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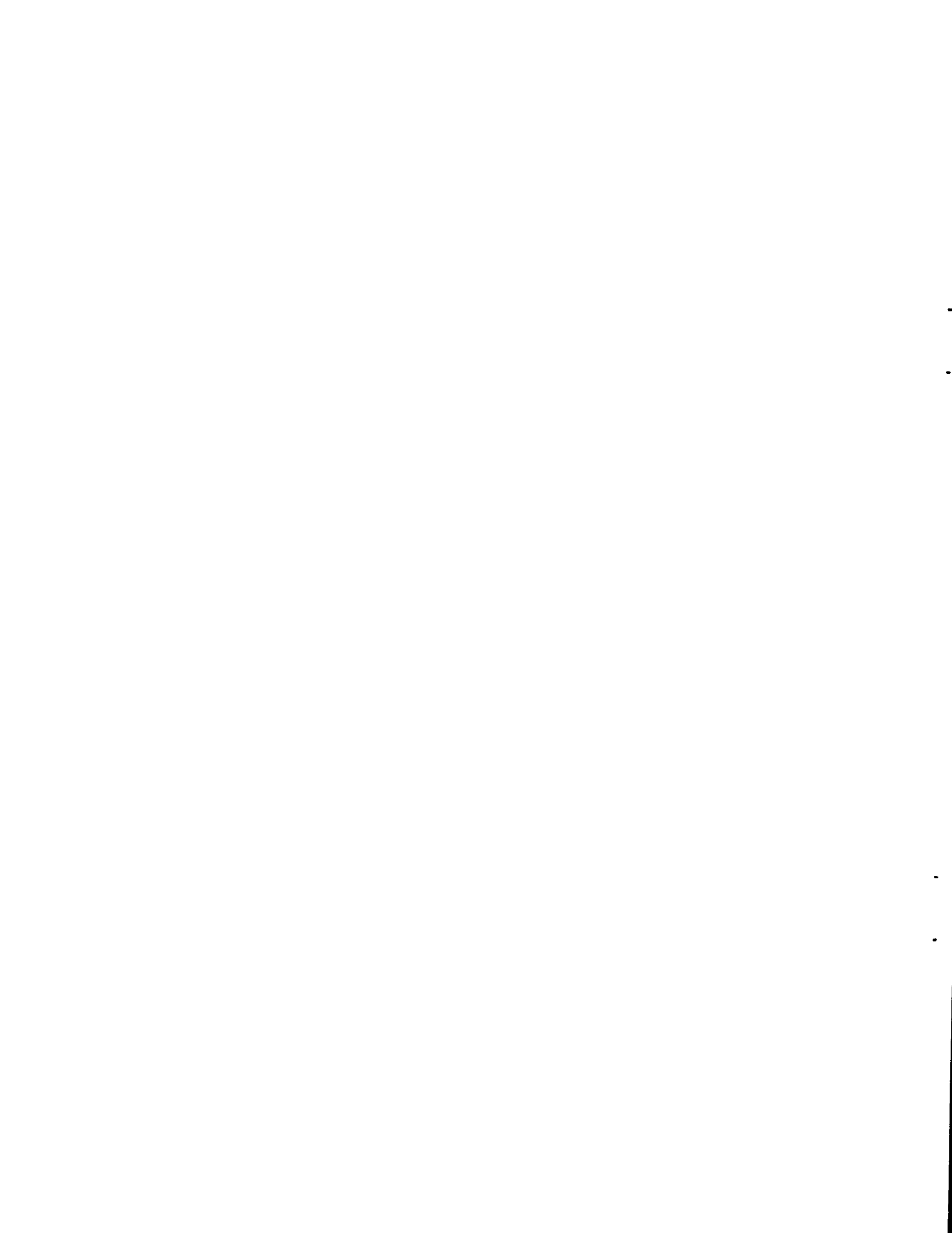
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PLANNING AND ECONOMIC AND SOCIAL POLICY IN LATIN AMERICA AND THE CARIBBEAN

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FOREWORD

The Latin American Institute for Economic and Social Planning (ILPES) has prepared the present document in execution of the task assigned to it by the Third Conference of Ministers and Heads of Planning of Latin America and the Caribbean (Guatemala, November 1980).

This is the second occasion on which a similar study has been undertaken as a continuing activity by which the governments of the region have recommended that ILPES should fulfil one of the basic objectives of the System of Co-operation and Co-ordination among Planning Bodies of Latin America and the Caribbean: "to carry out a continuous analysis of progress in planning and the obstacles to it".

This work was done with the fullest co-operation on the part of the member countries' planning bodies, which provided a variety of information in response to a survey prepared by ILPES with the object of gaining a more thorough knowledge of the state of planning in each country.

ILPES greatly appreciates the collaboration of the member countries, since the material received was valuable and has been turned to useful account both for the purposes of the present study and in providing guidance for a number of other activities in the Institute's basic fields of competence.

The study is presented in two documents. The first (E/CEPAL/ILPES/Conf.4/L.5, Doc. III-1) deals with the progress of planning and the obstacles in its way in the region as a whole, and also includes the experiences of some of the member countries, selected according to where most data are available. The second document (E/CEPAL/ILPES/Conf.4/L.6, Doc. III-2) is primarily concerned with the Caribbean countries, in compliance with the governments' recommendations that ILPES should devote special attention to this subregion.

It must be noted that this study constitutes a basis for the exchange of comments and ideas which will predictably come about at the Fourth Conference of Ministers and Heads of Planning of Latin America and the Caribbean, to be held at Buenos Aires, Argentina, on 9 and 10 May 1983; and its content will therefore be enriched by the contributions of the member countries.

INTRODUCTION

The essential purpose of the present study is to review recent planning practice in Latin America and the Caribbean in the light of the main problems encountered by the countries, and its relationship with the management of economic and social policy. From this review it is sought to draw conclusions pointing the way to the strengthening of planning in the future and to the improvement of the management of public policies.

A. Résumé

In order to provide an appropriate analytical framework for the study, in the first chapter some basic concepts and definitions relating to planning processes are re-stated, with due regard to the critical state of the conduct of economic and social policy in most of the countries of the region today, and the resulting aggravation of the problems of growth, poverty and external dependence. The outbreak of this crisis has generally been associated with the slackening of planning efforts during the 1970s, and it has been most intensive in the countries which have placed their full trust in the virtue of automatic market mechanisms. Since they have been obliged to absorb completely the recessive trends in the international economy. As part of this conceptual framework and attempt is made to set forth explicitly a generic definition of planning in keeping with mixed market economies in the region, where the State exercises to an appreciable extent functions of economic regulations and of production of goods and services. Thus the conclusion is reached that in regional experience planning has been viewed as a set of procedures to formulate and execute a national development project, to rationalize and co-ordinate economic and social policy with the aim of correcting the operation of market mechanisms in respect of resource allocation, income distribution and capital formation: all this in relation to different time horizons and decision-making levels.

The styles of planning current in the region form the subject of the second chapter, in which it is maintained that they are closely linked to the development strategy adopted by the countries either explicitly, in plans or other published documents, or implicitly, via specific policies applied. The diverse character of these development strategies is analysed through four basic variables: (i) the role played by the State and by the market in resource allocation; (ii) the degree of external openness and the treatment accorded to foreign capital; (iii) the priority sectors and sectoral strategies; and (iv) income distribution, employment and social policies. This analysis leads to the conclusion that two main styles of planning exist in mixed market economies, in addition, of course, to the socialist planning pattern predominant in Cuba.

The first of the above-mentioned styles is represented by planning of an indicative and orienting character, whose primary function is to formulate and disseminate the rationale that is to set its stamp on the socio-economic system; it is based on the consolidation and modernization of a market economy régime, which has close links with the developed capitalist countries and in which the State plays a subsidiary and partially corrective role. The second style corresponds to those cases in which the participation of the State transcends the corrective regulation of the free market. In the countries concerned, the State has appropriated a significant proportion of the economic surplus generated in productive activities and has promoted and constituted an important State enterprises sector producing goods and services. This sector, given its relative weight vis-à-vis the domestic or foreign private sector, exercises a determinant influence on the level of economic activity, on the rate of growth and on the maintenance or disruption of macro-economic equilibrium and price stability.

On the basis of the data available, each country is approximately identified as following one pattern or another, attention being drawn however, to the fact that rather than a rigid categorization there is a continuum of options within which countries choose their position and shift it, depending upon political and economic changes.

Chapter III reviews the planning activities carried out in 1980-1981 in a group of countries of the region, selected in accordance with the data available. These are Brazil, Costa Rica, Mexico, Trinidad and Tobago, Uruguay and Venezuela. In addition, an account is given of the changes in the institutional organization of planning and in the field of regional planning which have taken place in all the countries.

Significant changes in the institutional organization of planning have occurred in six of the countries analysed, outstanding cases being those of Nicaragua, where the Ministry of Planning was set up and functions of preponderant importance in the State administration were assigned to it; and of Ecuador, where a National Development Council, headed by the Vice-President of the Republic, was established, and was accorded higher political ranking than had been assigned to the former Planning Board.

Possibly the most significant fact observable in the regional field is the pressure for a higher degree of territorial decentralization of power and, consequently, of decision-making capacity. This pressure stems both from a resurgence of local demands for greater autonomy and from the national governments' growing conviction of the impossibility of efficiently managing highly centralized systems of government and administration. The question of territorial decentralization, through the use of new planning regions or on the basis of the existing politico-administrative decisions, has acquired considerable impetus, thanks to the political changes that are taking place in several Latin American countries.

Given the important connections existing between the planning process and the formulation and implementation of economic policy, the fourth and last chapter of the report reviews the economic policies applied during the biennium by the countries considered in the fiscal, monetary and foreign trade areas, brief reference having first been made to the critical economic situation prevailing since 1980. Next follows a global analysis of how the external framework conditioned these policies, and lastly attention is turned to the weak features and strong points of planning in relation to the management of short-term policies. An annex appended to this chapter

contains the generic formulations of fiscal, monetary and foreign trade policies as they are delineated in the development plans of a group of countries of the region. In view of the complexity and comprehensiveness of the subject, it has been dealt with synthetically. In addition, where informations has permitted, the analysis has been extended up to 1982.

B. Conclusions

From the analysis carried out in the present study it is possible to draw a set of conclusions which, to make them easier to grasp, have been grouped under three main heads. To a large extent they define future tasks and establish, in our view, priorities for the huge mass of jobs and functions with which planning bodies and those responsible for economic and social policy are faced.

Their complete fulfilment will make it possible to consolidate the progress which has been achieved in most countries in recent years, and which denotes a veritable renaissance of planning, in response to the critical state of the neoliberal models established in several countries during the 1970s.

1. Formulation of diagnoses, plans and policies

In this area several great strides forward have been made, although, on the other hand, there are still some problems to be resolved.

Several countries prepared and published medium-term development plans, in a renewed effort to bring diagnoses up to date and formulate comprehensive strategies. Cases in point are afforded by Brazil, Colombia, Costa Rica, Ecuador, Mexico and Nicaragua, where the plans in question were published in 1980; and by Venezuela, which followed suit in 1981. In contrast, it must be pointed out that other countries have abandoned the work of formulation and publication of development plans and programmes, without having replaced it by alternative measures, either for the preparation of global strategies,

or for better co-ordination of economic policy, or for the strengthening of operational planning within the public sector. In Uruguay mechanisms were devised which have taken the place of the plans that used to be prepared, such as the convocation of the so-called conclaves to lay down overall guidelines and provide political backing for the implementation of the main measures of economic and social policy.

Headway has also been made in some plans with the explicit introduction of social objectives and, in several instances, with the inclusion of employment and income redistribution, as explicit objectives, in the development planning process. This is the case in Brazil, where income redistribution objectives are taken into account, and in Mexico and Nicaragua, where employment and redistribution targets are introduced as part of the growth strategies. In Panama stress is laid on the objective of generating employment in the growth strategy for the 1980s. Despite these advances, it would seem necessary to direct renewed efforts in the future towards making employment, income distribution and social policies an organically integrated part of development plans and strategies. There are, moreover, two aspects that are of special interest here. The first is of a theoretical character. It has not been observable in Latin America that there is an automatic relation between growth, employment and more egalitarian income distribution, as has already been analysed and expounded by CEPAL and other United Nations institutions, as well as by various governments of the region.

The second point relates to the experience of the recent and continuing international recession: how the costs of a necessary policy of adjustment can be more fairly among the various intra-country social groups. This aspect of the problem has been sufficiently highlighted by the difficult experience of the two years under consideration, the outcome of which has been that the bulk of the cost of the adjustment has had to be borne by the workers and, in general, by the lower-income sectors. In this connection it is felt that planning can and ought to proffer a significant contribution by making it possible to evaluate short-term policies in the light of their effects on employment and income distribution.

Another important aspect which it would seem necessary to strengthen in the future is information, analysis and prediction in respect of the behaviour of the world economy, and all countries can obtain considerable advantages from this work. As noted earlier, in practically all the cases considered, one of the greatest difficulties encountered in the planning process is the lack of a reliable external framework within which the possible scenarios the country must face and adequate policies for dealing with the external situation may be defined. This aspect is in many cases absent from planning concerns, as may be noted in the development plans actually in force, since in only a few cases is any reference made to the international situation. Such references, however, are mainly of a historical nature rather than that of a projected scenario which the country must face, since this consideration is not normally included in the plans. The different aspects of this variable (financial, commercial, etc.) take on fundamental importance in shaping economic policy, from which first positive lesson may be learnt; to improve the machinery for providing information on the international situation and scenario, and to foresee how it may affect the country's economic performance.

2. Institutional framework and connection with short-term policies

A number of countries have strengthened their planning agencies, in particular Ecuador, Mexico, Nicaragua and Venezuela where the relevant national planning body has been established or reorganized, or assigned broader and more important functions than those it traditionally possessed. At the same time, some countries have strengthened the linkage between planning, budget policy and public sector programming, as in the case of Mexico where a planning system which includes the process of budget preparation has been instituted, and of Brazil where an organized system of control of public enterprises was established. Also noted in the case of several countries is the strengthening of their pre-investment bodies, and the use of project evaluation methodologies for public sector investment activities.

Similarly, in certain Caribbean countries, some progress is registered in the strengthening of the organization of planning bodies and information systems with the object of formulating and implementing development plans or rationalizing the investment process.

One of the weaknesses still prevailing in the planning systems relates to their linkage with short-term policies. In some countries, planning participates in the preparation of the budget or in the approval of investment programmes; but this is not the rule and neither in most cases is there any established machinery for ensuring that development plan objectives and projects will be included in the budgets. Likewise, the planning body generally plays no part in fiscal policy, nor do institutional co-ordination mechanisms exist except in a few countries. Linkage with monetary and foreign trade policies is weaker than in the case of fiscal policy; this may be noted from the instruments used by planning bodies which in the majority of cases do not cover short-term problems and policies. This is also related with the analysis of the conjunctural situation, an aspect for which planning bodies are very weakly equipped. Sometimes their participation in economic policy, monetary or foreign trade councils is limited by the contribution which can be made by their technical cadres, which are usually in short supply. Moreover, the high rate of rotation of upper or intermediate level personnel has prevented the consolidation of technical and administrative procedures capable of giving continuity and permanence to the activities of planning bodies.

Accordingly, an area which merits greater attention in the future is the integration of short-term policies, in particular of a monetary, fiscal and foreign trade character, with medium-term development and planning objectives. In this area, planning could make a valuable contribution in evaluating the internal policy options open to the countries of the region, especially under the present critical conditions.

Several countries adopted restrictive fiscal policies which had adverse effects on investment, programmes with a social content and employment. In order to reactivate the economies, careful consideration should be given

to the positive effects of public expenditure on employment in the present circumstances. Planning could provide valuable co-operation in this process, given the cumulative experience of several countries in this field.

