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DEVELOPMENT PLANNING IN MARKET ECONOMIES**

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**PLANNING WITHIN A FRAMEWORK OF INTERDEPENDENCE**

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## PLANNING WITHIN A FRAMEWORK OF INTERDEPENDENCE

An address delivered by  
Alfredo Costa-Filho, Director  
of ILPES, at the opening of  
the International Colloquium  
on New Directions for Planning  
in Market Economies, held at  
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August 1986.

1. I would like to begin by expressing the great satisfaction which your presence here affords both to ILPES and to me personally. I would particularly like to thank those of you from outside the region who so kindly and promptly accepted the invitation extended by UNDP and ILPES to come and to meet with us. My thanks also go to Hugo Navajas Mogro, Director of the UNDP Regional Bureau for Latin America and the Caribbean, for its sponsorship of the meeting. Special acknowledge is due to Dr. César Miquel, Director of the UNDP Regional Programme, whose sensitivity to the problems of the public sector in the region was a decisive factor in making this meeting possible. I am also grateful to Dr. Norberto González and to all the ECLAC specialists gathered here for their support.

2. Mankind has moved from one century to the next, yet within the same millennium, for many, many years now (this is certainly no great revelation, of course!). Fourteen years from now, however, we will be on the threshold of both a new century and a new millennium. Although mankind's evolution cannot be explained by reference to any such formal construct as the Gregorian Calendar, this changeover will symbolize a major turning point in history. Its approach moves us to reflect upon the future. This meeting is being held in recognition of this prospect. Even though its agenda contains topics of more immediate interest, the concerns discussed in the initial sections relate to probable paths which planning should take between now and the end of the decade.

3. Both UNDP and ILPES are interested in programming their activities within a multi-annual time frame which will take in the early years of the 1990s. Although both organizations are --by their very terms of reference-- "action-oriented", they cannot dispense with at least a modicum of reflection about the future if they wish to ensure greater consistency as regards their multilateral co-operation with the countries of Latin America and the Caribbean. This process of reflection will be more effective if it can be made more collective and pluralistic.

This meeting is bringing together some of the thinkers, from outside the region, who are helping to push back the frontiers of knowledge within their specializations; the main actors in the public or private sectors of the region itself whose decisions will help shape the future, and the experts from within the United Nations system whose duty it is to co-operate with the countries in their quest for development. This is the overall purpose of this meeting.

4. In view of the fact that planning will be highly necessary within our market economies in the near future, the Institute's maintains that a reformulation of the theoretical, methodological and practical aspects of planning is called for. There are two variants of this hypothesis: the first is that planning must either be reformulated or it will die. The second, more radical one, is that planning must either be reformulated or it cannot be revived.

5. Of course, planners are far from being the only (or even, necessarily, the main) source of support for our Governments as they move towards higher levels of excellence. Specifically, a parallel reformulation of government services will be essential; this is a subject which I will not touch upon again, however, since it goes beyond the scope of the agenda for this meeting. In any case, planners and government administrators will have to share in this task if they hope to eliminate many of the flaws which can now be seen in the exercise of government. Michael Kirby --who was, at the last moment, unable to accompany us here-- cites, inter alia, the following defects:

- Dealing with problems in isolation from one another and thus exacerbating them;
- Seeking short-term solutions and thereby creating greater future difficulties;
- Basing action on a static understanding of the problems involved.

6. If planning is to assist governments in improving their performance, then it must be tied in with the real process of economic, social and political development; planning methods must incorporate the new perceptions of this process which science has given us; planning praxis must be open to interaction with the various social actors, as well as playing a role in major decisions concerning short-term economic policy, by facilitating it and ensuring its consistency and continuity. In rough outline, these are the four central ideas being raised at this

meeting. I would like to take a moment to expand upon these ideas, session by session, by adding a few remarks to the observations which the Institute has already presented in another document and which I will not repeat here. \*/

#### I. FUNCTIONAL ASPECTS OF THE ANALYSIS OF DEVELOPMENT

7. The first aspect relates to the body of theory available for use in interpreting development, to its ability to reflect the more recent changes that have taken place in the international economy and, especially, to its adequacy in anticipating possible scenarios towards which the countries of this region may evolve. This has two implications: one is that planning, when divorced from a development strategy, is an unproductive exercise; and it is not my intention to evaluate the present status of development theory, nor to suggest that the first session of this meeting should be devoted to such an assessment.

