannot be approached without reference to the more general and basic problems of long-range planning. In fact, it was suggested that properly speaking, programmes should be referred to not as short-term programmes, but rather as transitional or temporary programmes, or as the short-term aspects of long-range programmes, or as short-term measures to be taken within the framework of long-range programmes.

13. Naturally, since the topics discussed were of a kind in respect of which there is insufficient practical experience so far, and no conventional methodological formulas exist, no attempt was made on this occasion to arrive at final recommendations. The aim pursued was to assemble opinions and criteria which would contribute to the gradual definition of the most appropriate forms of action and the fundamental guiding principles on which they might be based. The findings of the Seminar indicate, however, that a high degree of unanimity existed among the participants on most of the topics dealt with. In this summary of the main ideas expounded, attention will be drawn to those on which there was fairly general agreement, as well as to the different status and degrees of emphasis that in the view of specific participants should be assigned to some of the problems submitted to them for consideration.
1. Scope of short-term action

14. It was unanimously agreed that there was a pressing need for energetic promotion of the various measures required to accelerate the development process of the Latin American economies and channel it towards the fulfilment of the economic and social objectives of the Alliance for Progress. This conclusion reflected anxiety on several counts.

15. Eighteen months have gone by since the Act of Bogota was signed (September 1960). In the meanwhile, allocations of substantial additional resources to increase international financial co-operation in the solution of the most urgent social and economic problems have been approved or pledged, new agencies have begun their activities, and the work of adapting the pattern of such co-operation to the nature of the problems to be tackled has been started. This has encouraged the Latin American Governments to embark upon or expedite the formulation of economic and social development plans, the preparation and presentation of investment projects, the adoption of practical measures of economic policy and the preparation or introduction of the basic reforms essential for the attainment of the social targets that the countries set themselves at the economic conference at Punta del Este.

16. Nevertheless, the participants manifested their concern at the fact that practical action, in general and in each particular case, had not attained a tempo consistent with the pressing demands of the situation prevailing in Latin America. In this connexion, mention was made of the reluctance observable at times on the part of the authorities to make a precise definition of the aims pursued by a development policy and to express them in terms of clear guide-lines for the use of economic policy mechanisms, or of measures to institute the structural reforms that were needed if the countries were to emerge from situations that were an anachronism, hampering development and preventing income from being more equitably distributed. Special mention was also made of the lack of adequate efforts to mobilize internal resources and launch basic reforms. Attention was also drawn to cases in which available resources had not been used because a sufficient number of applications, drawn up in the proper manner, had not been submitted to the external financing institutions.
17. The shortage of specific investment projects worked out in full detail partly accounted for the fact that the principles of the Alliance for Progress had not yet been applied as generally, or as intensively, as might have been wished. As a result, special attention was devoted to that topic in the course of the discussions, and a number of suggestions were put forward, to which reference will be made in due course.\footnote{4/}

18. The system itself of basing action solely on the consideration of individual projects was studied at length.\footnote{5/} It was asserted that the maintenance of that procedure exclusively might militate against the effectiveness of immediate action, and that it ought rather to be combined, wherever possible, with the method of aggregate financing on the basis of concrete sectoral, regional, or national plans, since it was difficult under the former system to establish suitable criteria for determining and order of priorities in relation to various undertakings, and to ensure a reasonable degree of compatibility between the action embarked upon and its implications in terms, for example, of fiscal policy, foreign trade and balance of payments. Moreover, that mode of action prevented accurate evaluation of the total internal effort on which development policy was fundamentally based, and the intensity of which, according to the principles of the Alliance for Progress, largely determined the scale of external aid. It was likewise felt that immediate efforts should be directed towards the more efficient utilization not only of additional external resources, but also of total gross investment, including internal resources. In this connexion, it was pointed out that the aggregate investment normally effected in the individual countries was quite as important as the utilization of additional resources, or even more so, and there was a general feeling among the participants that its effectiveness could be substantially increased.

19. In short, it was considered essential to make as great an effort as possible to expedite action. It was stressed that a prerequisite for such action was a firm attitude at the highest policy level to give the efforts

\footnote{4/ See section 8 below.}
\footnote{5/ For a more detailed discussion of this point, see section 7.}
maximum backing. It would thereafter be possible to enlist the support and active assistance of the public administration – which in the last analysis was responsible for setting programmes in motion – and of the general public, without whose wholehearted backing of the objectives contemplated the efforts made might be rendered ineffective.

20. Similarly, it was agreed that the action envisaged should take the form of short-term plans, that would endeavour to reconcile the need for urgency with considerations of effectiveness, and in which the objectives and basic principles of economic and social policy would be laid down in conjunction with the investment programme and measures to prepare or initiate the reforms required under the Charter of Punta del Este.

2. Nature of short-term plans

21. It was remarked at the Seminar that the planning and programming of economic and social development had by no means reached a uniform stage of development in all the Latin American countries. One group of countries had advanced considerably in the preparation of long or medium-term plans, while others had made little or no progress in that respect. In regard to the former, it was recognized that the task of defining their immediate action was much simpler, since in most cases it consisted in crystallizing activities that were contemplated in the form of specific projects and in taking economic policy measures within a general framework, already established. In other words, the short-term plan would be the medium for putting into practice what were in effect, the first steps in the execution of longer-term plans.

22. The problem was much more difficult in the case of countries that had not gone ahead sufficiently in that field. It was stressed, however, that even in those cases it was both possible and necessary to prepare short-term plans. That task was regarded as the first move towards the establishment and progressive improvement of a permanent planning process. Reference was made to the problems inherent in that approach, because no sufficient fund of experience had been acquired.

23. At the same time it was asserted that the countries and international bodies engaged in the study of Latin America's problems undoubtedly had a mass of studies and general background information, as well as of practical knowledge,
practical knowledge, at their disposal which could be rapidly systematized so as to furnish a general frame of reference that would be partly qualitative and partly quantitative. On that basis, great strides could be made towards pinpointing the salient economic and social problems of each country and determining their scope and urgency. A frame of reference of that kind would make it possible to define the long-term objectives and development policies that were indispensable as a guide for short-term action.