As regard foreign trade policies, some valuable lessons may be learned from the use of tariff and foreign exchange instruments during the biennium.^{1/} A number of countries continued to adopt systems of tariff reductions, in a particularly critical situation, which led to difficulties in domestic activities and an accelerated increase in the external debt. It is considered that in this respect planning could contribute towards defining a more rational tariff policy, outlining the profile of industry and, in general, of import-substitution activities, which would permit full use to be made of the region's natural, human, technical and financial resources within the context of a better supply of domestic and sub-regional markets. This does not involve completely lifting tariff barriers, but it does mean taking into account more comprehensive objectives than simply the private efficiency of a particular industry, i.e., factors such as the incorporation of new techniques, employment and economic growth.

It is considered that planning could make a substantial contribution to foreign exchange and external indebtedness policies. In actual fact, during the two-year period under review, foreign exchange and external debt policies underwent continuous changes, with variations in real foreign exchange parities and external capital inflows, which jeopardized the relatively successful growth of exports experienced by the region. There were, however, two different types of situations: that in which such changes were "inevitable" as a result of the external recession, and those others caused by mistaken or inappropriate internal policies. In most countries of the region the "foreign exchange lag" facilitated by excessive indebtedness was an important factor which promoted a surplus of imports and adversely

^{1/} See Enrique Iglesias, "The international recession and Latin America", CEPAL Review, N° 17, August 1982.

affected production. Similarly, the lack of control of external indebtedness culminated in a critical payments situation in many countries. In the formulation of medium-term policies designed to overcome the present recession, it is considered that planning could play an important role by proposing stable foreign exchange and indebtedness policies with the aim of safeguarding the development of investment and production capacity so as to ensure a sustained growth of the product.

At the same time, in terms of regional development, planning could help to improve the formulation of short-term policy by clarifying the effects which macroeconomic policies, such as those governing the opening-up to the exterior and fiscal discipline, had on regional growth patterns. Furthermore, regional planning is urgently required to regulate the strong trends towards decentralization which are emerging in some countries of the region as a result of the acute intraregional disparities shown by the economic and social indicators. In addition, it should be noted that most countries have made no evaluation of the effects of the plans and policies implemented during the biennium on regional development, an issue which indicates priorities for both national and international bodies concerned with the subject.

Another aspect also demanding greater progress in the future relates to public sector planning and activities, in particular in the establishment of rational systems of control of State enterprises and subsidiary institutions. The progress already recorded provides opportunities for taking advantage of the experience gained in this sector, which is of a strategic nature in nearly all the countries of the region. It is considered that this is one of the areas in which planning could make a significant contribution to the formulation of public policies. Thus, for example, the preparation and establishment of a system of accounts of the main real and financial variables of the public sector, including State enterprises and decentralized bodies, would permit a more efficient management of State action in relation to short-term policy objectives.

Generally speaking, the improvement of planning methods in the public sector may constitute an important means of modernizing the State and facilitating social participation in it.

Finally, it should be noted that some progress has been achieved in the introduction of forms of participation and social co-ordination mechanisms in the planning systems in force. This is a field, however, in which a vigorous effort must be made in the future to give plans and planning processes a greater degree of social representativity.^{1/}

3. International co-operation in planning

The fact that to overcome the external trade and financial bottleneck in the medium-term will require the strengthening of inter-Latin American trade and the regional integration systems means that the countries of the region should make determined efforts to co-ordinate the global planning of their economies, and more particularly that of foreign trade and supplementary activities such as the land and maritime transport system and the regional development of watersheds and border areas.

Furthermore, it is clear that some countries made great strides in certain areas of planning, especially in the handling of specific techniques and the organization of the public sector, while others still show notable lacks in these and other respects.

These two aspects call for a more active pooling of efforts among the countries of the region, the first within the context of the existing economic integration systems and bilateral and multilateral agreements, and the second, on the basis of a continued exchange of mutual experience under the agreements in force in the area of horizontal co-operation.

^{1/} See, in this respect, ILPES, Informe sobre planificación participativa, Document presented at the Fourth Conference of Ministers and Heads of Planning of Latin America and the Caribbean.

Chapter I

THE CONCEPTUAL FRAMEWORK OF PLANNING AND ECONOMIC POLICY IN LATIN AMERICA

The purpose of this introductory chapter is to discuss a conceptual framework for planning processes, appropriate to the present situation in Latin America and the Caribbean. This discussion is aimed at reformulating certain basic questions relating to the need for planning, in view of the critical state of the conduct of economic policy in particular, and of development policies in general, prevailing today in most of the countries of the region. The outbreak of this crisis has been associated, generally speaking, with the slackening of planning efforts during the 1970s, and it has been severest in those countries which have placed their full trust in the virtue of automatic market mechanisms as a means of setting countries on the road to self-sustained development.

The intention behind the arguments put forward in the present chapter is not to restore planning practice as it existed in the past; on the contrary, the weaknesses betrayed and the progress achieved in many planning experiments are acknowledged, and reconsidered in the light of the urgency of short-term problems. The central thesis maintained is that the strengthening of planning necessarily calls for a conceptual reformulation which, taking into account the positive contributions of past experience as well as the criticisms that have been voiced, will link planning practice to short-term problems and to the management of the instruments of economic and social policy.

In view of the diversity of political régimes, levels of development and socio-economic structures predominant in the region, the proposed conceptual framework is not claimed to be universally valid. Rather is it addressed to a model situation which may feasibly be found in Latin America and which in generic terms corresponds to mixed market economies in which the State exercised an appreciable degree of economic regulation,

its functions in this context including its role as a producer of goods and services. Accordingly, the present chapter does not deal with the problems and procedures of socialist planning, nor does it discuss the viability and management modalities of free market economies or laissez-faire régimes, questions which are left for future analysis.

1. The concept of planning

In order to arrive at the proposed reformulation of concepts, reference must be made in the first place to the generic definition emanating from planning practice in the region. Three central characteristics of planning experience are singled out here.

Firstly, planning has been understood as the procedure used by the State to explicate the set of development objectives deliberately pursued within a given time horizon --i.e., a national development project--, usually, although not exclusively, through the formulation and publication of plans or other documents.

Secondly, planning has been associated with the work of organizing and putting into practice a set of procedures for the adoption of government decisions with respect to the design and implementation of economic and social policies, aiming at the attainment of the objectives indicated in the plans.

Thirdly, in most cases planning has entailed intervention or corrective management in respect of the resource allocation, income distribution and capital formation functions of market mechanisms. Thus, the application of instruments of economic policy in general has modified free market operation, introducing a corrected price system to steer private agents in the directions for which the plan provides.

Thus, broadly speaking, planning has been taken to signify a rational and co-ordinated process of decision-making, which in most cases has involved reforms of the institutional organization of the State, directed towards

the establishment of planning and co-ordination entities and departments at several levels.

The framework for the three characteristics of planning practice noted was constituted by two methodological considerations, one relating to the time horizon and the other to the decision-making level of the planning agent. Consideration of the future, in relation to various short, medium or long-term time horizons, figures as an essential feature of all the experiments. Here a basic distinction has been drawn between the probable or expected future of a social system, which has given rise to forecasts or predictions; and the desirable future or futures, by which planning activities proper have been conditioned in their formulation phase.

With respect to levels of decision-making and therefore of planning, it has been borne in mind that planning has to do with complex social organizations, which, for reasons of efficiency, require a decentralized but co-ordinated system of decision-making. Thence it is that since the outset efforts have been made to establish planning systems at multiple levels, functional (global, sectoral, entrepreneurial, projects) and territorial (national, regional, state, local).

To sum up the foregoing observations, in regional experience planning may be said to have been envisaged as a set of procedures for formulating and executing a national development project, which has implied the pursuit of co-ordination and rationalization of economic and social policy with a view to correcting the operation of market mechanisms in resource allocation, income distribution and capital formation: all this in relation to different time horizons and decision-making levels. Thus, planning has been of a markedly instrumental character compatible with a variety of political régimes.

It would be difficult to embark here upon a detailed critique of how these general functions of planning activities have been fulfilled in the region.^{1/} What does seem an appropriate step, however, is to suggest how

^{1/} For a recent attempt at overall evaluation, see Eduardo García D'Acuña, "Pasado y futuro de la planificación en América Latina", in Pensamiento Iberoamericano, Nº 2, Madrid, 1982.

the functions in question could be strengthened in order to make the efforts of national planning bodies more effective in respect of formulation, follow-up, evaluation and control of development plans, as well as of co-ordination among those responsible for implementing economic and social policy. In the next section the subject is approached in three main areas: the formulation of the national development project; the bases for the spheres of intervention in and correction of market mechanisms; and procedures and patterns for the designing and execution of economic policy.

2. Definition of the national development project

The point of departure of a planned development process is necessarily found in the definition of the political project, or more specifically the national development project postulated by the conformation of social forces represented in the State.^{1/} This project may or may not be explicitly set forth in official documents, but it will always exist and its nature will be recognizable through the decisions and policies adopted by the political authority.

Various components must define or characterize a national development project. In the first place, there is the set of socio-economic objectives pursued, which may be characterized by a group of targets relating to economic growth, income distribution, social development and international economic relations. Secondly, mention may be made of the role assigned to the various economic and social agents and their organizations in the practical execution of the political project pursued. In particular, attention may be drawn to the sphere of action in respect of production assigned to private entrepreneurs vis-à-vis State enterprise, and, among the former, to the domestic or the foreign enterprise.

^{1/} See in this connection the analyses contained in Aldo Solari et-al., El proceso de planificación en América Latina: escenarios, problemas y perspectivas, ILPES Cuadernos, N° 26, Santiago, Chile, 1980.

Lastly, and in close connection with the preceding point, definitions to be underlined as important are those adopted with regard to the scope of market mechanisms in resource allocation and income distribution and in relation to procedures for correcting and regulating them, a subject which is dealt with at greater length in the following section.

Each of the components cited may assume different forms in specific past experiences. Hence it is possible to conceive of various patterns or "styles" of planning, according to the way they are combined in the political project. We shall not recapitulate here the proposed typology of styles prepared by ILPES,^{1/} but shall emphasize the diverse character of planning in actual experiments, which in every case must bear the mark of the social and political composition of the State.

The region's experience suggests some important changes in the features by which the national development project is defined.

In the initial stages of the said experience, planners placed heavy emphasis on the preparation and publication of "book-plans" with different coverage and time horizons.^{2/} With the passage of time, however, this activity proved to be at best a necessary condition for sound planning, but by no means a sufficient one. The preparation and publication of development plans, while it helped to the declared objectives of the government and made it easier for the intermediate bureaucratic bodies to accept the idea of planning, to which they were usually recalcitrant, did little to mobilize the economic and social bases of the country. This was partly because the plans had been formulated, in most cases, by a group of technical experts and politicians, without much participation by the bases

^{1/} See ILPES, El Estado actual de la planificación en América Latina y el Caribe, Cuaderno N° 28, Santiago, Chile, 1982.

^{2/} See Carlos A. de Mattos, "Plans versus planning in Latin American experience", CEPAL Review, Santiago, Chile, N° 8, August 1979.

in question, and also because of the conceptual gap between the macro-economic approach of the plan and the individual and specific aspirations of the social forces. Thus, the plan remained at most a technical document of academic interest. Furthermore, the changing economic and political conditions, both internal and external, often saw to it that a plan became obsolete shortly after its publication.

All this by no means implies advocating a form of "planning without plans" but is meant to emphasize that the contents of plans should be aimed at pointing out the proposed central characteristics of the development strategy, the "rules of the game" and the role to be played in it by the various economic agents, and the basic outlines of economic and social policy. This should take the place of a voluminous and detailed account of targets to be reached and resources to be obtained during the plan period, of a highly normative character, which is inconsistent with the marked variability of the exogenous conditioning factors, internal and external, to which the economic and social system is subject. From this point of view, planning should be capable of generating a set of alternative future scenarios, with an exposition of their conditioning factors, instead of a linear and determinist projection.^{1/}

3. Planning and the market

It was said at the outset that the slackening of the planning effort observable in the 1970s had been associated with the resurgence of orthodox neoliberal positions which, as a development formula, enounced the primacy of the market and of private enterprise and a significant curtailment of the role of the State as regulator of the economic process and as producer of goods and services. This meant that alike in the theoretical discussion

^{1/} Various authors have laid stress on the strategic and political aspects of planning. In this connection, see Carlos Matus, Planificación de situaciones, México, Fondo de Cultura Económica, 1980.

and in the praxis of economic policy planning and the market were regarded as antagonistic formulas. De facto, in those countries which have been the firmest adherents of neoliberal thinking, the free market has been credited with almost magical properties for resolving the crucial problems of underdevelopment and poverty. The serious setbacks encountered by such experiments,^{1/} aggravated by the international recession, call for an impartial weighing-up of the real potentialities of the market vis-à-vis the indispensable role that the State must play as corrector of market distortions and guide or conductor of the development process, --all of which redefines the sphere of planning and of economic policy.

The market is, to be sure, an efficacious mechanism for mobilizing productive resources, providing incentives to productivity and technological innovation and, in general, smoothly co-ordinating the economic agents' decisions. Nevertheless, there are substantial reasons for assigning an active role to the State and therefore to planning --some relating to corrective intervention, others to the promotion or conduct of the development process-- which must be taken into consideration if the balance sought is to be reached. Some of these reasons are longstanding and it would be superfluous to repeat them, if it were not that the orthodox theses have seemed to be unaware or forgetful of their existence. Others are new and arise, precisely, out of recent failures of the theses in question.

Reasons of at least four general orders can be adduced to justify the corrective role of the State, ranging from mere intervention in specific markets to the comprehensive planning of a mixed economy system.

(a) External factors, public goods and economies of scale

From time immemorial, the literature of the subject has recognized that there are cases in which free market prices fail to give producers and consumers the right signals for the achievement of optimum resource allocation.

^{1/} See, in this connection, Alejandro Foxley, Experimentos neoliberales en América Latina, CIEPLAN Studies N° 7, Santiago, Chile, 1982.

These situations occur when external economies or diseconomies appear in the market, or where the production and consumption of public goods is concerned, or when significant economies of scale exist in production processes. In such cases, a discrepancy generally occurs between the social cost and the private or market cost or price of a good or resource, and the economy lapses into second-best or even less satisfactory situations. It then becomes a logical imperative for the State to intervene, correcting market prices by means of a system of taxes or prohibitions and subsidies, and directly assuming responsibility for the production of public goods, which are financed with tax or tariff revenue.

The foregoing argument, fully accepted in neoclassical tradition, was brought strongly to the fore with the evolution of the theory of investment in less developed countries. This was based on the ideas of P. N. Rosenstein-Rodan, T. Scitovsky and H. Chenery, and emphasized the predominance of dynamic external economies in the process of investment in such countries, above all because of the existence of economies of scale in relation to the present small markets. In these conditions, the volume of investment decided upon in the light of private profit will clearly fall short of that which would maximize social returns, owing to the existence of positive supplementary effects not taken into account in private calculations. Hence the justification for the State's assuming a preponderant role as the planner, promotor and co-ordinator of public and private investment. At the level of planning techniques, this line of argument leads to the application of criteria based on social evaluation of public and private investment projects.