8. I do, however, wish to touch upon three main considerations, albeit briefly. Firstly, a number of thorough-going changes in scientific thought which have occurred during the second half of this century have not been fully absorbed by the science of economics. I am referring to two such changes, in particular, which have a direct bearing on planning: on the one hand, economics has not grown sufficiently away from its mechanistic legacy, which prompts it to cling to the false assumption that predictable cause-and-effect relationships exist among the phenomena it studies; on the other hand, it continues to be infected with a desire to find elements of stability, order or balance within economic dynamics. I hope to return to this point later on.

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\*/ Part IV of this document should be considered within a dual context: the background information presented by ILPES at this Colloquium (see Doc. NTI/D 3) and the agenda for the final panel (see Doc. NTI/D 3, fourth meeting). The other sections have a more independent basis.

9. Secondly, economics has also failed to fully assimilate major changes which have occurred more recently within its own field of study; this reduces the credibility of any development scenarios it may construct. I will confine myself to just four of these changes here. One: The link between science and technology and industry has never before been as close as it is now, and this link creates a need for an internalization of production, without which the high cost of innovation cannot be borne. One implication of this is that inputs of knowledge have taken on a greater importance in the production process; this has an effect on labour relations and on the dynamics of capital formation.

10. Two: This phenomenon has caused the major enterprises at the world level to change their strategy by undertaking a more rapid differentiation of products and extending the markets in which they are sold as a way of maximizing profits and by exercising greater control over inputs of knowledge as a means of reducing future risks. These two courses of action are associated with a "proliferation of variety" in the various stages of production and with the increased importance of services as new and central elements in these same stages.

11. Three: Technical progress is not determined solely by the rate of fixed capital formation. Nonetheless, there is a lack of theoretical knowledge about how industrial capital is articulated (at either the international or national level) with other types of capital, particularly financial and commercial capital.

12. Four: We lack a comprehensive explanation of the process of economic dynamics within a situation of mounting international interdependence. Present analyses are, as a result, less useful means of anticipating future scenarios as regards these dynamics. This factor fits in with the slowness shown by the prevailing school of economic thought in resolutely seeking a new understanding of time and, thus, in following in the footsteps of other sciences. Naturally, it therefore fails to comprehend that the "internal time" of the developed countries is different from the "internal time" of the underdeveloped countries, and this asynchrony is also a significant factor in the other aspects of the asymmetrical relations between the two. Consequently, we will have to "re-think" development in order to see it as an essentially unstable process in which the future is invariably distinct from the past and will have to try to envisage new organizational patterns within the dynamics of this divergence.

13. The third consideration concerning the difficulty of anticipating future scenarios relates more properly to this region, and I wish to do no more here than to point it out. If the futurology now being practiced in Latin America and the Caribbean is to attain even a minimal degree of realism, it must include specific national features in the picture of the region which it forms. With each passing day, this region is becoming a more heterogeneous subject of research for economic analysts or, in more general terms, for social scientists.

14. In developing the thoughts I wish to share with you at this opening meeting, I should warn you that my remarks here are not intended to serve as rigid guidelines for the discussion. All I wish to do is to make some comments that will serve as a backdrop for my remarks concerning the other topics. We are extremely grateful for the work of Dr. Van Arkadie, which establishes a thought-provoking bridge between the spheres of development and planning that will pave the way for the initial discussions to be held at this meeting. I would also like to thank Dr. Linstone for setting forth a variety of planning perspectives which will certainly make an important contribution to the discussions in which we will all participate. Finally, Dr. René Villarreal will bring his customary brilliance to bear on the subject of paradigms for development.

15. In order to keep to the main thesis, which relates to the relevance of planning in mixed economies, I would like to advance one more idea before going on to the topics which follow. If we accept the idea that planning involves stressing a given "direction" in the possible future course of a national system, then the facts which I have pointed out here attest to the necessity of doing so --a need which would not exist if we were indifferent about the future. Finally, given the open and indeterminate nature of the future, we would be ill advised to attempt to envision it on the basis of theories which do not take account of historic time, which relegate society to the "common grave" of "ceteris paribus" or which convert the construction of scenarios into nothing more than an exercise of mathematical logic or statistical determinism. This brings us to the topics of the second session.