24. To many of the participants, the distinction between long and short-term plans seemed to be purely formal, the latter being simply the activities that could be undertaken immediately within a long-term development policy. Others, however, pointed out that, while they recognized the value of stating the problem in those terms, the conclusion reached would have to be reconciled in each particular instance with the need to take urgent and manifestly justifiable measures without delay.

25. At all events, it was deemed essential for short-term plans to be based on an analysis of a country's economic and social situation and of its prospects, although the broad coverage and depth that such a diagnosis ought to have would depend on the background data available. It was pointed out that in some countries little quantitative information was obtainable and that few people were experienced in data processing and analysis, whereas it was often possible to find officials, experts and other personnel who were sufficiently well acquainted with their country, its problems and the relevant aspects of such problems to be able to make an extremely accurate contribution to an analysis of the situation. Moreover, it was stated that diagnosis - implicit or explicit - was essential to a definition of development policy and should be as extensive as possible, and that efforts should be made to include an analysis - however tentative - of the structural changes that might be necessary.

26. In practice, a number of factors can be found to assist in pinpointing the areas or fields in which short-term action should preferably be concentrated, within the basic approach of a long-term policy. Such /factors include
factors include investment and measures making for better utilization of resources lying idle or existing production capacity not used to the full, for overcoming production deficits in key sectors of the economy, reducing or eliminating unemployment, easing acute social tensions and lessening external, fiscal and regional disequilibria.

27. In connexion with those factors, it was stressed that short-term plans should not merely comprise those investments and economic policy measures that would give immediate tangible results but should attach equal importance to measures that would take longer to bear fruit but would open up new prospects of future economic expansion and social improvement. It was also stated that one of the most important aspects of short-term plans was that they enabled the groundwork to be laid and the machinery to be established for long-term planning.

3. Need for national participation in the attainment of development targets

28. Some participants were convinced that effective action for economic and social improvement of a sustained and lasting nature consisted essentially in rooting out negative attitudes, restoring efficiency to institutions which had lost it, and replacing or getting rid of outmoded structures. Any action of that kind is liable to come into conflict with vested interests and institutional and other rigidities. Hence its success is conditional from the outset upon securing the solid backing of public opinion.

29. This backing in its turn entails certain claims. To begin with, the aims pursued should be an authentic expression of the hopes and aspirations of the great majority of the population, who should be made to feel from the outset that they are taking part in the process of advancement towards those objectives.

30. As a key factor in the mobilization of public opinion, it was stressed that the private sector should be offered specific incentives to contribute actively towards the achievement of development policy aims. In that respect, mention was made of some of the concrete means /that might
that might be utilized, such as facilitating the preparation of projects by means of suitable procedures that, inter alia, would reduce the cost of the requisite studies and research; simplifying administrative formalities so that the incentives in the economic policy programme could be used to advantage; and facilitating research on technological questions, natural resources, organization and other matters that might be of interest to private enterprise, in the field of agriculture as well as in that of manufacturing.

4. Economic and social policy and short-term plans

31. It was generally agreed that the fundamental aims of economic and social policy had to be defined for short-term plans as for any other plans.

32. Apart from the economic and social policy measures associated with the achievement of long-term objectives and structural reforms, immediate investment programmes require the concurrent adoption of certain decisions indispensable for their execution. Such decisions are of course connected with the need for greater mobilization and better channelling of internal resources which often involve changes in taxation and financial policy. In that respect, reference was made to measures tending to restrict non-essential types of consumption - and even investment - and to others designed to encourage the use of internal resources for more important economic and social ends. It was also remarked that the specific projects making up the investment programmes frequently entailed the adoption of practical measures to ensure their feasibility, and that the projects selected should be in keeping with the tenor of economic policy.

33. It was pointed out that solving the various problems typical of the present economic situation depended not only on making additional investments, but also, and in some cases mainly on basic changes in the existing investments and in the prevailing economic policy. These problems include external imbalance, insufficient output in particular sectors, unemployment, etc.
34. Special attention was devoted to the fact that the increased volume and new methods of international financial assistance might require changes in the handling of certain instruments of economic policy. That was because obtaining increased external funds to finance investments whose execution involved expenditure mainly in national currency might lead to the improper or unsatisfactory use of the resources in foreign currency, unless at the same time a sound import policy was pursued or other appropriate precautions were taken. This would be the case, for example, if additional external financing was obtained to finance a housing programme and the additional foreign exchange was used wholly or partially to finance the importation of luxury goods. Similarly, the use of external funds to make possible the provision of certain public services on a larger scale might call for a tax revenue policy that would ensure the availability of current resources to provide subsequently for the functioning of such services on a permanent basis.

35. As the foregoing observations imply, there must be a unity of purpose in the use of the various instruments of economic policy, which must be in line not only with the general objectives, but also with selective measures with respect to particular economic sectors, areas or regions, and with the need to deal constantly with the ad hoc problems that arouse much of the concern felt by national authorities. This hardly describes a situation which, as many of the participants felt, is marked by the presence of contradictions and inconsistencies, and a general lack of co-ordination in the use of the instruments of economic policy.

36. The views expressed during the debate indicated that in any country that intends to prepare a short-term programme, it is vital to formulate an economic and social policy with specific objectives and goals, if that has not already been done, so that measures reflecting that policy can be

6/ See sections 7 and 8 below.
included in the investment programme, in line with the objectives and goals indicated, which in some cases might be broad in scope. In countries where such a policy had already been defined, but where there were no specific development plans, the policy would have to be re-examined when the first plan was worked out in order to ensure proper consistency between goals, resources and means of action.

5. The balance between social and economic investment

37. One of the topics which aroused most discussion during the seminar was the relative importance to be attributed, in short-term action, to social as against economic investment.