More recently, the appearance and recognition of major external diseconomies deriving from the interaction between production and consumption processes and the natural environment, with the resulting water, air and soil pollution, reassessed the role of government planning in these processes. Its responsibility in this respect ranges from the correction of existing forms

of pollution by means of prohibition and taxation to provisions for forestalling their recurrence in the formulation of long-term development styles and plans.^{1/}

(b) The curtailment of uncertainty

In the curtailment of the uncertainty as to the future inherent in the free operation of the market, lies a second important argument in favour of government planning. As will be recalled, it was rigorously wielded by Pierre Massé, one of the forgers of the French planning model.^{2/} The argument in itself is simple and impressive. Under certain conditions, i.e., those relating to the existing quantity of resources to meet present consumption requirements, the free market generates an optimum price system for guiding decisions on current production and consumption. But as soon as the future needs of consumers and the necessity of expanding installed production capacity are introduced into the model, the free market immediately loses its optimizing property. For this to be maintained, a complete network of future markets for resources and goods would have to be institutionalized, to permit the operation of the theoretical general equilibrium model of the intertemporal market developed in the literature of the subject.^{3/} In the absence of such markets, investment decisions on the part of enterprises will be guided by estimates of the rates of return on capital, calculated in accordance with an expected profile of prices of goods and resources, which will be the more uncertain, the longer the duration of the investment project. The immediate effect on investors will be not only to make them demand unduly high rates of return as a protection against unforeseen and fortuitous variations, with the result that the level of private investment

^{1/} See, in this connection, Estilos de desarrollo y medio ambiente en la América Latina, Selection by Osvaldo Sunkel and Nicolo Gligo, Mexico City, Serie de Lecturas del Fondo de Cultura Económica, N° 36, 1981.

^{2/} Pierre Massé, Le plan ou l'anti-hazard, Paris, Editions Gallimard, (Spanish translation by J. Petit Fontseré, El plan o el antiazar, Barcelona, Editorial Labor.).

^{3/} See G. Debreu, Teoría del valor, Barcelona, Editorial A. Bosh; and K. Arrow and F. Hahn, General Competitive Analysis, San Francisco, Holden Day, 1971. (There is a Spanish translation published in Mexico City by the Fondo de Cultura Económica).

will be below the optimum, but also to induce them to set little store by investment with medium- or long-term lead times. Furthermore, as Massé points out, cyclical swings of the pendulum will tend to occur in investment, if the latter is strongly influenced by the current rate of return on capital.

The conclusion to be drawn is clear. An agent with the capacity to exert decisive influence on the process will have to predetermine price expectations and the expected level of activity in each sector and organize or co-ordinate private or public investment decisions. If this is not done by the State, through planning and the management of the instruments of economic policy, there will be a powerful incentive for it to be undertaken by the leading enterprises in each sector, with the ensuing concentration of investment and production. Thus, the curtailment of uncertainty will be a strong motivation on the part of these enterprises for control of the markets, if the State does not provide an appropriate planning framework for the capital accumulation process.

(c) Social use of the surplus

As stated in the first section, a planning process must necessarily be governed by a specific national development project which, among other components, would define a matrix of economic and social objectives to be attained in terms of production growth, income distribution, capital formation and external relationships.

It is clearly possible that the matrix of logically foreseeable results of the free play of market forces will be different from the desired matrix. This contradiction may be particularly acute if market results in the less developed and peripheral capitalist economies are compared with the objectives of social change postulated in past and present movements of the masses in most countries of the region. The substantive results in connection with the growth rate, income distribution and creation of employment, rate of accumulation and external dependency may be diametrically opposed in the two cases.

A central aspect of the problem lies in what Dr. Raúl Prebisch calls the social use of the surplus,^{1/} which constitutes an inescapable responsibility of the State in a market economy if the aim is to change the system by eliminating its present characteristics of exclusion and dependency. This responsibility involves intervention at a higher level both political and technical, from which a basic task inferred for planning is to determine priorities as to how the surplus should be divided between accumulation, consumption and State services.

Under a peripheral capitalist system, it is the pattern of income distribution, which includes the participation obtained by the State by means of taxation, which determines the alternative uses of the surplus. This distributive pattern, in establishing the structure of demand for various goods and services, determines the average relative profitability of installed capacity, given the prevailing cost and supply conditions. Moreover, the expected increments in demand, given the dynamics of distribution, constitute the main factor determining profitability increases and, therefore, the sectoral and geographical channelling of investment flows.

Consequently, the central task of the plan will be to devise the group of intervention activities in connection with income, social expenditure, public investment, and price and credit policies designed to reorient the structure of both demand and supply. In the final analysis, the corrective management of the market by means of the aforementioned instruments would have altered the structure of demand, the relative sectoral profitability and the structure of supply in accordance with the plan's objectives. In addition, from the foregoing considerations, it will be seen that the assignment of investment resources should be consistent

^{1/} Peripheral capitalism, Crisis and change, London, Third World Foundation for Social and Economic Studies, 1981, chapter IV.

with the social and external security objectives postulated in the plan, which may involve significant divergencies with respect to market profitability criteria.

Accordingly, the crystallization of a specific national development project would require the implementation of a group of economic policies designed to regulate market operation in accordance with the objectives of the plan. As will be seen in the next section, the success of this operation will basically depend on the predictive capacity of the theories or hypotheses on which the planning and economic policy models used are implicitly or explicitly based.

Orthodox neoclassical thinking would question this manipulation of the markets to the extent that it involved a violation of the Pareto optimum conditions, as would no doubt occur, since it is extremely difficult and restrictive to implement economic policies that would not distort those conditions.

Neither is it absolutely certain, however, that losses in terms of well-being originating in the alteration of economic optimum conditions may be really significant. Due to the existence of low production and consumption substitution elasticities, it is most probable that such losses in real income will be small. If on the other hand, distributive gains are considerable, the planning authority's choice is clear: with moderate losses due to distortion it can obtain substantial distributive gains.

(d) Instability of the external context

The great strides made in the macroeconomic management of market economies in the past 50 years seemed finally to have routed the phantom of economic depression. Seemingly, both the theoretical advances in macroeconomics and the widespread adoption of fiscal and monetary policies permitted the maintenance of a reasonable degree of utilization of resources and control of inflationary pressures.

The marked instability afflicting the central countries since the beginning of the past decade, however, and the expanded effects it has projected on all the peripheral countries call for new stabilization action which can be taken only by the State.

Two interrelated phenomena have characterized the external instability of the past few years. First, the ups-and-downs registered by the terms of trade and the concomitant variations in the quantities transacted and, secondly, the growing indebtedness and fluctuations in real interest rates.

The aforementioned phenomena had various effects on the economies of the region in terms of their structural characteristics and the adjustment policies implemented,^{1/} the latter being decisive because of the magnitude of the effects experienced. Thus, those countries with high open market coefficient facing a severe deterioration in the terms of trade and implementing automatic adjustment policies tended to internationalize the effects of the world recession, with considerable decreases in production and employment, a deterioration in income distribution and high (and costly) indebtedness. On the other hand, those countries which, faced with a similar situation, followed systems of programmed adjustment which as a rule deliberately sought an increase in exports and the restriction of substitution imports, the regulation of external indebtedness and an equitable distribution of income losses due to the deterioration of the terms of trade, managed to protect their production and employment levels.

Obvious lessons may be learnt from this for the redesign of planning activities. The external sector and economic policies associated with it should constitute a focal point of planning concerns.

In short, four important reasons for indicating the inescapable necessity of planning in mixed market economies, justified in general by the need to ensure the achievement of national development project objectives have been reviewed.

^{1/} See, in this respect, PREALC, Ajuste externo, empleo y salarios en América Latina y el Caribe, Working document N° 220, November, 1982, Santiago, Chile.

4. Public policies and the planning process

The successful results of planning experience are undoubtedly determined by a group of political factors which are summarized in the support and interest which the plan may arouse in the social sectors represented in the government.

Just as important as these factors, however, is the efficiency of public action in the design of consistent plans and in the expeditious management of economic and social policies. This poses an important technical and methodological challenge for the planning authority to facilitate the institution of effective decision-making processes.

These processes should comprise at least the following stages:

(i) Precise definition of and assignment of priority to the objectives to be achieved in a pre-established time horizon; a distinction should be made here between operative objectives which depend on the central authority's own decisions, and prospective or indicative objectives which indicate desirable levels of variables depending on a great many decisions of decentralized public or private economic agents;

(ii) identification of the internal and external institutional and political limitation of resources faced by the central decision-making authority in the attainment of the established objectives;

(iii) identification and formulation of technical and economic options in the use of available resources and evaluation of the probable result of each in terms of variables-objective; each of these options will involve the adoption of one or more public policies, i.e., official decisions with respect to action which the government itself should take and expected action by the private sector;

(iv) formulation and verification of hypotheses on the reaction functions of economic agents in the face of specific economic policy parameter in relation to the variables-objective considered; these functions should not be of a historical nature but should be contemporary with the

period covered by the plan and consistent with the socio-political context of the project; they act as restrictions on the central decision-making authorities;

(v) choice of the best option or course of action in terms of its capacity for achieving the objectives, given the existing restrictions; this choice may involve a sequence of activities over time, that is to say a strategy;

(vi) establishment of a group of follow-up, control and evaluation procedures;

(vii) continuing review of the decision-making process in the light of the results obtained, which may involve changes in stages (i) to (v) above.

Naturally, the aforementioned process may be implemented at various decision-making levels and in diverse problem areas. By way of illustration, it is shown below how this procedure may be used in a classic economic planning area: design of short-term economic and social policy consistent with a development plan.

(a) Objectives

In accordance with this system, the first question faced by the planner is the definition and establishment of the order of priority of the objectives. It is a well-known fact that there are at least four major objectives of a prospective type which should concern the short-term planner.

(i) level of the economy's real productive activity, expressed in terms of the growth rate of the product;

(ii) price stability, defined by a tolerable maximum rate of inflation;

(iii) a specific pattern of income distribution which may be expressed in terms of a desirable level of employment (and unemployment) and a specific increase in the average real income of the labour force;

(iv) maximum level of external indebtedness.

In the dialogue between the planner and the political authority it is not easy for the latter to define an order of priority for the objectives.

It is essential, however, to promote a politico-technical debate at the highest possible level to define the minimum or maximum limit for each of the objectives, which is determined by the socio-political context of the experience.

(b) Restrictions

The second step in the procedure proposed here should be the precise identification of the political and institutional limitation of resources faced by the economy over the short-term.

The limitation of resources will depend, first, on the installed production capacity of "bottleneck" sectors which will determine the attainable level of the real product and, secondly, on the availability of internal and external financial resources for purposes of capital formation and balance-of-payments stability. These financial restrictions should probably be given parametric treatment, i.e., they should assume different values in different external options or scenarios or in the context of various internal economic policies. In other words, rather than given magnitudes, they would be functions of other variables.

Political and institutional restrictions are those considerations which limit the space of feasible options and the use of economic policy instruments. That is to say, they define an acceptable range of options for the political authority, or a possible range given the institutional and legal management in force.

(c) Generation of options and preliminary policy design

Once the restrictions are reasonably specified, the next step is to formulate the various options within the range of political and institutional feasibility.

In analytical terms, each policy option will be defined as a vector of instrumental or economic policy variables, and of objective --or result-- variables consistent with the restrictions in force and the reaction functions to be estimated. If these are continuous, it is clear from a mathematical point of view that many (infinite) options may be formulated.

At this point, the planner should select those which a priori present reasonable values, from both the economic and the political point of view.

(d) Formulation and estimate of the system's reaction functions

This is probably the most complex phase of the process since it involves obtaining a substantive knowledge of the behavioural or reaction functions of the private economic agents. For example, an attempt would be made to estimate the volume of private consumption and saving under various income distribution options, or the variables determining private investment, or the expected reaction of imports and exports vis-à-vis alternative exchange policies.

The traditional approach involving the econometric estimate of parameters on the basis of time series or a cross-section of information may become a point of departure for obtaining such reaction functions. The serious shortcoming of this method should be kept in mind, however. In fact, there is nothing to ensure that specific historical behaviour will be repeated in the future, in particular if the politico-social "climate" changes, altering the structural determinants of economic behaviour.

An alternative option lies in the use of ranges of variations in the basic parameters of such reaction functions, and in the use of numerical experimentation methods for evaluating the sensitivity of the results to the actual variations.

Lastly, the final choice of an option for subsequent implementation will necessarily be based on the order of priority established for the objectives, within the acceptable minimum and maximum ranges indicated above, taking into account the reaction functions of the system.

The method proposed in this section is applicable to an extensive area of sectoral, social or regional planning problems. A basic question is the possibility of formulating an operational model of the real situation on which planning attempts to act with a view to changing it in accordance with a specific political project.

5. Summary

In this chapter planning has been defined as a group of procedures necessary for the formulation and execution of a national development project, including the rationalization and co-ordination of economic and social policy with the aim of correcting or replacing free market mechanisms and thus achieving the assignment of resources and distribution of income postulated in the project concerned, all in different time horizons and at different decision-making levels.

The political bases of the national development project have been stated in terms of the group of objectives and goals postulated, the role assigned to the various economic agents in production processes, the extension of market mechanisms and the measures adopted to correct them. All this gives rise to various planning systems or styles which seek to transform the existing situation.

Thus, four general types of reasons underlying the corrective role of planning vis-à-vis the market were also indicated. They consist of market failings due to the existence of important external factors, economies of scale and public goods; the necessity to reduce uncertainty with regard to the future; the social use of the surplus in accordance with the national development project; and the instability of the external context.

Finally, it was argued that the success of planning was technically determined by the institution of effective decision-making processes rather than by traditional formal aspects, and the manner in which such a process could be organized in the case of the design of short-term economic policy was also demonstrated.

In the following chapters use will be made of the conceptual context that has been developed in order to summarize and evaluate current planning activities in the countries of the region.

Chapter II

DEVELOPMENT STRATEGIES AND PLANNING PATTERNS IN THE REGION

In the foregoing chapter it was argued that a datum of fundamental importance in characterizing planning experience was the overall development project or strategy that a country enounces or seeks to formulate.^{1/}

The present chapter will offer a description of these strategies as they are being carried out in the majority of the countries of the region, and will also show how they have given rise to different planning patterns. The sources of information for this analysis are constituted by the development plans that countries have published, by the replies of national planning bodies to the survey that ILPES carried out in 1982 and by interviews conducted with responsible officials of such institutions in a limited number of countries.

The analysis contained in the present chapter is supplemented by a more detailed study to be made in the next, with respect to a small sample of countries, on recent planning experience; and by a study of economic policies in the fiscal, monetary and foreign trade fields in relation to short-term planning, a subject which is dealt with in chapter IV.

A. Development strategies formulated and in operation during the period 1980-1982

According to the conceptual framework presented in the preceding chapter, there are two concatenated elements or variables which serve to define the planning patterns adopted. The first is the relative weight assigned to the State and to the market in resource allocation,

^{1/} In the following pages the concepts of development project and development strategy will be used synonymously, although in the literature of the subject they have sometimes been assigned a different connotation, a more socio-political sense being given to the notion of project and to that of strategy a meaning more closely linked to the method of attaining the ends pursued. See Carlos de Mattos, op. cit.

and the second, the role played by the various economic agents in production.

In their turn, these two basic definitions may be explicated under three critical heads: (i) the degree of external openness and the treatment accorded to foreign capital; (ii) the presence or absence of deliberate sectoral or regional development strategies; and (iii) the existence or non-existence of explicit income distribution, employment and social development policies.

The following analysis will centre upon these aspects with a view to thus delineating the current strategies and, consequently, planning patterns, a topic which will be discussed in the next section.

(i) The role of the State and of the market in resource allocation

Different cases can be identified in the region as regards the role assigned to the market and to the State in resource allocation. In this connection country plans and programmes have been analysed, in accordance with the degree and type of State intervention, four basic patterns having been found. This, however, is only an approximation to the problem, since it is clear that the situation of each individual country is not sufficiently reflected in a prototype.

In the first of the patterns in question the State plays a subsidiary role, in which its field of action is strictly delimited and it intervenes outside that field only in those cases where the private sector is not in a position to do so; for which reason a deliberate policy of reducing the size of the public sector and the scale of State participation in the economic is applied. This pattern was adopted in the 1970s by Argentina, Chile and Uruguay, 1/ and, with various modifications, is still being followed today.