## II. METHODS COMPATIBLE WITH A NEW PERCEPTION

16. I have already mentioned four phenomena within the field of economics which I feel have not been properly incorporated at the theoretical level. I would like to review these points very briefly here as a means of explaining why I speak of the need for a new perception at the methodological level. I have already said, although not in so many words, that the potential for industrialization serves as the main criterion for the allocation of resources to science and technology at the world level. I might add that this underlies the present dynamics of development, and would also note that the differentiation of products and processes, on the one hand, and the predominance of services in production activities, on the other hand, have entailed a runaway increase in the variety of stages of production and of the specialization of labour. Furthermore, the rapid pace of technical progress also stems from a new type of articulation among the various spheres of capital. Finally, it should be noted that development is an unstable process whose outcome is undetermined.

17. Now, these four factors invariably give rise to a characterization of development as a highly and increasingly complex process. This is a decisive factor if any useful reformulation of planning methodology is to be accomplished which will enable it to help each society to choose and stress one among all the possible future directions for its own development process, and it may increase its ability to move in its chosen direction.

18. The greater external interdependence of each nation's economy, the spread of markets, technical changes in goods and production processes, and increasing specialization are some of the other facets of relatively recent phenomena which are giving rise to a "proliferation of variety" in national systems, i.e., an increase in the variables and dimensions to be considered in conducting analyses or making projections and, at the same time, an increase in the linear and non-linear relations involved in the network of their interlinkages. If economic analysis is to move towards this new kind of perception, it will gradually have to abandon its deterministic legacy.

19. In other words, it will require some sort of a break with a long tradition of reductionism. As Stafford Beer pointed out, we must not try to deal with complexity by eliminating this "proliferation of variety". A new way of perceiving time, as already described, will also be required, and this must be based on an understanding that the evolution of social processes



contains a component of inertia, which tends to repeat the past, and a component of chance, in which man's adaptability and creativity play a part.

20. In this day and age, planning involves the exercise of a certain degree of directionality over the states of a national system in an uncertain future; one of the richest experiences in this field has been provided by Dr. Dubois. In addition, in the tradition of these previous studies, Dr. Ingelstam has made a number of important contributions: one of the more outstanding ones is that long-term planning should involve an approach which provides a situational focus. During the course of the same session, Dr. Holland provided a highly up-to-date assessment of a variety of European experiences in planning which Dr. Kogane related to the interesting experience of Japan.

21. Returning to our central thesis, the considerations which have just been discussed suggest the existence of a specific space for planning within our market economies. On the one hand, the increasing specialization and variety of new processes and products require a degree of co-ordination which the market itself is unable to provide. On the other hand, the irreducible complexity of an economic system requires that its future states be approached primarily from a stochastic angle, which focuses on the system itself as well as its interdependence with the surrounding environment, since the market is unable to effectively indicate what these alternatives are, particularly if it is necessary to distinguish between them within a give time frame.

### III. TOWARDS LEGITIMIZED CONTROL

22. Reasons of semantic convenience rather than an excessively reductionist approach perhaps explain why the above considerations have remained for the most part within the economic sphere; I shall now briefly take the opportunity to correct this bias. This is at the same time partly the purpose of the third session, which centres on the topic of social agents, with the hope of providing a specific space for the debate to weigh up the essential technical approximations, under the stimulus of the above topics.

23. It is now my intention to divide my presentation into two parts, which are naturally connected: the first contains a small number of observations with regard to governability and control, without encroaching upon the many proposals which Professor Dror

intends to set before us in this respect; the second is intended to identify a number of positions regarding the topic of participation with which ILPES has concerned itself, and also takes its inspiration from the teaching of Dr. Wolf, who will be responsible for the main presentation of this topic in the course of the third session.

24. I should like to begin by stating a relationship with which we are all fully conversant: this is that the perception of complexity goes hand in hand with the problem of governability, at least within the terms in which the problem is nowadays posed in our societies. In fact, the conceptual assumption that a national system behaves as a complex process which is of course both dynamic, multivarious and at the final reckoning open, at the same time raises the problem of its self-regulation.