38. Some participants expressed concern lest as a result both of the influence of the ideas on which international aid programmes were based and of the greater ease of drawing up social projects, short-term action might over-emphasize such projects at the expense of investments that were essential for the purpose of eliminating bottlenecks in the development process and attaining a satisfactory and sustained rate of economic growth.

39. However, it was pointed out that the new policy was aimed at redressing an imbalance in this respect that was in fact developing in Latin America, since sufficient funds were not forthcoming or were not mobilized for social investments to serve the needs of large sections of the population, and the virtue of the Alliance for Progress was precisely that it aimed at restoring the balance between the two and helping to meet hitherto unsatisfied needs.

40. A number of participants expressed the problem in different terms, pointing out that the two fields were closely related. While it is always possible to distinguish clearly the social and economic objectives, this is not so easy with respect to social and economic investment. Nevertheless, the Seminar recognized the need for pragmatic definitions of the social investment listed in the Act of Bogota, that guided the activities of the Social Progress Trust Fund administered under agreement, by the Inter-American Development Bank. No substantial expansion in the provision of social services could be envisaged in the absence of an increase in the productive capacity of the industries that would have to
provide the current and capital inputs that some of those services would require, and of measures to ensure continuous provision of the funds required to operate and maintain the services in the future.

41. Thus there was general agreement on the need to attain a proper balance between the two aims; at the same time it was pointed out that no strictly technical standards were available for establishing an exact order of priority. Nevertheless, the requirements of practical action meant that rule-of-thumb methods must be used to estimate the total volume of funds needed, and how they should be allocated, in the light of the goals that each country desired to attain in the field of economic and social development.

42. Various methods were suggested to meet this need. One consisted in estimating the volume of investment needed both to deal with emergency situations and to ensure a given rate of growth of the national income; if that amount were set against the funds normally available, the difference would give an approximate idea of the funds available for social investments. A comparison of that sum with the objectives established in the social field would make it possible in turn to estimate the need for the mobilization of the additional funds, domestic or foreign, needed to ensure a desirable balance between the two types of investment.

43. When it was suggested that such a method might imply that a lower priority was being accorded to social investment, the answer given was that the distinction was made for purely methodological purposes, since the essential aim was to decide what were the objectives to be attained. It was also stated that, viewed in that light, the method had the additional effect of drawing attention to the extent to which aims of social improvement were dependent for their attainment on a substantial increase in domestic effort in conjunction with increased external aid. It was added that the domestic effort must involve the provision both of funds (through an increase in the rate of national savings and above all of tax revenue), and of other kinds of resources. In the second case care must be taken to ensure that the capital goods available for investment were not diverted into investments that might amount to forms of luxury consumption. Some participants went
participants went on to suggest that a high progressive tax on luxury
building might provide both a means of freeing real resources that
could be used for low-cost housing and a source of additional tax revenue.

44. Apart from the general problem of the balanced allocation of
resources, there was general agreement that experience in Latin America
indicated that very ineffective use was being made both of the existing
capacity of the present social services in the fields of education,
public health, housing, etc., and of the funds normally devoted to those
purposes. Better designed services, more rational organizational
patterns, greater administrative flexibility and more efficient
organizational methods would all do much, without any great additional
expenditure, to enable many more people to benefit from those services,
and short-term plans should therefore include such improvements as
fundamental features.

45. With respect to the additional resources to be devoted to the provision
of social services, it was regarded as essential, in addition to taking
account of the aspects already referred to, to introduce economic rationality.
Many participants suggested that in the field of social investment there
should be special emphasis on those investments that, in addition to con-
tributing to social improvement objectives, had a greater economic
significance than other social investments. This requires that, in
many cases, much attention be devoted not only to criteria for allocating
resources by broad categories of social services, such as education,
health, etc., but also to the type of projects that should have priority
within each of these categories. It was commented also, however, that
although this idea should represent an important principle in formulating
a programme of social investment, it must be remembered that it was not
always easy or possible to concentrate action in narrow sections of the
vast social complex, since the result might be dislocations in the various
factors that affected the solution as a whole.

46. Consequently it was concluded that a certain balance must be maintained
within the field of social investment itself, while underlining the funda-
mental principle that the improvement of living conditions was often
directly related to investments traditionally regarded as strictly economic.

/That applied
That applied particularly to investments contributing to a better and more balanced diet for the population, an advance without which there would be no real hope of attaining substantial improvement in health patterns.

47. While the Seminar was anxious to introduce criteria which would ensure a balance over the long term between social and economic investment, and also within each of these types of investment, the contrasting view was stated that in some specific cases the question should perhaps not receive undue attention within the framework of a short-term plan. In some Latin American countries which lagged far behind in the work of preparing economic investment projects and, at the same time, had idle funds, social investment financed with external assistance might be an important factor in reviving economic activity.

48. In order to take account of all those factors which must guide action in the social field, it was argued that a modicum of instruction in planning techniques and basic economic concepts must be made available to experts entrusted with the formulation of social action programmes and that planners should receive adequate training in the technical requirements of those programmes. It was stated that international technical assistance would find a broad field of action there, and the hope was expressed that the Latin American Institute for Economic and Social Planning, in considering its future programme of work, would give particular attention to those problems, thus complementing the training programmes of other international institutions.

6. Means of evaluating total investment requirements

49. While recognizing the methodological difficulties involved, the Seminar stressed that short-term plans should include an evaluation of total investment requirements.

50. That requirement was justified by several factors. To begin with, it was a basic tenet of the Alliance for Progress that the size of external aid depended largely upon the extent of the action taken by governments to achieve full mobilization of their internal resources. Hence, in
evaluating short-term plans which countries wished to submit to international financial agencies for consideration, one of the basic criteria should be a comparison of the external funds requested with the extent of the action taken by governments. Such an assessment could only be made if the plans included an approximate evaluation of the total investment to be made.