1/ In this connection see ILPES, El estado actual de la planificación en América Latina y el Caribe, ILPES, Cuadernos N° 28, Santiago, Chile, 1982, chapter I.

In Argentina's case, the application of the principle of subsidiarity of the State figured as one of the objectives to be attained by the "National Reorganization Process" initiated in March 1976. During General Videla's term in office, a start was made on the implementation of measures aiming at the fulfilment of this objective; thus, some of the activities which had become the responsibility of the State were privatized, primarily with a view to palliating serious social problems deriving especially from the closing-down of some enterprises. This principle also involved that of administrative rationalization, which meant that the State had to get rid of some government institutions or enterprises.

With the advent of the year 1980 and the beginning of General Viola's administration, the form of economic policy in force in Argentina up till then began to show signs of serious deterioration, with the resultant slowing-up of the application of the principle in question. Subsequently, under General Galtieri's administration, with the occurrence of those external political events which are common knowledge and the first glimpses of a return to institutionalization in Argentina, the application of the principle of subsidiarity was in practice brought completely to a halt.

In Chile's case, too, the policy originally propounded, has been subjected to various corrections deriving from the problems of external and internal origin which arose as from the end of 1980. While in various government statements the maintenance of the basic lines of economic and social policy has been reasserted, the State has had to pursue policies notably corrective of the spontaneous operation of the market. Particularly outstanding is its intervention in the financial system to correct the increasing insolvency of various financial entities, attributable, inter alia, to the rocketing of the real rate of interest. Similarly, in 1981 the State had to reverse the trend

towards curtailment of public expenditure, which increased in relation to the product.^{1/}

In Uruguay, likewise, some changes have taken place in the market liberalization strategy since 1981. The pre-announced policy of privatization of enterprises has not been fully applied, partly owing to the depression which has caused a slump in demand for productive assets. Moreover, concern is felt in government circles as to purchases of fiscal real estate and land by foreigners.

Similarly, recessive trends have made it difficult for Uruguay to cut down public expenditure as a proportion of the product, and have also set a slower pace in tariff reductions and in the opening up process in the financial area.

Again, in the cases of Jamaica, Peru and Trinidad and Tobago, it can be seen that in recent government programmes the role assigned to the State in respect of the direct performance of various tasks is of less importance than in government programmes under previous administrations.

A second style or pattern is found in countries where the State intervenes to a certain extent, according to the model to be applied. It is accepted that the State may step in to modify, indirectly, the mechanism of resource allocation by the market, but not that it assumes productive responsibilities in general. A case in point is that of Costa Rica, which, although it assigns a priority role to the private sector, admits that the State must regulate and intervene in several spheres of the economy. Thus, in the Plan 1979-1982 greater responsibility is laid on the market and on the private sector than in preceding plans; at the same time, a wish is expressed to reduce the size of the public sector and improve the administrative efficiency of the State.^{2/} A similar approach is

^{1/} See CEPAL, Economic Survey of Latin America, 1981, chapter on Chile, provisional text.

^{2/} See the "Gregorio José Ramírez" National Development Plan 1979-1982, San José, Costa Rica, 1980, pp. 116-117. It must be borne in mind, however, that there has been a change of government in Costa Rica, which may make a difference to the above-mentioned postulates with regard to the role of the State.

is also to be found in the plans of Paraguay, Ecuador, Colombia and El Salvador.

In the third of the styles considered, that of the "interventionist" State, the latter regulates the market and in addition directly assumes productive and marketing functions. In this case, the State enacts a growing entrepreneurial role, often in association with national or foreign capital. It is this conception that is found in the plans of Mexico, Nicaragua and Venezuela, and in some areas of production in Brazil.

In Mexico, Venezuela and Nicaragua the period 1980-1981 witnessed a stepping-up of State intervention and action. In Mexico's case this was due to the greater participation of the State in productive activities (petroleum); and in Nicaragua, to the agrarian reform as well as to increased State participation in industry and trade. In Venezuela, State participation in the economy, which has existed on a large scale, especially since the nationalization of petroleum was boosted by the utilization of petroleum earnings during 1980 and 1981.

The fourth style pertains to Cuba, where State participation in economic activity is generalized. In the Plan 1980-1985 provision is made for the maintenance of this characteristic, with the objective of establishing a socialist economy in Cuba, and "consolidating and perfecting the system of economic direction and planning of the economy" is posited as one of the primordial tasks of the State. Another principle laid down from the standpoint of "socialization of the basic means of production" is "the grouping of peasant smallholdings in agricultural co-operatives".^{1/} At the same time, fuller utilization of some of the market mechanisms is proposed in relation to the management of State enterprises and of distribution machinery.

^{1/} Republic of Cuba, Proyecto de los lineamientos económicos y sociales para el quinquenio 1981-1985, Granma (Havana), 14, 15, 16, 17 July 1980. n. 3.

(ii) Degree of openness and treatment of foreign capital

In connection with this second variable, two major options can be identified, according to the development strategies adopted.

The first of these alternatives is found in countries where a powerful incentive is given to foreign capital, which may be accorded much the same treatment as domestic capital; and where there is a propensity to increase the national economy's degree of openness to the exterior, accompanied by promotion of specialization on the country's part in accordance with its comparative market advantages, and by extensive financial integration with the industrialized centres.

This first approach is exemplified in Argentina, Chile and Uruguay, countries which in the 1970s launched policies of openness to foreign capital and to movements of financial capital, as well as policies to reduce tariff barriers. In the case of Chile it was stated that "the same treatment will be accorded to foreign as to domestic capital".^{1/} At the same time, the intention was announced of maintaining a low external tariff at the same level for all activities.

Uruguay maintained that "a gradual process of opening-up to the exterior is being carried out, aiming at redeployment of activities, little by little, towards sector possessing comparative advantages. With the establishment of a free capital market, it will be sought to provide incentives to domestic saving and to the flow of foreign capital as a means of supporting the country's capital formation effort".

In both these countries, however, modifications of the general rule laid down have had to be accepted. In Chile tariff surcharges have been established, with the justification of the dumping argument. In Uruguay, as was mentioned before, the pace of tariff reduction has been slower than was programmed.

In Argentina, although the basic scheme has been maintained, the changes of government during 1980 and 1981 also brought with them

^{1/} Chile, Plan Nacional Indicativo de Desarrollo 1979-1984, Santiago, Chile, 1979, p. 26.

changes in the guiding principles announced in relation to external openness. Thus, when Viola took over the Administration, a more cautious policy was adopted regarding foreign capital and the degree of external openness.^{1/}

The second option is observable in countries with stress export promotion without prejudice to import substitution efforts, besides postulating selective treatment of foreign capital and regulated financial openness to the exterior. Within this category there are different nuances which may be important as regards the effects of external variables on economic growth.

The second style reviewed is exemplified in Brazil, Mexico, Ecuador, Peru, Venezuela and Costa Rica. A feature observable in most of these countries is the need to increase the efficiency of the national industrial sector -which had come into being under the aegis of import substitution policies- through the use of more selective and complex policies than those adopted in the first pattern. In Mexico and Brazil, the import substitution process continues to make headway, particularly in the capital goods sector. In Brazil's case, attention is drawn to the necessity of "introducing measures capable of rendering the (industrial) sector less vulnerable and dependent vis-à-vis protectionist practices, by encouraging improvement of production processes, of labour productivity and of entrepreneurial action".^{2/} This suggests willingness to adopt various measures to reduce effective protection, with due care at the same time, however, to maintain the growth of industry and industrial activity itself.

^{1/} See, in this connection, El programa económico argentino, an address delivered by the Minister for Economic and Financial Affairs of the Republic of Argentina on 19 August 1981. The first objective postulated is "elimination of the backlog of overvaluation of the peso in exchange parity". Other objectives stated are reactivation of the economy and revision of the tariff in consonance with the (Argentinian) "definition of industrial profile". Published in Información Económica de la Argentina, Ministry of Economic and Financial Affairs (Ministerio de Economía, Hacienda y Finanzas), July-August 1981, pp. 1-11.

^{2/} Federal Republic of Brazil, III Plano Nacional de Desenvolvimento 1980-1985, Brasilia, 1980, p. 75.

In the countries mentioned differences of emphasis in relation to the treatment of foreign capital may be noted. As a general rule such capital is regarded as complementary to domestic saving, but with differences in respect of its magnitude and of the part to be played by the public and private sectors in channeling it into the national economies.

From the standpoint of degrees of openness and types of treatment meted out to foreign capital, some countries may be said to have taken up an intermediate position, between the first and second styles cited. It can be so described because in some cases, although protection for domestic industry is maintained, at the same time there is a great deal of openness to foreign capital. Cases in point are Paraguay, El Salvador, and, to a lesser degree, Trinidad and Tobago, Colombia and Jamaica. The last-named country has established (under the Seaga Administration) a more open policy towards foreign investment. Peru, on the other hand, is a country that, within a basically cautious policy vis-à-vis foreign investment, has attempted a gradual reduction of tariffs, in contrast with the protectionist policies it pursued in the 1970s.

In a special position is Cuba inasmuch as it strictly regulates foreign investment and establishes control of exchange rates and foreign trade -as in other socialist countries- on the basis of a central planning model. The explicit objectives of the Plan include "maximum possible output of import-substituting products". Another central line of policy aims at taking advantage of the international division of labour, particularly since Cuba's accession to the Council for Mutual Economic Assistance (CMEA), as a result of which it is felt that up to a certain point the planning of its external sector should be harmonized with that of other nations participating in the agreement in question. A third directive is export promotion -both the expansion of traditional exports and the development of new export products and markets.1/

1/ See Republic of Cuba, Proyecto de los lineamientos económicos y sociales para el quinquenio 1981-1985, Granma, Havana, 14, 15, 16 and 17 July 1980.

(iii) Priority sectors and sectoral strategies

In the development strategies proposed in the various countries of the region, different shades of emphasis exist as regards which should be the key or priority sectors. As was analysed in an earlier ILPES document,^{1/} there are two basic approaches to this aspect of the question: one which does not identify key sectors and another which does define them.

In the first instance, the selection of these sectors is generally left to the market, and the State declares itself neutral as between the different activities. This might imply -in theory at least- a strategy more favourable to farming, since traditionally strategies have been designed to give impetus to industrial rather than to agricultural activities.

The second approach, in general, continues to regard industry as the sector in the vanguard of growth,^{2/} including the agroindustrial (basically export) sector in countries with an agricultural sector of importance.^{3/} In Brazil, the stepping-up of industrial development is seen as necessary in order both to continue the import substitution process in greater depth and to expand exports. Mexico's proposition is to intensify the import substitution process in respect of capital equipment, the export expansion objective playing a less important part in the strategy.

Notwithstanding the foregoing observations, in some plans stress has been laid on the priority role of the agricultural sector, with the resulting highly significant change of emphasis in relation to the development strategies of the 1960s and the early 1970s in Latin America.

This is the case in Mexico, Brazil and Venezuela, as well as in the more traditionally agricultural countries of Latin America. The strategy is based on raising peasant levels of living (Mexico), on promoting the production of staple foods (Brazil, Mexico, Nicaragua) and/or on the recuperation of agricultural production in order to reduce foreign exchange

^{1/} See ILPES, El Estado actual ..., op. cit., 1982.

^{2/} Particularly in the cases of Brazil, Mexico and Venezuela.

^{3/} This is the case with Ecuador, Paraguay, Costa Rica and, to a lesser extent, Colombia.

expenditure on imports of food or to increase national security in respect of food supplies (Venezuela).^{1/}

The rise in petroleum prices and the shortage of foreign exchange have played an important part in defining energy as a spearhead sector in the various countries' growth strategies. In Brazil, programmes for the development of petroleum substitutes carry special weight in growth strategy, as they do in El Salvador and Costa Rica. In Peru, Bolivia, Mexico, Venezuela, Trinidad and Tobago and Ecuador the proposal is to increase or maintain the exploitation by hydrocarbons as one means of financing the growth process of the countries concerned and, in particular, meeting import payments and the servicing of the external debt.

By practically all the countries a role of key importance is assigned to the export sector in the growth process, irrespective of the development strategy adopted. This is done through a variety of institutional mechanisms, ranging from the application of exchange, fiscal and credit policies to the action of export promotion entities, which all the countries analysed possess, and which they have strengthened in the present international recession.

(iv) Income distribution, employment and social policies in development strategies

These subjects will be analysed more extensively in chapter III where the objectives of development plans and the attainment of goals in the period 1980-1981 are summarized. The aim here is merely to present a brief account of the different treatment given to them in the various development strategies in force.

Within the context of a first type of action, adopted mainly by Chile, Uruguay and Argentina, it is considered that there is to a certain extent an "automatic" relationship between the growth of the product, the creation of employment and income distribution. In above-mentioned countries no explicit targets are established for these variables and the growth of the

^{1/} This is an area in which the policies pursued were successful in the period 1980-1981, since the growth rates of the agricultural sector were relatively high in Mexico (above what was planned), in Brazil (in 1981 the growth of the crops sector was maintained despite a reduction in the GDP) and in Venezuela (where the growth rate of agriculture outstripped that of the GDP).

product and accompanying economic activity are considered as the most important objective whose attainment will provide a solution to the employment problem and eventually to a more equitable distribution of income. Where this has not led to the desired results, some short-term policies concerned with the establishment of temporary emergency employment programmes have been formulated, which in practice have ultimately become permanent insofar as unemployment has remained a continuing problem.^{1/} Subsidies for the contracting of manpower and measures to reduce the cost of contracting labour have also been established, but have not been very successful.^{2/}

Nor does employment play a preponderant role in other strategies instituted in the region except in Brazil, Mexico, Jamaica and, on a lesser scale, Nicaragua. In some countries, however, a change has taken place in the sense of making it clearer that the economic growth process does not in itself ensure a solution to the employment problem and, moreover, that there is a direct relationship between the solution of the unemployment and underemployment problem and the improvement of income distribution.

As regards social objectives, in the majority of the countries practically no changes took place in the two-year period concerned with respect to the concept of social development prevailing in the past decade. In some countries, however, it is noted that greater priority has been assigned to social objectives within the context of development strategies, as in the case of Mexico where they are associated with the solution of the unemployment problem.

A change of emphasis with respect to previous plans is also noted in Ecuador, where a fairly ambitious social development programme linked

^{1/} In particular, this has been Chile's experience with the so-called "minimum employment programme".

^{2/} See PREALC, Planificación del empleo en América Latina, Santiago, Chile, 1982.

to the satisfaction of certain basic needs and access by the population to urban and housing services was established. Because of the magnitude of the resources involved and the degree of planned popular participation, a significant difference is noted with respect to previous government programmes.

B. Prevailing forms of planning in the region

1. Approach to planning systems in force

In the previous section the central characteristics of the development strategies in force in most countries of the region were summarized, since they constitute the background of the forms of planning practised in Latin America and the Caribbean.

From an analysis of these characteristics, the three main forms in which planning is practised may be identified. Two are forms developed in countries with mixed capitalist economies and varying degrees of State participation in the economy, and the other is Cuba's socialist planning experience.

Among the former may be distinguished first of all those cases where State participation is designed to consolidate and modernize the operation of the market and of private enterprise by means of democratic or authoritarian political systems on the theoretical or ideological basis that this is the best way to achieve full development of the productive forces, including close integration with the developed capitalist countries. In these cases, planning plays a basically indicative and guiding role for the private sector with a view to evolving and spreading the rationality which the idea is to impose on the socio-economic system. It can also co-operate in the design of economic and social policy and the co-ordination of its implementation by the various ministries and decentralized bodies. With respect to the free market, in accordance with this approach it is considered to be a desirable paradigm, but there is consciousness

of the fact that it must correct its operation in so far as it generates a serious under-utilization of resources, or causes distortions in their allocation or grave distribution problems.