25. I shall at this point make three brief observations in this respect. The first, is that it is possible to observe a certain loss of governability within the international system, at least as far as economic matters are concerned. In this respect, ILPES has on more than one occasion insisted that part of the structural nature of the world crisis in the 1980s is the result of a weakening of the mechanisms for monetary, financial and trade self-regulation set up forty years ago.

26. The second, is that the interdependence of each national system with its surrounding environment renders the task of attaining satisfactory domestic levels of governability even more complex and vulnerable. There are strong indications that the degree of autonomy which governments enjoy in implementing public policies has declined, be they economic or social policies. Moreover, the external crisis has domestic repercussions, obliging governments to adopt highly unpopular austerity policies. When social forces are better organized to demand concrete improvements, this interdependence then leads to a resurgence of discontent with the consequent risk of political instability.

27. The third observation concerns the low level of government efficiency. In this respect, I shall take the opportunity to remind my audience of one of the theses put forward by Kenneth Boulding, who is unfortunately unable to be present with us today. Acknowledging the above-mentioned differentiation between products, he has suggested that this has been facilitated by efficient communication between natural scientists and the engineering/productive sector; as its counterpart, he states that government praxis improves little, as a result of inadequate communication between social scientists and those who hold the reins of power, although he points out that academic communication must not always be assumed to be correct.

The inference made by Boulding is that, at the present time, the structure of political power is at present such that unsatisfactory decisions are taken. He concludes by indicating that the greater the degree of power, the greater the possibility of making erroneous decisions may be.

28. These two observations regarding the level of government performance provide grist for the mill of those who hold that there is a trend towards dissatisfaction involving risks for governability. Michael Kirby refers to this as the risk of sacrificing freedom for the sake of efficiency. However, as a recent UNDP document puts it, ungovernability is used as an excuse for authoritarian responses. However, this leads us to the second part of the remarks I wished to make with regard to participation, which is again a topic for the third session.

29. In line with the need to change our perception in order to integrate the notion of the complexity of the social system it is vitally necessary to change the concept of control. No one is capable of justifying anarchy in social change; however, viewed from the angle of complexity, its order will take shape within a dynamic of non-equilibrium and dispersion. Coercive control may prove capable of imposing temporary stability, but this will be disconnected from the rapid rate of historical change. The new concept of control should take its inspiration from the notion of self-regulation, under which the management of a complex social system is precisely the end result of respect for the relative autonomy of its subsystem. It is consequently also the outcome of a long process of social apprenticeship based on tolerance and on participation.

30. From this viewpoint, it should be realized that governability may well be enhanced provided that a decision is taken to limit the concentration of power in order to provide a broader basis for its social legitimacy. This is the very basis for Wolf's thesis concerning participation, which includes the proposition that participation remains mere rhetoric if it is not accompanied by a real distribution of power. It is for these very same reasons that ILPES has laid such stress on the topic of decentralization, promoting the autonomy of regional populations and intensifying the level of social solidarity.

31. As during previous sessions, I shall take this opportunity to reiterate the fundamental thesis which the Institute has set before this distinguished meeting: that there is an absolute need for planning, even in societies in which decision-making is decentralized. With regard to the features last considered, three further arguments provide support for this thesis. Firstly, in order to raise the level of governability, planning is necessary in order to contribute to political rationality by providing it

elements of technical rationality, as was asserted in the UNDP report mentioned above. Secondly, in order to facilitate participation, planning may help to improve the performance of the State, since there is virtually no likelihood of the latter deconcentrating its activity within a context of social discontent. Thirdly, both objectives --i.e., the ability to govern and participation-- will be furthered if planning takes into consideration the multiple frames of reference of the agents which, from within and from without, affect the development of each national system.

#### IV. TODAY'S VULNERABILITY DIVERTS ATTENTION FROM THE FUTURE

32. I shall attempt to be as brief as possible in referring to the fourth and final session, which is the responsibility of senior officials and representatives of the public and private sectors. It is possible for me to be brief since the Institute --in its capacity as a multilateral body devoted to directly serving governments-- has already dealt more specifically with these topics in a number of earlier documents, including the document distributed at this meeting. Neither do I intend to refer to each of the planned topics individually.