51. It was recognized that there were practical difficulties involved in determining the total amount of investment that should be included in a plan, since the problem was no longer simply one of mobilizing the same total amount of resources that had been mobilized in the past. The objectives of the Alliance for Progress required a greater domestic saving effort; depending on the magnitude of this domestic effort, greater foreign resources would be forthcoming also. Both from the point of view of each country and of the international financial co-operation agencies, there was need for at least an approximate calculation of the total resources with which those basic objectives could be brought closer to achievement.

52. The point was made that the element of urgency should be reconciled with the time required for a relatively accurate operation of that kind. Nevertheless, the formulation of a very general diagnosis would be of assistance in evaluating the investment requirements which would serve to overcome the major obstacles of the moment and to ease the most pressing social tensions. For its part, definition of the long-term objectives of social betterment, combined with a rough assessment of a sustained rate of expansion of the capacity of production, would make it possible to evaluate the investment made to achieve those objectives.

7. International financial assistance procedures

53. The Seminar stated that, in the spirit of the Alliance for Progress, an attempt was being made to define a new method of action in Latin America imposing new obligations both with countries and on international agencies concerned with financing assistance.

54. In the past, international financing assistance had been characterized by the system of financing individual projects not immediately related to total investment requirements, with the disadvantages referred to in connexion with several topics dealt with by the Seminar. Great importance
was given to the possibility that international financing agencies may gradually apply more flexible methods of financing, provided that domestic efforts are translated into plans and programmes which follow the guidelines of the Charter of Punta del Este.

55. It was stated that such a procedure would lead to a better distribution of funds, since each individual project would no longer be assessed solely on its own merits but as part of a group of co-ordinated or inter-dependent projects. It was also pointed out that in that way the preparation of projects in specific areas and sectors would be stimulated, since the existence of over-all resources committed in principle to the financing of programmes would give a strong impetus to private enterprise or to the different agencies in national administrations. It was further noted that it could also lead to continuity and speed in the execution of the initiatives being carried out, as funds might be transferred from one project to another in each programme, always of course within the same over-all volume of resources.

56. By way of illustrating procedures of that kind, a few specific precedents of aggregate financing of national or regional plans or groups of projects within a specific sector were mentioned. Preference was made in particular to the consortium formed to contribute to the financing of India's five-year development plan, to the flexibility in project and programme financing made possible by the Social Progress Trust Fund, and to the system of aggregate loans to development agencies being applied by the Inter-American Development Bank and the International Bank for Reconstruction and Development.

57. It was recognized that one of the chief difficulties in Latin America in the near future was the fact that adjustment to the procedure mentioned would require a broad measure of consistency and cohesion in the investment programmes and in the availability of domestic resources and a proper ratio between these and external resources. For that reason - and also because only a few countries had made adequate progress in the formulation of plans - it was felt that the change in financing procedures should be gradual and might require a transitional period consistent with the progress achieved in planning and administrative organization. During
that period the national and international agencies themselves would have to overcome the rigidities which at present prevented them from acting along those lines or limited their ability to do so.

58. Without prejudice to the continued allocation of resources to individual projects, it was hoped that aggregate and flexible financing operations could be applied to: (i) national short-term and long-term plans, which complied with the principles of the Punta del Este Charter and the essential technical requirements; (ii) regional plans envisaging action in different sectors, all of them aimed at overcoming the pressing problems of particularly backward areas; (iii) consistent sectoral plans or integrated groups of related projects.

59. It was pointed out that the application of global, flexible financing to the three types of plans mentioned above would necessarily remain subject to a detailed study of the total amount of financial resources required for their execution, and to the proportion of internal and external resources.

60. It was specified that flexibility of financing should be understood as flexibility to allocate resources to the various projects which form part of a programme, but always within a total amount of financing and with unchanging proportions of domestic and foreign financing.

61. In addition to these basic requirements, the following technical requirements for the application of aggregate and flexible financing were specified: (a) plans and programmes should consist of completed projects or of draft projects sufficiently advanced for a clear definition of their characteristics, their direct and indirect effects and their approximate cost; (b) projects and draft projects included in a given programme should be consistent and correlated; (c) the administrative agency entrusted with the final preparation of the projection and the agency responsible for its execution should be indicated; (d) the programme should include a schedule covering the stages of preparation and execution of specific projects; (e) the method of establishing an auditing service to control the use of the funds should be described.

62. Reference was also made to the importance as an essential complement to the new procedures involved in external assistance, of the maximum degree of co-ordination among the different international financial assistance agencies in Latin America. For their part, Governments should make a greater effort to ensure better co-ordination in the execution of plans, programmes and projects.
8. The problems of preparing and evaluating specific projects

63. The participants unanimously agreed that the lack of specific public and private investment projects was one of the many obstacles to immediate action being taken on the required scale and as promptly as necessary. In that connexion, it was pointed out that in formulating plans it was essential to have draft projects, in the sense of studies prepared with a sufficient technical background to enable a decision of economic character to be taken. On the other hand, in order to carry out the work as well as to cope at subsequent stages with problems of control and efficiency, the final project would have to be prepared in much greater detail, for which the assistance of expert consultants was often required.

64. Account was also taken of the desirability of interpreting a project in a much broader sense than usual, adopting rather the notion of action units covering all essential elements of a project. Thus activities such as the following would be considered as projects: supervised credit, animal and vegetable sanitation programmes, seed multiplication, etc. In such cases, the proportion of rotating capital is generally much larger than that of fixed capital. Operational as well as organizational and administrative problems are also very important.

65. With respect to the scarcity of projects, a number of factors responsible for the situation were enumerated, such as the difficulty of mobilizing human resources for the specific elaboration of the projects themselves, the shortage of national consultants and technicians in very specific problems, the lack of funds for preparing the relevant studies, the lack or poor quality of basic data, the inadequate knowledge of natural resources, and the problems and cost involved in the use of foreign consultants. Uncertainty over the amount of domestic or external funds available for the execution stage, was often another discouraging factor.