A second form of planning may be identified in the capitalist market economies of the region, which covers those cases where State participation goes beyond the corrective regulation of the free market. Here the State has obtained a significant portion of the economic surplus generated by production activities and has promoted and established a large sector of State enterprises producing goods and services. Given the weight carried by this sector in relation to the domestic or foreign private sector, it exerts a determining influence on the level of economic activity, the growth rate and the maintenance or disruption of the macro-economic balance and price stability. For theoretical and ideological reasons it is considered that the State should act as leader of the development process, without excluding a considerable and significant participation of domestic and foreign private enterprise. Economic and financial linkage with the industrialized countries is not rejected but is closely determined by the attainment of national development strategy objectives. In these countries, planning is or should be a basic instrument so that the State can organize its own production and investment activities and harmoniously integrate the efforts of national entrepreneurs and foreign capital in the national development project. This second form of planning plays a regulatory role in the market designed to induce private agents to move in the directions envisaged in the plan. Accordingly, the logic of the plan, which predominates over the logic of the free market, conditions economic and social policy, which makes a close integration desirable between the plan and economic policy, at both the institutional and the technical and instrumental level.^{1/}

^{1/} It should be noted that there are a number of similarities between the forms described briefly here and the typology proposed in a previous ILPES study. See, in this respect, ILPES, El estado actual de la planificación en América Latina y el Caribe, op.cit.

2. Characterization of countries

With the information available it is extremely difficult to describe each country as practising one or another form of planning; rather, continuum of options exists in which the countries occupy a place or shift to another, depending on the political and economic changes.

In any case, at the beginning of 1982 the situation may be characterized as follows.

In the first place, three countries (Argentina, Chile and Uruguay) in spite of internal and external changes, continued to follow a basically indicative and guiding concept of planning for the private sector.

In the case of Argentina, the aforementioned economic and political changes which have led to regulatory state intervention somewhat blur this definition; in any case, there are no published plans permitting a more clear-out characterization.

In Uruguay, it must be stressed that in the absence of a published plan a comprehensive government policy exists which seeks to give consistency to economic policy as a whole and whose implementation includes a public sector investment programme.

"It is considered that the guiding principles (established in government conclaves) with different rates of implementation give the Government's action a basic consistency by clearly indicating: -long-term policies, both global and specific, for the various sectors integrated in the Nation's activities; and -the primary bases for a correct orientation of short- and medium-term sectoral policies".1/

Secondly, mention should be made of five countries that have adopted a basically regulatory form of planning, with the State playing an active role in the economy: Brazil, Mexico, Nicaragua, Venezuela and Grenada. As regards the coverage of their plans, it may be noted that the majority endeavour to cover all economic activities. This, however, does not mean

1/ Reply of the Government of Uruguay to ILPES Survey, 1982.

that the State intends to regulate or intervene in all areas in which planning is intended to play a part; this depends on the type of function assigned to the State within the context of the development strategy, which in every case mentioned is fairly significant. As a rule, the plans have been formulated within a comprehensive perspective, i.e., with the aim of influencing the basic economic variables in order to generate a more intensive growth process than if no plan existed. The content of this perspective varies in relation to macroeconomic public policies and sectoral policies, according to the style of development and the characteristics of State action in the economy.

In the case of Brazil, the Third National Development Plan provides a "set of instructions and goals to be observed by the public sector", which does not mean, however, that the private sector has no linkage with the plan. On the contrary, the difficult external position and control of inflation have determined that this sector's decisions are strongly influenced by the parameters of short-term economic policy established by the Government, and by the evolution of public sector investment programmes or private programmes with public financing. Mention should be made of the fact that this global handling of the economy has been based on a plan containing no quantitative goals which, while permitting a more flexible management of the situation, may on the other hand destabilize the private agents' expectations.

In the case of Mexico, the 1980-1982 Global Development Plan is of a comprehensive nature and employment and social objectives are a fundamental part of it; the economic policy implemented in the period concerned is consistent with those objectives. In this respect, it differs from previous plans in which planning was formerly of an indicative character with no express linkage with short-term policy and with a relatively weak institutional structure.

Nicaragua, for its part, has sought to give planning a more active role within the State apparatus. Although no medium-term plans have been formulated, some short-term economic programmes came into effect in 1980

and 1981. These were comprehensive, contain explicit goals and assign a regulatory role to the State in the development process.

In Venezuela there have been no changes in the planning concept with respect to the previous decade, although greater emphasis on social and regional aspects is noted. The State has kept within the spectrum of its direct action in the hydrocarbon sector, the provision of basic services and infrastructural investment, while actively promoting action by the private sector.

In Grenada, since the present Government's assumption of power, the changes introduced in the economic and social structure have assigned a preponderant role to planning in the development process. The functions of the public, private and co-operative sectors have been defined and demarcated within a mixed economy system. In principle, the public sector will be the predominant sector responsible for conducting the development process. Currently under discussion is an "investment code" designed to identify those areas of economic activity in which the participation of the private sector, both national and foreign, is promoted and encouraged. This code will include not only the activities of the production sector but financial activities and services as well.^{1/} With respect to short-term planning, the Government, through the Ministry of Planning and with the participation of all the sectors concerned, drafted the 1982 plan. As regards the medium term, a three-year plan is being prepared for 1983-1985 and it is estimated that once the personnel training plans are completed and the institutional system adapted, planning will constitute the main instrument for the organization of the national economy.

A third group of countries among those which supplied information, have practised forms of planning which differ slightly in certain respects, so that they cannot be clearly classified as practising a regulatory or

^{1/} Grenada, Report of the National Economy for 1981 and the Prospects for 1982, presented by the Deputy Prime Minister and the Minister of Planning, Finance and Trade, p. 64

subsidiary form of planning. These are: Colombia, Costa Rica, Ecuador, Jamaica, Paraguay, Peru and Dominican Republic. In all these countries some differences are noted according to the various economic sectors considered. Generally speaking, planning is of a subsidiary type, but it plays a regulatory role in some areas such as infrastructure, and also in some social development programmes, housing, and specific production sectors.

In Ecuador the plan is comprehensive and includes a group of "fundamental" projects for the proposed development strategy, but does not cover all the investment projects either. Moreover, Ecuador also started to implement annual operational plans which were in force in 1980 and 1981. The goals of the 1980-1984 Plan have been modified and corrected, according to the economic situation, in the annual operational plans; in this respect the situation is different from the previous one when there was no plan.^{1/}

In the case of Paraguay, the nature of planning has not changed since it continues to be indicative. It is, however, of a comprehensive nature since it covers most of the economic sectors and some medium- and long-term policies. It is not co-ordinated with short-term policies, however. Accordingly, planning basically provides a frame of reference for the public sector and guidance for the private sector.

In the Dominican Republic, planning is of a regulatory character for public sector investment, and indicative for the private sector. It is the Dominican State's policy "not to intervene in the private sector's traditional activities".^{2/} Thus, no changes have been noted with respect to the previously existing strategy.

In Jamaica and Peru it is noted that in government programmes the State is assigned a less important role in directly carrying out various activities, than in the government programmes of previous administrations.

^{1/} Ecuador's previous Plan was the 1973-1977 Plan. For a period of three years, therefore, there was no plan in force.

^{2/} Dominican Republic's reply to the Survey on the State of Planning, p. 29.

Finally, in the case of Cuba, it should be mentioned that this country proposes to make progress in "consolidating and improving the economic planning system", and its objectives include: "instituting an effective control of the Annual Plan and the Five-year Economic Plan by means of all the factors participating in the process... strengthening planning activities in State organs and bodies..."^{1/} Similarly, plan objectives are established by sectors and by regions.

C. Conclusions

By way of conclusion it may be noted that in this chapter stress has been laid on the strong correlation existing in the region between the national development strategies adopted and the types of planning in force. In other words, it is not possible to conceive of planning as a procedure of public action without substantive development strategies with which the form of planning should be completely consistent.

It has been emphasized that the component of the development strategy relating to the relative weight of the State and the market in the organization of production and the assignment of resources is a determining factor of the forms of planning adopted. Thus, in the mixed capitalist economies of the region, two basic forms of planning -one indicative and subsidiary and the other regulatory and inductive- were identified with a whole spectrum of variants between the two. The former is consistent with strategies which cause the whole weight of production activity and the dynamics of accumulation to be borne by private agents; generally seeks a broad integration with the developed market economies; and also relies on market mechanisms for the assignment of resources and the distribution of income. The latter, on the other hand, presupposes a determining role in State production and investment activities, without excluding a large private sector; regulated integration with the industrialized centres; and the likewise corrected and regulated operation of market machinery.

^{1/} See República de Cuba, Proyecto de Lineamientos ..., op. cit., p. 18.

Those countries which most closely approached one or the other of these forms of planning were identified, although it was noted that the great majority occupied intermediate positions. To sum up, it is concluded from this analysis that the practice of planning in the region presents widely differing forms which result from the interaction of proposed political projects, the existing autonomy of private agents and factors determining the external context.

Chapter III

PLANS IN FORCE AND RESULTS ACHIEVED IN THE PERIOD 1980-1981

This chapter comprises a review of the main planning activities carried out in the two-year period and the results achieved in a certain number of countries selected according to the availability of data.

Section A presents a summarized account of plan formulation activities, with emphasis on the progress achieved in the regional planning field. At the same time the main changes in the institutional organization of the public sector are indicated.

Section B describes planning experience in a selected number of countries, together with information on their economic development, policies implemented and results achieved.

A. Plan formulation activities and changes in institutional organization

1. General background

Of the 16 Latin American countries analysed in this report only two had no development plans published and in force in the period considered. Moreover, of the 18 Caribbean countries about one-third had no plans in force and, owing to information problems, this report includes only the plans of Barbados, Haiti, Jamaica and St. Lucia. These are, in general, medium-term plans, and in only a few cases were annual operational plans prepared (Ecuador, Nicaragua).

The medium-term plans have varied in duration from three to six years, as may be seen in the attached table. The new plans adopted in the period 1980-1981 generally coincide with administrative changes in the countries concerned, i.e., Brazil, Cuba, Ecuador, Mexico, Nicaragua and Venezuela. Consideration may also be given to those of Colombia and Costa Rica which,

LATIN AMERICA AND THE CARIBBEAN: DEVELOPMENT PLANS IN FORCE IN 1980-1981
AND PERIOD COVERED BY EACH PLAN

		Date of Publication	Period Covered
<u>Latin America</u>			
ARGENTINA	<u>a/</u>	-	-
BOLIVIA	<u>b/</u>	1976	1976-1980
BRAZIL	<u>c/</u>	1980	1980-1985
COLOMBIA	<u>d/</u>	1980	1979-1982
COSTA RICA		1980	1979-1982
CHILE	<u>e/</u>	1979	1979-1984
ECUADOR		1980	1980-1984
EL SALVADOR	<u>f/</u>	1978	1978-1982
GUATEMALA		1978	1979-1982
HONDURAS		1979	1979-1983
MEXICO	<u>g/</u>	1980	1980-1982
NICARAGUA	<u>h/</u>	1979-1980	1980-1981
PANAMA		<u>q/</u>	<u>q/</u>
PARAGUAY	<u>i/</u>	1977	1977-1981
PERU	<u>j/</u>	1978	1978-1990
URUGUAY	<u>k/</u>	<u>s/</u>	
VENEZUELA	<u>l/</u>	1981	1981-1985
<u>Caribbean Countries</u>			
ANTIGUA AND BARBUDA		<u>s/</u>	
BAHAMAS		<u>r/</u>	
BARBADOS	<u>m/</u>		<u>r/</u>
BELIZE		<u>r/</u>	
CUBA		<u>r/</u>	1980-1985
DOMINICA		<u>r/</u>	<u>r/</u>
GRENADA	<u>n/</u>	<u>s/</u>	
GUYANA		<u>r/</u>	<u>r/</u>
HAITI	<u>o/</u>	1976	1976-1981
JAMAICA	<u>p/</u>	1978	1978-1982
MONTSERRAT		<u>r/</u>	
DOMINICAN REPUBLIC		<u>r/</u>	<u>r/</u>
St. KITTS NOVIS		<u>s/</u>	
St. LUCIA		1977	1977-1982
St. VINCENT AND THE GRANADINES		<u>r/</u>	<u>r/</u>
SURINAME		<u>r/</u>	<u>r/</u>
THE NETHERLANDS ANTILLES		<u>s/</u>	
TRINIDAD AND TOBAGO	<u>q/</u>	<u>s/</u>	

Source: National Plans.

- a/ There is no plan in force for the period 1980-1981. The last was the Three-Year Plan for Reconstruction and National Liberation 1974-1977.
- b/ This Plan was published in 1976, but had already been abandoned in 1980. Thus in 1980-1981 there was no plan in force. In 1982, Bolivia was preparing a new plan.
- c/ Brazil (1980), Centro de Servicos Graficos do IBGE, III Plano Nacional de Desenvolvimento 1980-1985, Rio de Janeiro.

- d/ Colombia, Plan de Integración Nacional 1979-1982, Bogotá, 1980.
- e/ Chile, Presidencia de la República, Oficina de Planificación Nacional (1979), Plan Nacional Indicativo de Desarrollo 1979-1984, Ed. Universitaria, Santiago, Chile.
- f/ El Salvador, Ministerio de Planificación y Coordinación del Desarrollo Económico Económico y Social (1978), Plan Nacional Bienestar Para Todos 1978-1982, Artes Gráficas Publicitarias, San Salvador.
- g/ México, Poder Ejecutivo Federal, Secretaría de Programación y Presupuesto (1980), Plan Global de Desarrollo 1980-1982, Mexico City.
- h/ Annual plans. There are no medium-term plans.
- i/ Paraguay, Secretaría Técnica de Planificación (1976), Plan Nacional de Desarrollo Económico y Social 1977-1981, (2 volumes), Asunción.
- j/ Peru, Presidencia de la República, Instituto Nacional de Planificación, Plan Nacional de Desarrollo a Largo Plazo 1978-1990, preliminary version, working document (no official value).
- k/ Uruguay does not publish plans, but the Conclaves have provided guiding principles for economic policy, development strategy and decisions concerning economic measures in the last few years.
- l/ Venezuela, Oficina Central de Coordinación y Planificación de la Presidencia de la República (1981), VI Plan de la Nación 1981-1985, Editorial del Lago, Maracaibo.
- m/ Barbados (1979), Barbados Development Plan 1979-1983, Bridgetown, Barbados.
- n/ Has a public investment plan in force for the period 1980-1984. In 1982 it was starting to plan some economic activities and proposing formulate a Plan for the period 1983-1985. See Grenada, Report on the National Economy for 1981 and the Prospect for 1982, People's Revolutionary Government of Grenada, St. George's, 1982.
- o/ Haiti, Conseil National de Développement et de Planification, Plan quinquennal 1976-1981, Presses Nationales d'Haiti, Port-au-Prince, Haiti.
- p/ Jamaica, Jamaica National Planning Agency (1979), Five-Year Development Plan 1978-1982, Kingston, Jamaica.
- q/ Trinidad and Tobago had no plans in operation in the period 1980-1981. In 1982, however, the Government appointed a Working Group to establish a planning system and work on the formulation of a plan from 1983 or 1984 onwards. See The Budget Speech 1982.
- r/ No plan available.
- s/ No plan in force.

while covering the period 1979-1982, were published in 1980. Most of the other countries had national plans in force for the two-year period under review.

Broadly speaking, a macroeconomic approach is adopted to the plans, in which the global variables of the macroeconomic context, such as the product, consumption, investment, exports, imports, domestic saving, external saving, etc., are projected. Some of these plans contain population projections and employment goals. A third aspect of the plans is the definition of instrumental economic policies by means of which the proposed programmes will be implemented at the global and sectoral levels.