33. However, I do wish to return to the issue of complexity, with international relations in mind. Within this context, there is a considerable risk of the region becoming immersed in a new form of associate dependency. On the one hand, this is due to the new patterns of technological change and internationalization of services, aggravated, on the other hand, by the distorted dynamics of external indebtedness. I only wish to emphasize that within the framework of this very same asymmetric interdependency, fascination with the incorporation of new technologies --when they are not associated with a national development project-- will ultimately worsen our structural heterogeneity and deepen the marginalization of considerable sectors of the population. These convictions have led ILPES to insist --at the recent meetings of Ministers and Heads of Planning-- on the thesis that the design of new strategies for reactivation and development requires, beforehand, a lasting solution to the critical external problems facing the region. I would now like to make some observations which can only be properly understood in the light of the agenda for the fourth session.

34. With regard to the domestic sphere, I have just two remarks to make. Firstly, concerning an economic aspect, is that the need for austerity in governmental praxis, at least for the rest of the decade, should be recognized even though it must also be acknowledge that the enormous size of any government deficits is often brought about by the internal repercussions of the external debt, and consequently there is no case for drastic cutbacks in fiscal expenditure. Secondly, with regard to a social aspect, it is acknowledged that it is important to reinforce the compensatory role of the State and to show approval for the generous efforts made to eliminate pockets of critical poverty. Nevertheless, it is essential to avoid the development of a type of Malthusian dynamics, within which funds devoted to dealing with critical poverty follow an arithmetic progression, while the number of critical poor grows geometrically. Both of these aspects seem to represent key factors among the options for new strategies for reactivation and development.

35. It is almost superfluous to insist that within our mixed economies every single strategy for reactivation or development necessarily casts private initiative in a leading role. Virtually every possible strategy requires that the region be far more present on the external market; competitiveness in this sphere is crucially dependent upon the growth of productivity, and in our mixed economies, private enterprise plays a vital role in this growth. In these economies, greater possibilities of earnings foster a rise in productivity; in such cases, no shame can be attached to planning for considering earnings as legitimate and as a tool for promoting development.

36. In order to draw my observations to a close, I shall rapidly set out the final arguments --which are by no means systematic-- in support of our central thesis. I am convinced that the use of planning in our mixed economies is also justified from the viewpoint of the essentially conjunctural preoccupations which will predominate in the fourth and final debate of this meeting. It follows from my above remarks that, firstly, planning is capable of playing an irreplaceable role in clarifying national development projects capable of organizing --in a socially and politically useful direction-- the absorption of new technologies; secondly, that it should provide governments with assistance in rationalizing resource allocation in this crisis period, thereby minimizing the adoption of recessionary measures; thirdly, that it is capable of collaborating in providing alternatives for development strategies which will help to reduce rather than to increase the size of the marginal population, and, fourthly, that within the framework of a policy designed to conquer a greater share of the international market, planning must help to optimize the competitiveness of private enterprise.

37. There are a number of admittedly scattered final remarks which I have considered worthwhile making in connection with the debate to take place during this meeting. The mere juxtaposition of the subtitles chosen provides a brief summary of this contribution: firstly, there are debatable features in the way in which the available analysis of development at present operates; secondly, planning methods should evolve so as to incorporate a new awareness of complexity; thirdly, our national systems should evolve towards forms of control which presuppose legitimacy, and, fourthly, the vulnerability resulting from the crisis should not divert our attention from the future. It is my conviction that planning has a role to play in each of these four dimensions.

38. Moreover, these dimensions are interconnected, in so far as it would be unrealistic to deal in isolation with theoretical, methodological, sociological and praxiological aspects linked to planning in mixed economies. In the near future, however, it is likely that planning will continue to attempt to play its role within a relatively hostile environment. This is in part because it will be difficult to achieve a consensus as to how it should share out its attention among its main three major tasks: protecting sovereignty within a framework of interdependence; supporting growth within a framework of extreme austerity; and preserving equity in the face of the predominance of new styles of development which lead to exclusion.

39. All of these challenges are, moreover, projected into an undetermined future. Certainly, however, between the inertia which reproduces the past and the element of chance --which includes innovation and creativity-- there is room for political will to favour a particular direction within the possible transitional states. A renewed form of planning may prove to be a worthwhile instrument in pursuing this political aim. It is in this sense that the future is under construction. I am firmly convinced that today's debate will strengthen the modest contribution we are able to make to that task.