66. Many of the participants felt that those problems could not be solved unless the State launched an active promotion campaign directed at both the public and private sectors. In this connexion the idea was mooted of creating national or regional agencies whose chief functions would be
to give methodological guidance, establish standards, render advisory assistance of a technical and economic character, and encourage the various specialized bodies whose regular work in the various Ministries or other autonomous institutions fell within the province concerned. In the actual preparation of projects the responsibility of those agencies would be confined to those fields of action in which the specialized institutions were particularly weak, or non-existent. However, in view of the complexity of the many types of projects, the diversity of techniques, the variations in respect of scale of production or economic importance, the degree of accuracy or processing required, the differing structure or composition of capital, etc., a very high degree of centralization does not appear desirable.

67. In a plan of this nature it is essential to ensure the mobility of the country's technical resources, in accordance with the requirements of each study in order to build up the various task forces which would deal with specific projects. In practice, formidable obstacles would be encountered in this aspect of the work, since it is a matter of shifting and regrouping technical personnel belonging to various government services, which might mean that changes must be introduced in the administrative norms in force. Stress was laid on the importance of close liaison between a promotion organization such as that suggested and the administrative machinery of planning at the different levels at which it was introduced.

68. In order to strengthen such efforts, the need to maintain an increase international cooperation was reaffirmed, particular importance being attached to programmes for the training of personnel. Technical and financial advisory assistance to the promotion agencies and co-ordination of projects was another highly important channel along which the international co-operation under discussion might be directed. In the same connexion, another matter of interest mentioned was the possibility of access to the valuable experience that had gradually been accumulated by the international financing institutions.

/69. With reference
69. With reference to the high cost of preparing preliminary projects, emphasis was laid on the need for international institutions to make an increasing adequate contribution to such expenditure. The hope was expressed that agencies which had made a start on the financing of this type of studies would simplify their formalities and procedures so that the assistance granted could be made available more quickly.

70. In that field the Latin American Institute for Economic and Social Planning could make a valuable contribution, which might take various forms, such as the inclusion in the Advisory Groups of specialists in the preparation of projects; the expansion of training programmes and seminars; the answering of specific enquiries, etc. In general terms, the new institution might act as one of the centres for the divulgation and diffusión of Latin American experience in the field of the preparation and formulation of projects. Furthermore, the OAS/ECLA/IDB Committee on Co-operation might also help in this respect through the joint missions and other activities of those bodies. 8/

71. Besides the problems directly connected with the preparation of projects, the Seminar also considered those relating to criteria for project evaluation. It was noted that a distinction should be drawn between the various levels at which economic evaluation arose, since it might relate for example, to the problem of priority in respect of the purpose for which the resources were earmarked, or again to the question of priorities between technical alternatives serving the same end.

72. During the discussion of evaluation criteria, it was pointed out that many types of projects obviously had a high priority. Examples included investment contributing to the full utilization of existing capacity, with the resultant definitive short-term increase in income; projects eliminating serious bottlenecks, especially in the energy and transport sectors; or projects which would provide employment on a large scale. To this same category should be assigned, with reference to the

8/ International co-operation might likewise be extremely useful in the domain of studies on industrial profiles, as well as in the preparation of directories of international consultants, in which due importance would be given to those of Latin America itself.
short term, other projects ready to be put into execution which implied an
expansion of exports or a saving in imports and, above all, those whose
technologically optimum dimensions would be warranted by the existence of
a common market.

73. The evaluation methods to which the Seminar devoted particular
attention included - apart from the well-known profit-cost estimates -
the shadow prices method, and an ad hoc working group was asked to study
the practical possibilities of its application.

74. The general view was that, particularly in the case of investment
with a high capital density, this method of evaluation constituted a
valuable instrument, provided that it was handled with due caution,
although in some instances its application might not be feasible in the
early stages of planning. Whenever it was used, it would be advisable
to work with a range of probable values and check the results obtained
by comparison with assessments made independently by other methods. In
any event, shadow prices would need to be estimated at the highest level of
the planning office and with the co-operation of technical experts, and
the values chosen would have to be applied equally to the various projects
under consideration, with due regard to their whereabouts and to other
special factors which might prove relevant.

9. Administrative organization for the formulation,
execution and supervision of development plans

75. In connexion with the agenda items relating to administrative
organization for the formulation, execution and supervision of development
plans, it was unanimously agreed that the greatest importance should be
attached to establishing or strengthening administrative planning machinery
in each individual country. The initial nucleus should be able to
count on full top-level political backing, and should gradually become
a permanent national planning system incorporated in and linked with the
country's public administration services as a whole.

76. There was a consensus of opinion to the effect that as part of this
planning machinery a central office should be set up to co-ordinate all
action and give shape to development plans. It should be staffed by
/technical experts
technical experts and briefed on questions of development policy by a planning council, with a limited number of members, which should enjoy the benefit, as far as possible, of the participation or the influence of the President of the Republic himself.

77. With the experience of the various Latin American countries in view, it was suggested that the place of the central planning agency should be at the highest level, preferably under the Office of the President, that it should maintain appropriate links with Parliament or with Congress, and that it should include representatives of the private sector. Needless to say, all such requisites would have to be duly adapted to local conditions and to the patterns of the particular country's institutional organizations.

78. Although various points of view were expressed, it was generally agreed that the planning agencies should enjoy great political and administrative independence, so that their studies and programmes — in conformity, of course, with the basic principles of the development policy approved by the Government — might be prepared on sound technical lines. It was considered that administrative independence should be understood to include the availability of resources and facilities for the recruitment of personnel, the determination of staff salaries and promotions, and other similar matters.

79. The participants agreed that every possible effort should be made not to overburden the planning agencies with purely administrative or merely incidental tasks, so that the technical staff might concentrate their efforts on the requisite studies and research. It was also felt that everything possible should be done to ensure proper co-ordination of the activities of government statistical offices, under the general guidance of the planning agencies.