Most of the plans in force have a sectoral component which includes at least the agricultural, manufacturing and energy sectors. All the plans approved in the two-year period concerned contain programmes for the aforementioned sectors, in which their main problems are studied and policies are formulated with differing degrees of specificity.

In the cases of Brazil and Colombia, significant differences are noted with respect to other development plans, in both structure and presentation. In Brazil's case the macroeconomic context of the plan is not expressly defined, so that it does not envisage a prospective projection or quantitative goals for the key macroeconomic variables, nor for the various production sectors. Colombia's plan does not present global targets, but implicit in the sectoral programmes are some macroeconomic projections which include investment goals. This is different from Latin America's experience in the 1970s when nearly all the plans presented quantitative targets or projections for the main macroeconomic variables.

In the majority of cases the plans were legally adopted. They generally establish that they are of an indicative character for the private sector, and imperative --in some areas-- for the public sector. There are, of course, widely varying cases in both the first and the second respect. For the private sector, besides being indicative, economic policies contributing towards the attainment of the plan's objectives are envisaged. As regards the public sector, the imperative character is evident only in some areas,

primarily investment where ministries and/or executive agencies will carry out specific investment projects. In most cases, however, other processes are necessary in approving the execution of the investment projects considered.

The plans adopted in the period 1980-1981, like those formulated in the past decade, contain a wide range of objectives: (a) to raise the growth rate of the product; (b) to improve well-being and per capita income; (c) to achieve a more equitable distribution of income; (d) to promote the generation of employment; (e) to increase exports; (f) to control inflation. In addition, different objectives are proposed in a varying number of cases, which include geographical integration, accelerated energy development, etc.

These objectives are presented at such a general level that any contradictions between them are not normally explicit. As a rule, the plans contain no compatibilization of objectives, proposed targets and present and future availability of resources, nor analysis of the consistency between the objectives and the instrumental policies formulated, which denotes technical and instrumental inadequacy.

2. Institutional organization of planning

A review of the changes that have taken place in the organization of planning was mainly based on the answers to the country survey of the state of planning carried out by ILPES. In this survey information was requested on the manner in which the institutional organization of planning had altered in the period 1979-1981. Some important changes have been recorded in six of the countries analysed. In the first, Nicaragua, the Ministry of Planning was established in 1979 and assigned functions of predominant importance within the State Administration in relation to the previous government. Secondly, in 1979, Ecuador set up the National Development Council, presided over by the Vice-President of Ecuador, thus giving more political authority to the Planning Board. Furthermore, in the Dominican Republic, the National Planning Office --jointly with the National Budget Office-- has assumed responsibility for the allocation of the Government's capital expenditure.

There were also changes in St. Lucia where the Central Planning Unit was incorporated in the Ministry of Finance, with responsibility for providing advisory assistance in the preparation of the national budget.

In two instances, greater concern has been observed for the integration of monetary and financial programming in planning, even though it may be outside the sphere of the planning agency. This is the case in Venezuela, where the Financial Office was set up in 1982, with the Central Office for Planning and Co-ordination (CORDIPLAN) acting as technical secretariat; and in Brazil, where the National Monetary Council was briefly under SEPLAN in 1979, but was once again transferred to the Ministry of Finance. SEPLAN participates in this Council through the Ministry of Planning.

Lastly, it should be noted that several institutional changes took place in the area of regional planning, to which reference is made in the following section.

3. The regional dimension in development plans

(a) Introduction

The problems associated with the geographical distribution of the population, production activities and employment, the basic social services and political power itself continue to emerge as basic structural characteristics of the Latin American economies, while at the same time constituting a barrier to a more accelerated and more evenly distributed economic growth.

Over and above some specific changes occurring in regional development planning in certain countries --which are summarized in the following section-- it is interesting to note the most important trends oriented towards the immediate future in connection with the governments' regional development efforts.

The most significant fact observed here is possibly the pressure exerted in favour of a greater degree of geographical decentralization of power and, consequently, of decision-making. This pressure originates both

in a revitalization of local demand for greater autonomy and in a growing conviction on the part of the individual governments of the impossibility of managing highly centralized systems of government and administration in an efficient manner. As regards the question of geographical decentralization, whether on the basis of new planning regions or of the existing politico-administrative divisions, advantage is being taken of the political changes occurring in several Latin American countries. This is undoubtedly true of Brazil.

As a corollary to this situation, the demand for changes in the public financial systems which would return to the sub-national bodies their lost taxation and spending power has been intensified. Again, Brazil may be cited as representative of this situation, as illustrated by the tax reform proposals 1/ designed to return to the states and municipalities part of their jurisdiction in this matter. Similarly, the attempts to revitalize the municipalities by means of important reforms in the system of local administration (Chile's case, for example) may also be considered within the above context, even over and above perceptible differences in styles of development.

Past efforts in favour of regional development were closely associated with the promotion of industrialization and regional urbanization, in many cases with somewhat dubious results.2/ In the biennium analysed, a tendency to review this procedure began to emerge; new regional development strategies based primarily on rural development programmes are being sought, as is currently occurring in the extensive North East area of Brazil. To the extent that this approach is being adopted in an increasing number of specific regional development projects, it may generate useful contradictions with the global development styles themselves.

1/ See P.R. Haddad, Secretário da Fazenda de Minas Gerais, Bases para a Reforma Tributária do Brasil, 1982.

2/ See S. Boisier, Economic Policy, Social Organization and Regional Development, ILPES Cuaderno N° 29, Santiago, Chile, 1982.

The incorporation of regional policy in the wider context of economic policy programmes so that they may be based on adequate balance between aggregate growth and its geographical distribution continues to be the major conceptual and practical challenge in the regional planning field, and it is therefore important to draw attention to the need for greater research on this point. The same observation is valid in connection with the search for correct regional planning methodologies for implementation in countries of small geographical size.

(b) The situation recorded in some countries in the two-year period 1980-1981

The above concern for regional development in the biennium is manifest in a greater regional emphasis than in previous plans. In Venezuela the regional planning system was given significant impetus in the two-year period through the National Regional Development Council, "which reinitiated its activities in 1980 with the object of promoting the co-ordination of policies, plans and programmes of the various agencies, both of the National Public Administration and of decentralized bodies, related to the management of the Regional Territory and Development".^{1/} At the same time, two regional development corporations --the Llanos Region Development Corporation and the Central Region Development Corporation-- were established in 1981, which raises the number of Venezuela's regional corporations to seven.

In Peru, a decided impetus has also been given to the regionalization process, which contains not only elements of regional planning but also of administration by the State apparatus. Likewise, some provisions of the 1979 Constitution establish that municipalities and Regional Assemblies should adopt or implement regional development plans in accordance with the guiding principles of the National Plan.^{2/} During the two-year period under

^{1/} Venezuela's reply to ILPES Survey on the State of Planning in Latin America and the Caribbean in 1982, p. 21.

^{2/} Political Constitution of Peru (12 June 1979), articles 211, 254, 265 and 268.

review, the Government directed the National Planning Institute to "prepare a Regionalization Bill and to propose changes in the existing territorial demarcation".1/

In Mexico the 1980-1982 Development Plan envisages a group of fiscal incentives to investment in the states other than the Federal District, within the context of a regional deconcentration policy. At the same time, administrative changes were introduced in regional planning with the aim of giving the states a greater measure of autonomy in planning activities: the COPRODES were replaced by COPLADES which are directly subordinate to the states and enjoy a considerable margin of participation.2/

In Costa Rica and Bolivia no significant changes took place in the period 1980-1981, as indicated in those countries' replies.3/

Honduras states that "an important aspect of the strategy is to achieve of a more equitable distribution of activities and population in the national space so as to permit an improvement in the distribution of development benefits. With these aims in view, the Plan contains a long-term regional development strategy which essentially seeks to provide spatial management of land use and economic and social activities, to mobilize the development potential of each region and of the whole country and co-ordinate activities on the basis of regional axes, and to orient the economic and social sectors in the interests of a more suitable physical location of investment resources.4/ Among the administrative measures adopted, the Regional Development Boards established in 1979 were dissolved in 1980.

Colombia introduced no institutional changes but endeavoured to support planning activities of municipalities and departments,5/ so that the investment priorities of the National Plan would reflect regional priorities.

1/ Peru's reply to ILPES Survey, p. 10.

2/ Mexico's reply to ILPES Survey, p. 10.

3/ Bolivia's reply to ILPES Survey, p. 9.

4/ Honduras's reply to ILPES Survey, p. 8.

5/ Colombia's reply to ILPES Survey, p. 7.

Paraguay is interested in strengthening the regional planning area for purposes of the next development plan,^{1/} but no changes are recorded in the existing system. Important regional development activities have been carried out in association with the Itaipú investment project. Because of the size of the investment, these regional development activities had a nation-wide impact. The Government of Paraguay, through the Technical Planning Office, is in process of preparing a regional development strategy, in which it has received international co-operation, in particular from UNDP.^{2/}

Uruguay has introduced some changes in this field by establishing some regional development bodies. A regional planning system is in course of preparation, with OAS and IDB support, and a development plan for the Tacuarembó-Rivera area is in progress. As regards municipal planning, the most important changes took place before the 1980-1981 biennium.

In those Caribbean countries for which information was available, no changes in regional development were observable.^{3/} It should be noted that owing above all to the size of the countries considered, regional planning takes on different dimensions and there still remains to organize an adequate theoretical approach to regional development which will take into those countries' specific characteristics.^{4/}

^{1/} Paraguay's reply to ILPES Survey, p.5.

^{2/} Work was completed on the preliminary version of the document "La estrategia de desarrollo regional y la distribución de la población en Paraguay", Presidencia de la República del Paraguay, Secretaría Técnica de Planificación, Proyecto PAR/79/P.05, Estudios de Población y Desarrollo Regional, Asunción, June 1982.

^{3/} St. Lucia, Netherlands Antilles, Antigua.

^{4/} See Juan Martin, Planificación en países de pequeño tamaño, ILPES documento TP-45.

In Brazil the various changes introduced have strengthened the process of administrative decentralization and regional planning, which is one of the central concerns of the Third Development Plan.^{1/} Activities carried out in the two-year period include the decentralization and co-ordination of the Special Programmes (of regional development). In the state and municipal planning areas, a relative increase is noted in the resources transferred directly by the Federal Government to the municipalities by means of various legal changes, the use of funds by states or municipalities has become more flexible,^{2/} and the systems of approval of municipal and state expenditure have improved.

In Panama, in response to the concern for priority to be assigned to regional development and to Panama Canal activities, two new administrative units have been established in the Ministry of Planning and Economic Policy: the Regional and Local Administration Department, and the Department of Growing Participation in the Canal Area.^{3/}

(c) Conclusions

As can be seen, in most of the region's plans stress has been laid on their regional content; this is a common feature even of countries with different planning systems.

The activities undertaken correspond in general with the statements and guidelines contained in the plans in force in the biennium. Some important progress is recorded in Mexico, Brazil and Venezuela, where a group of activities has been carried out with the aim of improving the

^{1/} See Plan, op.cit. p. 19, "An adequate income distribution policy requires that preferential attention be given to the development of densely populated areas lacking in resources such as the North East region, and to large areas demanding the exercise of caution and discipline in their effective incorporation in the national economy, as for example, the desired non-depre-datory settlement of the Amazon area".

^{2/} Some of these reforms were introduced in 1979.

^{3/} Panama's reply to ILPES Survey, p. 16.

Governments' administration of regional development funds, assigning a greater measure of participation to the states (Mexico) and using fiscal incentives to decentralization (Mexico, Venezuela).

Certain countries envisage activities in the immediate future designed to include regional development in their national priorities (Paraguay and Peru).

An important component of regional development in several countries consists of investment projects associated with a particular region which in some cases are of nation-wide importance. This is the case in investment programmes such as the Itaipú project in Paraguay and the Guayas River Basin project in Ecuador, both of which will substantially improve the countries' economic possibilities.

In most countries the effects of regional development plans and policies implemented during the two-year period have not been evaluated, which indicates priorities on the part of both national and international bodies concerned with the subject.

B. Summary of some country experiences

1. Planning in Brazil, 1980-1981

(a) Background of economic development in the biennium

Brazil experienced a slowing-down of its economic growth rate in the biennium, with significant differences between 1980 and 1981. In fact, the gross domestic product grew by 8% in 1980, but fell by 1.9% in 1981, a negative rate recorded for the first time in 40 years.

In 1979 the economy had to face a new rise in oil prices and increases in international interest rates, which significantly affected the balance of payments, thus raising the already high external debt.

At the same time, inflation spurted with respect to the period 1974-1978 when a first adjustment had already been made in response to the rise in world oil prices. In 1980 the rate of inflation reached approximately 110% (measured from December to December), and declined slightly in 1981.

The balance of payments position also deteriorated in 1980, but started to recover in the second half of that year, mainly owing to the sharp increase in exports. Because of the rise in interest rates, Brazil had to pay, in interest alone, 37% of the value of its exports in 1980, a proportion which rose to 44% in 1981. The year 1980 closed with a balance of payments deficit of US\$3 500 million, which was converted into a surplus of US\$850 million in 1981 as a result of the export promotion policy adopted (through the exchange rate and other incentives) and the contraction of imports.

Employment in 1981 also suffered the recessive effect noted in nearly all sectors of the economy, except agriculture. Thus, unemployment rose from rates of between 4.5% and 7.5% in the main Brazilian cities to rates ranging from 5.8% to 9.0% between 1980 and 1981. Industrial employment, which grew up to the mid-1980s started to decline from then onwards.

(b) Guidelines of Brazilian planning

(i) New character of planning

In the present decade the idea of planning in the context of public policy has changed in Brazil, probably as a result of its previous planning experience in which over the past 20 years at least eight plans are recorded, in one way or another affecting the country's economy. However, part of the economic policy implemented --above all recently-- was not always strictly linked with the content of the plans.^{1/}

Political and economic changes occurring since 1979 modified the official position concerning planning. As stated by a senior Brazilian official, "the energy crisis destroyed the myth that strict planning and the strong presence of the State were capable of immunizing the economies from their negative effects, which are summarized as a combination of recession, unemployment and inflation. On the contrary, recent experience suggest

^{1/} A system of follow-up action to plans was established in 1971, and from 1972 onwards it was decided to prepare National Development Plans as official documents subject to approval by the Legislative Power. The Third National Development Plan 1980-1985 is now in force.

that adaptation seems more rapid and socially less painful the more flexible are the institutional adjustments. To provide the Brazilian economy, and many other developing economies, with this additional degree of flexibility appears in our view to constitute the great challenge, in breaking the dangerous inflation-with-stagnation (stagflation) circle and laying the bases for a new period of self-sustained growth already adapted to the parameters established by the energy crisis".1/

This new philosophy has been shaped in the context of the 1980-1985 National Development Plan, in which it is stated that flexibility is one of its basic characteristics: "flexibility is indispensable so that in the existing situation the Government and all sectors may always be able to adapt and adjust their behaviour and action in the interests of national development objectives".2/

As a result of this novel conception, the new Plan proposes no goals or quantitative projections for the product, balance or payments, employment, investment levels or composition of the product by branches of activity for the period covered by the Plan, all of which differentiates it from previous plans.

The Plan defines Brazil's strategic objectives and explicitly states the criteria governing policy, and the measures and instruments for action. It is therefore essentially a "guiding" Plan for both public sector bodies and the private sector.

(ii) Strategic objectives and government action

The strategic objectives proposed in the 1980-1985 Plan are no different from those already established in previous plans, although great emphasis is placed on continuing the process of "opening up to the exterior"

1/ Study presented by Dr. Carlos Langoni, President of the Central Bank of Brazil, at the IDB Meeting in Cartagena, Colombia, 30 March 1982. Reproduced in the Jornal do Brasil, 4 April 1982, Especial. p. 2.