80. In the course of the discussions, the importance of assigning an active share in the planning process to the various Ministries and to their executive departments was emphasized. In this connexion, the progressive establishment of planning offices in the Ministries and decentralized public bodies, as well as of project offices in the executing agencies, was advocated. All such offices should be closely linked to the central agency.

/81. The
81. The participants pointed out the desirability of establishing, whenever appropriate, planning agencies for the various geographical areas or administrative divisions, also incorporated in the over-all planning institution, which would ordinarily be more concerned with long-term planning.

82. The participants agreed that the adoption of planning systems would imply radical changes in the structure and operational methods of public administration, and that to meet those needs, adequate and timely administrative reforms should be introduced, together with new modes of operation in the legislative organs, so as not to weaken the plans. The existing ministerial machinery is not usually endowed with the instruments required to make planning effective at all the levels at which it is needed.

83. On a broader plane, the participants expressed concern at the lack of co-ordination in economic policy and the makeshift fashion in which it was changed, often in response to purely adventitious problems. Emphasis was laid on the need for the planning system to be organized in such a way as to give cohesion to the decisions adopted by the authorities in the various fields of economic and social policy. To that end, it was essential not only that long-term objectives should have been defined with precision, but also that the planning system should include a unit responsible for analysing the current situation and future prospects of the economy. The planning effort and its results should be constantly reviewed.

10. The role of public investment budgets

84. Public investment programmes in short-term plans are essential instruments for the removal of the obstacles hindering adjustment of the composition and structure of public investment to the requirements of economic development. They should also embody the whole group of targets to be attained by the public sector under the over-all short-term economic and social development plan, and the priorities to be assigned to the respective investment items.

85. It was agreed that the public investment budget crystallizing the investment programme ought to contain not only the projects to be financed with the additional external resources, but also all the projects in course of execution by the public sector. The latter should include those activities which,
activities which, although they could not be classified strictly as capital formation, were related to others that exerted great influence on the development of sectors of production and on the provision of social services.

86. It was thought desirable that the budget should be consolidated, i.e., it should cover not only central government agencies but decentralized public institutions and local or provincial authorities. It was noted, however, that the latter should be incorporated gradually, since there were legal limitations and in many cases the lack of planning experience at those administrative levels might undermine the very idea of the necessity of planning because of the mistakes perpetrated.

87. Special attention was devoted to the current financing system of public institutions, which were often characterized by the proliferation of funds earmarked for specific purposes. That was a serious obstacle to the short-term adjustment of the structure of public investment to the requirements of development. Over-decentralized and completely unco-ordinated administrative organization was likewise singled out as another handicap, especially when there were great differences in the operational capacity of the individual executing bodies, or when the plans carried out were dependent on annual allocations that were too small to meet the needs deriving from the progress of the projects, or, lastly, when relatively substantial funds were already earmarked for projects under way.

88. Furthermore, attention was called to the desirability of formulating minimum investment programmes for each institution, based on funds that could be absolutely counted upon, as well as alternative programmes which called for more substantial resources and which might therefore be undertaken if there were unforeseen increases in internal or external income.

89. Lastly, it was agreed that short-term public investment programmes should be integrated with the regular national budgets. Stress was laid on the importance of close co-ordination between the budget offices and the central planning offices. Over the short term in particular, it was considered absolutely essential to make maximum use
maximum use of the experience of the budget offices in the field of economic and administrative co-ordination. The view was expressed, however, that the central planning agency, because of the way it had to combine and integrate the financial with the physical and human resources involved in the plan, was, in the last analysis, best fitted to adopt decisions in that field.

11. International technical assistance requirements

90. Short-term action and the introduction or strengthening of national planning machinery would give rise to increased needs in the way of international technical assistance. In addition to the initial work of organizing the planning machinery and preparing over-all plans, there would also be the task of undertaking sectoral programmes, investment projects, administrative reforms, surveys of natural resources, changes in fiscal policy, and other activities.

91. The Seminar recognized that the needs of the Governments in this field would probably be much in excess of what international bodies could provide, in view, inter alia, of the great shortage of competent and experienced staff in the planning field and the terms that would have to be offered to such staff because of the responsibility attaching to the type of advice they would be asked to give.

92. This shortage of technical staff in relation to the work to be done calls for greater efficiency and better co-ordination in the task of increasing the rate of which staff are trained, on the part of the international organizations. It was agreed that the Latin American Institute for Economic and Social Planning would have an important part to play in that connexion, but that as the task involved was so vast, the co-operation of other bodies would certainly be needed in order to avoid duplication of effort.

93. It was pointed out that the co-ordination of effort in the field of technical assistance should be at the country level, as well as at the level of the international organizations. The Seminar noted certain recent instances in which the co-ordination of all the technical assistance received by a country had been entrusted to the planning agency itself. Such co-ordination, in addition to making possible more effective
use of international technical assistance, should be directed towards the important aim of endeavouring, whatever the effort involved, to make the maximum use of the trained staff who all too often were to be found in the country itself but who were not always given the right opportunities.

94. With respect to the methods of work of international experts and advisory missions, it was pointed out that such work could be more effective if the central aim was regarded as being the training of local staff. In that way the activities of those missions and experts would become part of the process of technical training which, developing from that starting-point, could provide the country with a permanent technical team.

95. Lastly, the representatives of various international and governmental organizations reported on the increased technical and financial resources they were placing at the disposal of the Latin American countries, both through the United Nations and other organizations and through the Governments of the United States and certain European countries. It was pointed out that the increased availability of fellowships, travel grants and other facilities provided by those organizations were furnishing new training opportunities for Latin American professional and technical workers.

12. **Concluding observations**

96. The foregoing summary of the main points discussed at the Seminar shows, on the one hand, the complex nature of the subject of planning, both long-term and short-term, and on the other hand, the need to improve machinery and methods so that the countries of Latin America, which since the Economic Conference of Punta del Este have been committed both morally and materially to unite their efforts to increase the pace of their economic and social development, can proceed immediately to apply the measures there agreed on. These must include providing the initial impulse for the mobilization of the domestic and foreign resources required to attain the objectives envisaged.