2/ Brasil, III Plano Nacional de Desenvolvimento 1980-85, Rio de Janeiro, September 1980, p. 11.

and democratization of the Brazilian society.^{1/} Within this context, the Fourth Plan proposes: "the construction within the shortest possible time of a developed, free, well-balanced and stable society for the benefit of all Brazilians".^{2/}

The following broad objectives from part of this general philosophy:

- accelerated growth of income and employment;
- improvement of income distribution, accompanied by a reduction in the degree of absolute poverty and a rise in the levels of well-being of those classes with the lowest purchasing power;
- reduction in regional disparities;
- curbing of inflation;
- balance of payments stability and control of the external debt;
- development of the energy sector; and
- improvement of political institutions.

Among these objectives there are two which in our view respond more specifically to Brazil's economic and political situation: (1) the emphasis placed on income distribution, and (2) the priority assigned to energy development.

The emphasis on income distribution is a result of the awareness that the Brazilian "miracle" while achieving significant results in terms of growth, failed to distribute the benefits of that growth in an equitable manner. This objective is embodied in the development Plan. In any case, according to the development Plan itself, "... this statement does nothing to invalidate the choice of rapid growth".^{3/}

^{1/} João Figueiredo, Mensagem do Congresso Nacional, Brasilia, 1982, p. 23.

^{2/} III Plano, op. cit., p. 17.

^{3/} IV Plano, op. cit., p. 18.

The energy development objective is consistent with the Brazilian economy's heavy dependence on hydrocarbons, which after the 1979 rise in oil prices has meant that petroleum should constitute 46% of Brazil's total imports in 1980. In other words, of the notable increase in exports from 1975 to 1980 (from US\$8 600 million to US\$23 300 million), over 50% was absorbed by additional fuel imports, mainly owing to the price effect.^{1/} This makes it clear that from the medium-term standpoint it is of basic importance for the Brazilian economy to have alternative sources of national energy, as a means of alleviating its balance of payments position.

(c) Planning and short-term policy in 1980-1981

The new administration adopted a flexible approach to planning with the aim of providing the basic guidelines for economic policy, and within this new orientation one of the main directives was to co-ordinate public sector expenditure. This co-ordination is considered within the context of the general objective of reducing the public sector deficit and controlling external indebtedness, two key problems of the Brazilian economy. Brazil's public enterprises, jointly with the public sector, represent about 40% of the product.

The following are the principal measures adopted in the planning sphere in 1980-1981.

(i) The SEST system

In compliance with the above-mentioned directive, the SEST system of control of public enterprises was established, this being one of the most significant decisions adopted in connection with the management of this sector.

The system was set up in October 1979 in an attempt to compatibilize investment, expenditure and internal and external credit programmes and the implementation of investment programmes by State enterprises.^{2/} These

^{1/} See, for example, J. Figueiredo, op. cit., pp. 234- 243 and p. 248.

^{2/} Presidencia de la República, Secretaria de Planejamento. Secretaria de Controle de Empresas Estatais - SEST. Empresas Estatais no Brasil e o Control de SEST. Antecedentes e experiencias de 1980, Brasilia, April 1981, p. 17.

enterprises were previously controlled by the Ministries under which they operated, but this did not help to achieve an adequate global compatibilization of the macroeconomic objectives with the many decisions adopted by those enterprises on prices, foreign exchange, internal and external indebtedness, employment, etc.

The objectives of SEST are: (1) to consider the investment projects of enterprises within the context of national priorities, taking into account the goals of reducing inflation and achieving external stability; (2) to improve the efficiency of State enterprises; (3) to regulate the increased participation of public enterprises in the Brazilian economy, maintaining the necessary conditions for strengthening the private sector.

To achieve its objectives SEST may operate through the following mechanisms:

- SEST budgets. The enterprises included in the SEST system should present their data annually to SEST, which in its turn proposes to the Economic Development Council (CDE) the necessary ceilings on global expenditure, broken down by current expenditure, capital expenditure, and sources of both internal resources of the enterprise and resources in terms of indebtedness in the country and abroad, and State contributions to enterprises.

- Changes in institutions and net worth. In accordance with SEST's powers, only on the basis of a report by this body and the final approval of the President of Brazil may State enterprises be established, liquidated or suffer intervention, or their capital increased.

- Global ceilings on imports. SEST also has powers to propose to the President of Brazil ceilings on imports by State enterprises.

- Control of fuel purchases. As a means of controlling fuel imports, SEST may establish global ceilings, within the context of CDE, on energy purchases by enterprises included in the system.

- Miscellaneous powers. SEST may also propose to CDE manner of the payment of federal dividends, salaries of executive personnel and social security plans and indirect staff benefits.

As may be noted, SEST's powers are fairly extensive and in the years 1980-1981 had not yet shown the whole of their potential in the co-ordination and planning of public sector activities.

At the outset of its activities SEST carried out a number of tasks.

The first was to identify public sector enterprises in their various forms. So far it has managed to identify 560 public sector enterprises, with varying legal forms, some of which make it inappropriate that they should be under SEST's control; 40% are semi-public corporations, 23% are civil, limited, or public enterprise concessionary corporations, and the rest cover a wide range of juridical forms.

For the first time, through the 1980 and 1981 budgets, control was exercised over the global expenditure of enterprises. In 1980 a total of 60 enterprises (which with their subsidiaries amounted to 213) were covered. Ceilings on imports, the tapping of external resources and spending on fuel purchases were also imposed in 1980. Follow-up action was taken throughout 1980 in connection with the activities of enterprises, which involved reprogramming in the course of the year.

In 1981, with the benefit of the experience of the quarterly follow-up action taken in 1980, it was possible to improve the financial operating conditions of enterprises in investment expenditure areas (a higher proportion of their own resources was assigned to the financing of their investments) and their borrowing capacity was restricted, each domestic credit operation requiring the specific authorization of SEPLAN. In addition, a quarterly control of the operations of 382 Federal enterprises and 23 state enterprises was exercised in 1981.

It should be noted that the activities of the SEST system do not seek control per se of State enterprises; rather, as stated by the Brazilian Government, they are incorporated in the general public sector growth policy. The declared aim is to seek the privatization of enterprises in whose activities the presence of the State is not justified, this directive being maintained as a necessity for the expansion of the national private sector. In any case, such expansion is limited by the fact that State

enterprises operating in infrastructure sectors, strategic sectors or public services are bodies of such size that they could scarcely be absorbed by the national private sector and their real alternative would thus be denationalization. This, however, is totally rejected. In other words, the scope of general privatization is relatively limited, in view of the size of the principal State enterprises.

It should also be noted that another characteristic of the system is "control selectivity". That is to say, with a view to an efficient system of co-ordination involving the main variables of the Brazilian economy (balance of payments, imports, external indebtedness, internal indebtedness, fuel purchases and consumption) suffice it to co-ordinate the activities of a small number of State enterprises, which provide the majority of the aggregates, and exercise a more flexible control over the rest of the enterprises. For this purpose, a system of inter-agency co-ordination is in course of preparation, which will permit the co-ordinated action of the Ministry of Planning and the Central Bank.

(ii) Priority areas of the Plan and short-term policy

The 1980-1985 Plan envisages three priority development areas ---agriculture, energy and exports-- as reflected in the short-term policies. Thus, within the context of anti-inflationary policy, consideration was given to a restrictive monetary policy, increased interest rates, and quantitative controls on loans, which were not implemented in the case of agriculture or exports. At the same time, these sectors continued to receive credit at subsidized interest rates. For the export sector, in its turn, a system of export incentives was once again introduced, which will be gradually reduced towards the end of 1982.

The results of the 1981 economic policy show that the most decisive action was adopted in the external sector, which enabled a trade surplus to be achieved for the first time; this had been precisely the main short-term objective in seeking to maintain a sustained medium-term growth rate, owing to Brazil's difficult foreign exchange and indebtedness situation, since in 1981 the external debt totalled US\$65 000 million. It should, however, be

noted that in obtaining a larger volume of exports and restricting the level of imports some lateral adverse effects such as the reduction of domestic income and private and public investment made themselves felt.^{1/}

(iii) Institutional aspects

From the institutional standpoint, several changes were made during the biennium, with the purpose of the Ministry of Planning being involved in dealing with "short-term contingencies".^{2/} In this way the Government endeavoured to give the Ministry of Planning more flexibility in the management of economic and financial policy. Thus in 1979 a number of bodies were set up within the context of the Planning Office, which included, among other agencies: the Inter-Agency Prices Council, the Special Economic Affairs Office, the Special Supply and Prices Office, and the Central Internal Control Office. The National Monetary Council was for a brief period --May to August 1979-- transferred from the Ministry of Finance to SEPLAN. The National Energy Commission was also set up in 1979. SEPLAN participates in both these Councils.

In the institutional sphere, some legal and administrative changes were also introduced in regional planning. These changes strengthened administrative decentralization and regional planning, which constitute two of the central concerns of the Third Development Plan.

In the state and municipal planning areas a relative increase is noted in the resources transferred directly by the Federal Government to the municipalities, and the use of those funds has also been made more flexible, with an improvement in the systems of approval of municipal and state expenditure.

(iv) The time horizon of planning

A number of doubts arise from the statement of a plan implemented exclusively in qualitative terms, such as that presented in the Third National Development Programme: Are there any goals? Can a reasonable macroeconomic

^{1/} See, in this respect, PREALC, Desequilibrio externo y empleo en Brasil, Working document N° 218, Santiago, Chile, September 1982.

^{2/} Brazil's reply to ILPES Survey, p. 56.

projection be made? Are the guiding principles a sufficient guide to government action? As part of the qualitative and selective approach currently prevailing in Brazil's planning bodies, an intermediate course has been attempted: "a general consolidation of its programmes and projects --in execution or under study-- integrating them in a four-year perspective".^{1/}

Within this perspective, a projection may be obtained which shows the behaviour of some macroeconomic aggregates, or at least their most important components, and at the same time the areas in which the Government can take action. Moreover, it has the advantage of revealing some of the restrictions that would be generated in the monetary sector, and also on external financial resources, which are key variables in Brazil's development.

(d) Final reflections

Because of the challenges faced by the Brazilian economy in the early 1980s --high level of external indebtedness, recession, inflation and fall in the growth rate-- a path was chosen which apparently disregarded planning processes, action being centred on short-term policies, exclusively and primarily in the financial system. Such action has, however, proved insufficient and seemingly an intermediate approach is being adopted through selective control and the programming of some key public sector areas of vital importance in credit, monetary and balance of payments management. This approach is reflected in the entry into operation of the SEST system of control of public enterprises, and in the origin of "multi-annual" programming where the main aggregates of State enterprises are consolidated for several years.

If a broad concept of planning is used, it may be seen that the period 1980-1981 presents certain similarities with developments in the preceding decade. Economic policy was oriented, with various changes, towards the establishment of a modern market economy closely linked with the rest of the world economy. This in its turn means that a growth ideology has prevailed within the context of the planning system. An analysis of the planning processes shows that the Third National Development Plan presents

^{1/} A.H. Costa-Filho, op. cit., p. 71.

considerable variation with respect to previous plans, because of the importance assigned to the process of a democratic opening-up, the redistribution of income and the more qualitative character of planning. Practice has shown that a more flexible planning system permitted the Brazilian economy and the State to emerge fairly successfully from the difficult international economic situation within the context of highly significant internal political changes.

2. Planning in Costa Rica, 1980-1981

(a) Background of economic development in the biennium

Costa Rica experienced one of the worst economic recessions of its history in the period 1980-1981. Its gross domestic product remained static in 1980 and fell by 3.6% in 1981, the first decline recorded in 20 years. The per capita product dropped in 1980 and again in 1981, reaching the same level as four years previously. The situation in the biennium thus inverted the expansive trends registered up to 1979. Both external and internal factors were involved in unleashing this recession. The former include the rise in international interest rates and the unfavourable evolution of the terms of trade, The rise in international interest rates was a severe blow to Costa Rica, as it was to other Latin American countries; and, moreover, the terms of trade in goods and services deteriorated by 26% during the biennium.

Some internal factors were also partly responsible for the recession affecting the country: the persistence of the fiscal deficit and the over-evaluation of the colón. Added to these were some structural determining factors such as the expansion of the labour force and the exhaustion of the agricultural frontier.

The problems of the Costa Rican economy were also particularly serious in the external sector. In 1980, after a first agreement was concluded with the International Monetary Fund, the country was unable to comply with the expansion of domestic credit agreed upon, and its failure to obtain

additional external financing jeopardized its position with respect to international reserves, which fell to practically zero in the middle of 1980; hence, Costa Rica's access to the international financial market was in fact closed. At the end of 1980 new negotiations were opened with the Fund, so that the country could settle its external commitments and improve its position vis-à-vis international banks. In June 1981 an Expanded Facility Agreement was reached, which, however, was suspended by the Fund in November 1981 and replaced by a Contingency Agreement which would make it possible to arrive at a more final agreement after the 1982 elections. No payment had been made on the external debt after the end of 1981 and the Government totalled about US\$ 360 million in payments overdue.

Within this recessive context, open unemployment increased to the highest known levels since unemployment records have been kept. Inflation, in a country traditionally enjoying price stability, raised the consumer price index by 65% in 1981, an unprecedented figure in Costa Rica's recent history.

(b) 1979-1982 Development Plan and growth strategy

The Development Plan was proposed and began to be prepared in the years 1978-1979. It was published at the beginning of 1980 when Costa Rica's economic expectations were still moderately optimistic. The proposed strategy was to reorient the economy by actively promoting agricultural production and making the manufacturing sector more efficient, for which purpose a greater degree of opening-up the economy to the exterior would be sought. Another element of the diagnostic study showed that "the public sector has developed along disorderly lines without taking into account minimum planning criteria and producing high and sustained deficits in most of its institutions, with the corresponding external public sector indebtedness involving substantial proportions of its resources".^{1/}

^{1/} Presidencia de la República, Oficina de Planificación Nacional y Política Económica. Plan Nacional de Desarrollo 1979-1982 "Gregorio José Ramírez", San José.

The objectives envisaged in the Development Plan may be summarized in six basic points:1/

- (i) to promote the integrated development of persons and families;
- (ii) to maintain and renew democratic principles;
- (iii) to foster a social policy directed mainly towards the marginal population sectors of society;
- (iv) to promote the establishment of a production structure suited to the integrated development needs of the Costa Rican population;
- (v) to take orderly and rational advantage of the exploitation of national resources; and
- (vi) to ensure that State activities should be basically those of a subsidiary agent and to safeguard the common good.

As regards the strategy contained in the plan, the two most significant changes with respect to previous development plans were: (a) a new character and smaller participation of the State in the economy, greater importance being assigned to the private sector's participation; and (b) a greater opening-up to the exterior, assigning a higher level of selectivity to import-substitution policies and stronger incentives to agricultural activities.

With respect to the nature of planning, it is considered that the plan should be normative for the public sector and indicative for the private sector. "Notwithstanding the above, the aim that public sector institutions should contribute towards the achievement of planning objectives has not yet been realized".2/ The passage quoted above clearly reveals that the planning system has some shortcomings which prevent the programmes defined by the Planning Office from being implemented by the public sector. Accordingly, Costa Rica's national plans have served mainly as indicative documents.3/

1/ See Plan Nacional ..., op. cit., pp. 115-116.

2/ Costa Rica's reply to ILPES Survey, p. 2.

3/ Ibid., questions 1 and 2, p. 2.