97. As the foregoing sections of the present report show, the experts who took part in the Seminar furnished a valuable body of consistent ideas, concepts, methods and procedures appropriate to the urgent need
for initial or short-term plans to be worked out within the framework of an economic and social policy with far-reaching objectives.

98. Although there are or may be difficulties in all countries in proceeding with planning and the activities ancillary to it, the guidance provided by the Seminar may help particularly the officials and departments responsible for carrying out these activities to overcome difficulties and undertake the practical measures that are needed immediately.

99. The Seminar made it clear that in view of the political and social problems and tensions confronting Latin America, as a result of the low level of economic development attained in the region and the inequalities in the distribution process, it is the duty of the technical experts to provide national authorities and political leaders with the means and techniques for economic and social development programming within the framework of the democratic institutions of the Western Hemisphere. It is, of course, essential that in addition to the use of the proper techniques and methods, countries formulate, or if necessary review, their policies of economic development and social progress to bring them into line with the objectives unanimously adopted at Punta del Este, at the same time making use of the new concepts and formulae of international co-operation.
Annexes I and II

Editorial note

Annex I (List of participants) and Annex II (Agenda) have not been included here as they are reproduced on pages 21-22 and 23-26 respectively (see the part marked with asterisks in the Table of Contents of the report, page 77)
# Annex III

LIST OF DOCUMENTS DISTRIBUTED AT THE SEMINAR

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Note: The purpose of this paper is simply to bring together some of the principal aspects of short-term programming that might be useful for discussion during the Consultations. At the conclusion of the Consultations, the secretariats will present a new document incorporating any comments made on this provisional text in the course of the discussions.
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FOREWORD

1. To assist the Latin American officials in charge of planning in carrying out their immediate tasks of formulating and executing economic and social development plans, the secretariats of OAS and ECLA present a succinct and practical outline of suggested guide-lines for the preparation of short-term development programmes. The following notes are mainly based on the working papers and discussions of the Latin American Seminar on Planning; however, they also include some points that were not fully discussed at the Seminar but that both secretariats consider to be of practical importance for the more efficient performance of planning activities. Although some of these ideas originated in the Seminar discussions, it should be pointed out that they do not always reflect a consensus of opinion on the part of the participants.

1. The aim of short-term programming

2. Short-term programming may be regarded as a part of long-term planning. It may also be looked upon as a programme for immediate action in specific high-priority fields, which should be formulated and put into effect while integrate long-term plans for economic and social development are being prepared.

3. The choice of one or other of these criteria will depend primarily on whether the country concerned has already drawn up its long-term development plan and has an administration that is capable of carrying it out. In any case, the aim of short-term programming is to translate the targets into action and to carry planning activities into the field of practical achievements. Where there is no long-term plan, short-term programming provides the necessary discipline to prevent projects from being conceived as isolated units but—and this is of great importance—as part of an interrelated group, due regard being also paid to order of priority and allotment of resources. Moreover, it entails the incorporation of the economic policy measures that are necessary for its implementation.

4. Thus, a short-term programme should be an essential factor in the preparation of an integrated long-term plan, where such a plan does not already exist.
2. Content and method of formulation

(a) Analysis and determination of economic and social objectives

5. Although the short-term programme can and should be embarked upon before a detailed long-term plan is prepared, it must obviously be related to a general framework of broad economic and social objectives of a less urgent nature. Hence, if short-term programming is to have real value, some indications should be provided of the direction in which the economy should move. For this purpose, a preliminary analysis of the recent economy's trends and prospects is required. This analysis should draw on the information and studies available, and should not be so ambitious in scope as unnecessarily to delay the formulation of the short-term programme.

6. Whereas the scope of the analysis will vary from one country to another, the main structural and institutional obstacles to economic growth should be identified in all cases and an examination made of such problems as production bottlenecks, idle capacity, poor use of existing resources, fiscal and balance-of-payments disequilibria, depletion and deterioration of natural resources and the more obvious deficiencies in housing, public health, education and other areas of social tension.

7. What is essential is to make a reasonable analysis without waiting for new intensive or extensive investigations, and to use the preliminary diagnosis (i) to determine the general lines of planning efforts, over the short and long term, including such factors as targets for the increase and improved distribution of income, improvement of productive efficiency and new types of industry to be established, the fiscal, land and labour reforms planned, manpower training targets, the social improvements contemplated, etc.; and (ii) to identify the gaps in information and basic knowledge that should be filled during the execution of the short-term programme. In fact, it would be desirable for the programme to include projects for the improvement of statistical data, research on natural resources, cartography, etc. without which effective long-term planning would be difficult if not impossible.

/(b) Means
(b) Means of action in the public sector

8. The short-term action of the public sector has three main facets. The first relates to the basic approach and over-all objectives in respect of the economy as a whole, which must be indicated by the short-term development plan. The second is connected with the exact definition of the role and responsibility specifically incumbent upon the public sector; in practical terms this can be expressed in the form of a short-term public investment plan. The third is that of the translation of this responsibility into decisions as to what will be done during the next fiscal period. This last implies the need to adjust the mechanics of formulating and presenting the national budget, either by the introduction of a special capital budget or by the gradual incorporation of programme budgeting techniques.

9. To the first of these aspects reference has been made in earlier paragraphs. As regards the public investment plan, consideration should be given to the inclusion not only of investment projects proper, but also of those activities which are closely linked to the development of the sectors of production; cases in point would be such programmes as those concerning animal health, seed multiplication, environmental sanitation, research on natural resources, etc. The plan should give precise indications of sources of financing, distinguishing between the internal and the external resources to be mobilized.

10. The national budget must constitute a basic instrument for short-term action, but its immediate use for such purposes is restricted by the purely administrative accounting methods generally adopted in drawing it up. The first step towards ensuring a more rapid response to requirements in connexion with immediate action might be a more accurate breakdown of capital expenditure items, the aggregation of which would form a special capital budget. Basically, this would be nothing but a functional classification of investment expenditure on the part of the central Government and of the autonomous and semi-autonomous bodies.

11. Short-term plan, public investment plan and capital budget - or programme budget - do not necessarily constitute successive stages, and there is no reason why they should hold up the public sector's decisions with respect
to immediate action. They will have to be undertaken simultaneously, even if only on the basis of highly simplified initial outlines which will be improved upon in later phases.

12. The functional classification referred to should be supplemented by an indication of the agency which will be responsible for the execution of the project. Furthermore, each investment proposal must comprise — apart from the justification of the project — an estimate of capital outlay, as well as of overheads and operational expenditure, and a description of the economic or social benefits which will derive from the project.

13. It is important for the investment budget to be presented together with the budget of operational expenditure, in order to ensure an adequate allocation of public funds to each and thus guarantee the satisfactory development of the projects as time goes on. For example, budgetary provision will have to be made for sufficient funds to pay teachers' salaries in consonance with the number of new school premises built. The best procedure would be to extend the functional classification recommended for the capital budget to operational expenditure.

14. The investment plan and the capital budget are essentially instruments of analysis and planning, and must not be interpreted as substitutes for the administrative budget, which must be drawn up in conformity with the legal provisions in force, until official approval has been given to programme budgeting techniques.

15. In practice, conceptual problems will undoubtedly arise in connexion with the classification of expenditure, in approaching which simplified criteria should be applied, so that, even if some shortcoming remain, the preparation of the programme will not be retarded.

16. There is good reason to think that many countries are already in a position to draw up capital budgets and investment plans which, although as yet somewhat roughly and ready, may allow a fairly rapid start to be made on short-term planning.

/(c) Criteria
(c) Criteria for the evaluation and selection of projects

17. The analysis and objectives of economic and social improvement on which the short-term plan is based will serve as a guide in allocating investment resources among the different economic and social activities (transport, industry, education, public health, etc.).

18. The selection of specific projects within each of these branches of activity should be effected on the basis of objective evaluation criteria in order to establish an order of priority among them. These criteria are based on the profit ratio, not only in terms of the economic yield of the private enterprise, but also in terms of their impact on the economy as a whole, measured by the direct and indirect effect of the project on the gross product.

19. In applying these criteria, the use of accounting prices is advisable wherever possible. Even if temporary values are assigned, the effect of distortions in the prices of factors of production (salaries, interest on capital, foreign exchange) can be substantially reduced in this way.

20. With respect to investment projects for the provision of social services, the application of these criteria presents a difficult, and in some ways an insuperable problem. The establishment of an order of priority among such projects is difficult because they do not lend themselves to comparison and it is not easy to quantify the benefits to be derived from them. It would nevertheless be useful to group them functionally so as to identify - e.g. in sectors such as education and public health - those projects where the unit cost is relatively low.

(d) Economic policy in short-term planning

21. A point which should be stressed is that the investment budget is only one instrument used in short-term planning. Proper execution of the programme depends not only on a clear definition of objectives and a sound investment programme but also on a wide range of economic and financial measures as well as others aimed at acquainting the public at large with the purposes and content of the programme.
22. For example, monetary and fiscal measures or reforms might be so designed as to make for better utilization of idle industrial capacity and of arable land. Tax policy might be made use of to mobilize domestic resources and check inflationary pressures. Price increases resulting from dislocations between the additional demand generated by investment expenditure and the availability of consumer goods might cause an upward trend in prices, and there must be a readiness to apply monetary or fiscal measures at the first sign of a cumulative movement in price levels. Measures to stimulate private initiative so as to supplement activity in the public sector are likewise desirable.

23. In this connexion, the planning agency would do well to consult trade union, industrial and other groups on their role in planning, so as to give the public a sense of full participation in the programming process and a clear understanding of what it is all about.

24. Moreover, import policy should be adjusted in order to prevent the additional foreign exchange funds from being squandered through imports of luxury items.

3. Planning organization

25. Although the planning organization should be designed in accordance with the administrative characteristics of the individual country, there are certain minimum operational requirements which impose a general pattern on the organization.

26. The planning machinery must cover all levels and areas of the public administration. In structure this machinery consists essentially of a central nucleus at the highest level of the Executive, and other units in the Ministries and the main decentralized bodies of the public sector. In addition, if the circumstances call for it, units would be set up with responsibility for regional planning.

27. At the initial stage the minimum organization would consist only of the central nucleus, having close ties with the main Ministries and decentralized bodies. These ties could take various forms: inter-departmental committees, representation of the Ministries and public bodies on the planning agency, and vice versa.
28. Links must also be established with the Legislative and with public and private bodies such as the universities, trade unions, etc.

29. The planning agency would be responsible for preparing short-term and long-term plans, and advising on the formulation of economic policy, supervising its execution, and working out periodic revisions. In addition one of its main tasks would be to promote the preparation of new projects in both the public and private sectors.

30. The preparation of the capital budget and the public investment plan which constitute the first step towards the effective application of the plan should also be the responsibility of the central planning body. The government bodies responsible for fiscal and financial matters would naturally contribute their advice, since the administration of funds and the calculations of costs falls within their jurisdiction.

31. In both the preparation of plans and their execution and supervision, a regular flow of information would be required; in fact it is true to say that in the absence of such a flow there can be no real planning process. In Latin America there are great gaps, breaks in continuity and time-lags in data, and consequently one of the first tasks of the central planning body must be to remedy this situation.

32. In the immediate future the staff of the planning agency must be recruited mainly from the officials and professional workers - above all economists, statisticians and engineers - already working in government departments. This first group can be reinforced through international technical assistance, especially at the stage when the planning machinery is being put into operation, when this type of assistance would appear to be essential.