Thus the idea of planning prevailing in the biennium has been to achieve co-ordination among the "agents of economic and social policy", mainly at the global level.^{1/}

(c) Implementation of the Plan in the biennium

The Development Plan envisaged a number of provisions for the period 1978-1982 which to a great extent were not achieved in the two-year period 1980-1981. In fact, the planned growth rate of the product was 6.5% annually for the whole period; as from 1980, however, the GDP declined by an average of 2% annually.

Gross fixed investment was expected to increase at a rate of 8.1% annually, which was not achieved; rather, it decreased at a rate of 20% annually during the biennium. In 1981, according to the Plan projections, the investment/gross domestic product coefficient should have reached 0.28, but it was only 0.19 in 1981, that is, almost 10 points lower than the expected figure. In external trade the position was somewhat brighter, however, since the export targets were attained: the actual growth rate of the volume of exports was higher than that planned. None the less, export values were adversely affected by export prices, which dropped in 1981.

Finally, the Plan envisaged an expansion of employment at a higher rate than the growth of the economically active population. In 1980, however, the rate of open unemployment rose to 5% (compared with 4% in 1979), and in 1981 when the economic situation deteriorated still further, open unemployment increased to 9%.

(d) Implementation of the Plan and the external situation

(i) Implementation of the Development Plan

The economic situation of Costa Rica in the two-year period under review was a determining factor in the implementation of the 1979-1982 Development Plan. As stated by the Government of Costa Rica itself, "Unable as we were to propose immediate specific changes in economic and

^{1/} Ibid., p. 1.

fiscal policy owing to the sudden impact of the economic situation,... the corrective measures which could have been taken to facilitate the implementation of the National Development Plan were never adopted; on the contrary, there was a certain discontinuity with respect to the guiding principles of the Plan".^{1/} In particular, within the context of the short-term policy implemented, priority was given to reducing the public sector deficit and restricting imports, all as a result of the acute shortage of foreign exchange. This meant that investment expenditure was substantially curtailed during the biennium and, therefore, that part of the investment envisaged was postponed. The investment/gross domestic product coefficient envisaged in the Plan was 0.28 for the period 1978-1982. In 1980 this coefficient was only 0.2, and in 1981 0.19. This meant that gross investment totalled only 50% of that planned.

This may have been the most negative effect of the external recession on the implementation of the Development Plan.

(e) Planning and short-term policies

To forge ahead in achieving the objectives of a Plan and duly propose corrections and the necessary flexibility requires adequate links between planning and the main short-term policies in the fiscal, monetary and external trade fields. There are two ways of analysing this process: from the institutional-organizational viewpoint, and in accordance with the decision-making process defined in the economic and social policy. From the institutional standpoint, the Planning Office enjoys certain powers in the context of budget policy, but they are less than those it had prior to the 1980-1981 biennium. Formerly, the National Budget Office was attached to the Planning Office, but it has since been transferred to the Ministry of Finance. In 1980-1981 the Planning Office participated in the Budget Authority, a body which proposes the budget policy to the National Budget Office.

^{1/} Costa Rica's reply to question 5 of the ILPES Survey, p. 5.

As regards monetary and foreign trade policies, it should be recalled that the former is the responsibility of the Central Bank and the latter of the Ministry of Economic Affairs, Industry and Trade. In these cases the Planning Office participates indirectly through the higher processes of the State Administration.

As to the second aspect, i.e., the actual process of decision-making in connection with economic and social policy, there are insufficient criteria for an adequate analysis. In this respect, the difficulties encountered in the preparation or implementation of plans in the period 1980-1981, as may be seen from the replies of the Planning Office, should, however, be noted.

There are several groups of difficulties, some of a conjunctural type and others of an administrative and legal character. The first include the inflationary and recessive situation manifested in the Costa Rican economy in the biennium, partly as the result of external circumstances. This situation determined that priority should be assigned to urgent short-term problems centred on financial management, the reduction of the public sector deficit and foreign exchange policy. Thus the Development Plan remained virtually suspended owing to the reduction in investment levels. The Planning Office participated in the recently established Budget Authority, the object of which was a more effective control of public expenditure, "especially of those public sector bodies which do not form part of the central government".^{1/}

Furthermore, various measures which affected the programmed level of investment were those influencing the exchange rate and quantitative restrictions, which raised the cost of imports of machinery and equipment. In fact, these imports declined by 19% in 1980 and 1981, and by 23% with respect to the preceding year. Imports of capital goods in general dropped by 37% in 1981 with respect to 1979.

^{1/} Costa Rican Government's letter of intentions to IMF, p. 2, 29 May 1981.

Among the difficulties of an administrative and legal type was the long period of the Plan's preparation, which meant that it was not applicable until practically two years after the new administration had assumed power. Other difficulties were the weak links between the operational and planning machinery, and the lack of mechanisms for the continuing conduct of those objectives in terms of the evolution of the conjunctural situation.

Nevertheless, in sectoral planning there was a considerable strengthening of the planning function in ministries and autonomous institutions, in particular through the establishment of annual operational plans which some sectors started to prepare.

The most important aspect of work in the field of sectoral planning has been the organizational part, which makes it possible to lay the foundations for more effective sectoral planning in the future.

3. Planning in Mexico, 1980-1981

(a) Background data on economic trends

During the two-year period 1980-1981, Mexico enjoyed a boom in its economy, the annual growth rate of its gross domestic product being 8%, thanks to an expansionist public expenditure and investment policy on a scale unheard-of in the recent history of the country. Thus, during 1981, the rate of fixed capital formation came to "represent the unprecedented proportion of 25% of the gross domestic product".^{1/}

From 1981 onwards, however, some crucial problems began to loom up in the economy, deriving from the rise in international interest rates, the stagnation of petroleum prices and the public-sector deficit. The expansion of domestic demand, together with the above-mentioned expansionist policy, generated inflationary pressures, which accumulated up to the end of the period under consideration. Thus in 1981 the annual rate of inflation reached 28%.

^{1/} ECLA, Economic Survey of Latin America, 1981, Mexico, E/CEPAL/L.268 Add. H., August 1972, p. 1.

The growth of the economy made it possible to increase employment at an annual rate of 5.8%, which outstripped the growth rate of the economically active population. The average annual rate of unemployment in metropolitan areas was reduced from 5.7% in 1979 to 4.8% in 1981. In the external sector, Mexico's exports of goods expanded from 9.3 billion dollars in 1979 to 19.9 billion dollars in 1981. Imports, for their part, increased at a lower rate, climbing from 12.7 billion dollars in 1979 to 24.3 billion in 1981.

The trade-balance deficit during 1981, combined with the upswing in interest rates and the consequent payments of interest on the external debt, gave rise in that year to a deficit on current account of almost 13 billion dollars. This situation was influenced by two changes in relation to expectations prior to the biennium 1980-1981: as from April 1981 sales of petroleum dropped, and its prices were stabilized in nominal terms.

(b) The conception of planning and the implementation of the Development Plan

(i) The new conception of planning in the Global Development Plan 1980-1982

Planning in Mexico, as well as the changes that occurred in the system, must be envisaged in the continuum of Mexican development over the last fifty years.

In the Global Development Plan 1980-1982 this continuity 1/ is posited

1/ "Several planning efforts have previously been undertaken in the country. These stem from the 1930 Ley sobre Planeación General (Law on General Planning), and their most consistent exposition of policy is to be found in the First Six-Year Plan of 1933, which set an example for the Second Six-Year Plan of 1940, the implementation of which was prevented by the Second World War. The next experiment was the Comisión Nacional de Inversiones (National Investment Commission), set up in 1954, which was outstanding for its operational efficiency. In 1961 the Plan de Acción Inmediata (Plan of Immediate Action) for 1962-1964 was drawn up. In the year 1965 the Economic and Social Development Plan 1966-1970 was formulated, and was satisfactorily put into effect. In 1970-1976 progress was made in the establishment of the mechanics of programming and in some sectoral plans. In 1975, the Partido Revolucionario Institucional (Institutional Revolutionary Party) prepared a draft Basic Plan of Government 1976-1982." Plan Global de Desarrollo 1980-82, United States of Mexico, Federal Executive, Programming and Budget Secretariat, 1980, p. 15.

as one of the characteristics of the planning system. Accordingly, when reference is made to a "new" conception of planning, the intention is to highlight some of the features defined in relation to the 1980-1982 Plan. It has three main characteristics from the standpoint of State action.

The first of these is the global character of the planning process. As indicated in the Plan, "planning processes, if they are to be effective and consistent, must cover all the instruments at the State's disposal: public expenditure, fiscal, financial, monetary, price, trade, labour and production policies, and, in general, all the tools available to the public sector for the orientation of national development".^{1/}

The second is its flexibility, stemming from the changing international conjuncture, which is of great importance for the development of the Mexican economy. Flexibility implies that the targets set up are not rigid,^{2/} and are periodically reviewed.

Last comes the diversity of mechanisms for attaining Plan objectives. The Plan in Mexico, is conceived on the basis of arrangements for concerted action between the public sector and the private and social sectors; and, within the public sector itself, between the federal government and the state authorities. Thus, in the National Planning Secretariat, four currents are distinguished: that of commitment, that of co-ordination, that of concerted action and that of inducement. The first of these mechanisms relates to the fact that the Plan is binding on the Federal administration. The second, co-ordination, is concerned with agreements between the Federal Government and the state governments. The third mechanism, arrangements for concerted action, consists in pacts or agreements between the public sector and the private and social sectors. The fourth, inducement, has

^{1/} Ibidem, p. 16.

^{2/} In the Plan document itself it is pointed out that "This is a document drawn up in times of international uncertainty and, therefore, does not establish rigid objectives, but holds out prospects on the basis of indicators which will be periodically reviewed, in a permanent planning context".

to do with all the instruments at the government's disposal for inducing the public, social and private sectors to follow the desired behaviour patterns.

(ii) Goals and results of the Plan

The development strategy put forward by the Plan for 1980-1982, points to the following objectives:

Reinforcement of the State's capacity to meet the demands of social development. Under this head are included encouragement of priority public expenditure and buttressing of public enterprise, but, at the same time, elimination of excessive subsidies;

Acceleration of the growth of the product. In this connection the proposal is to achieve a high growth rate for the gross domestic product (8% per annum over the period 1980-1982), with special emphasis on wage goods, fuels and the agro-industrial-food system;

Generation of employment. "The Plan recognizes that mere economic growth, unaccompanied by an abundant supply of remunerative employment in a just and self-respecting social and working environment, will afford no possibility of finding sound and lasting solutions for the problems of the economic and social structure;1/

Income redistribution. The Plan makes provision for a policy of redistribution and reduction of poverty, aiming at the "provision of minimum standards of welfare for the population, particularly the marginal groups, both urban and rural".2/

Establishment of efficient linkage with the outside world, in such a way as to encourage exports, rationalize imports and allow the modernization of Mexico's productive apparatus;

1/ Ibidem, p. 77.

2/ Ibidem, p. 79.

Control of inflation, at levels close to those of the countries that do a substantial amount of trade with Mexico, and such as will enable the population to purchase wage goods at prices within its reach;

Other objectives. Among these are included that of expanding the concerting of action with the private and social sectors, improving the educational system, and "inducing, with full respect for the freedom of the individual, reduction of the growth rate of the population and rationalization of its territorial distribution".^{1/}

As can be seen from the foregoing brief quotations, most of these objectives were present in previous development strategies in Mexico and other Latin American countries. The 1980-1982 strategy, however, has two distinctive features: the bigger role assigned to the State and the priority accorded to employment. The enhancement of the role of the State is reflected in different aspects of the strategy and is grounded partly on petroleum earnings. The priority assigned to employment stems from the Mexican economy's incapacity to absorb the underemployment that has been in existence for several decades.

The next step is to analyse the degree of implementation of some of the quantitative objectives established.

Mexico attained most of its growth targets in the period 1980-1981, particularly those established for the gross domestic product, employment and investment. In fact, the growth rate of the gross domestic product was 8.2% in the two-year period, while the annual rate projected was 8.0%. The targets for the creation of employment opportunities were comfortably reached, and the rate of overt unemployment in urban areas was reduced as shown above.

The objectives or projections were not fulfilled in two areas: the growth rate of exports was lower than had been programmed (70% of the rate predicted for the two year period), and inflation was higher than had been forecast.

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The picture described would not be complete, without a glance at the main problems encountered by the Mexican economy in the biennium, and the immediate and medium-term consequences stemming from the situation in question. In particular, the public-sector deficit and external indebtedness brought about an economic crisis in 1982 and 1983; of these factors an account is given in the following section.

(c) Short-term policies and the application of the Plan

From the institutional standpoint, the Secretaría de Planificación y Presupuesto (Planning and Budget Secretariat), which draws up the Global Development Plan, is also responsible for the preparation of the annual budget in Mexico. As stated in the document containing the reply of the Government of Mexico to the ILPES Survey, "in the attainment of the objectives of the PGD (Programa Global de Desarrollo 1980-1982) public expenditure was an irreplaceable lever". Consequently, fiscal policy was the most important tool in the sphere of planning. With this in view, certain changes were carried out in the Programming and Budget Secretariat during the two-year period 1980-1981;1/ two departments (those of Expenditure and Public Investment) were eliminated and six new ones were created (Agriculture and Fishing; Energy and Industry; Social Development; Administration and Finance; Budget Policy; and Federal Government Office of Personnel).2/ Bodies were also established, although, outside the Secretariat for General Co-ordination of Staple Commodity Programmes and Co-ordination of Public Health Services, both subordinate to the Office of the President of the Republic.

1/ The main faculties of the Programming and Budget Secretariat relating to the budget are: (a) to formulate the programme of federal public expenditure and the draft Presupuesto de Egresos de la Federación (Federation Expenditure Budget), which is submitted to the consideration of the President of the Republic; (b) to authorize the public investment programmes of entities subordinate to or forming part of the Federal Public Administration.

2/ Mexico's reply to ILPES Survey, p. 7.

The application of the Global Development Plan encountered two major difficulties: the fiscal situation and that of foreign trade. From the angle of fiscal policy, the Plan postulated a substantial increase in public expenditure, since it had been drawn up with an optimism deriving mainly from petroleum exploitation, which in the period 1977-1979 had expanded beyond expectations.

This climate of optimism was reflected in the Third Message of President López Portillo to the Nation (1979): "the possession of plenty of petroleum in a world eager for fuels and in a condition of economic disorder places us in a prominent position to promote our independent and self-sustained economic and social growth, and for the first and perhaps the only time in our history, enables us to delineate a country model that is both feasible and commensurate with our most ambitious political philosophy".^{1/} Three circumstances were unfavourable from the fiscal standpoint: the reduction of the fiscal revenue accruing from the tax reform, the falling-off in petroleum earnings (in relation to those programmed) as from 1981, and the lag in the adjustment of State enterprises' public tariffs and prices. The tax reform was introduced, but the expected resources were not obtained, and that contributed to the creation of a larger fiscal deficit than had been programmed. Moreover, as from the second quarter of 1981, the international petroleum market deteriorated, and the volume of exports decreased. This fact, of course, helped to swell the public deficit. The result was a situation in which public expenditure had to be reduced by 4%, in relation to the expenditure budgeted for the second half of 1981. Thus, in 1981 the fiscal deficit amounted to 14% of the product, exceeding the 12% level that it had reached in 1976.

The second area presenting obstacles to success in the application of the Plan was that of foreign trade. With this field the Programming and

^{1/} Quoted by D. Bitrán in "Rasgos sobresalientes de la economía y de la política económica de México en el umbral de los años ochenta", in El Trimestre Económico, Mexico, January-March 1983, p. 69.

Budget Secretariat and the planning system have less to do. Here, as in the area of monetary policy, the Secretariat "participates in the Committees which draw up these instruments,^{1/} contributing an expert opinion, although the operation of the instruments in question is in the hands of the specific departments responsible for the branches concerned".^{2/}

In the external sector, a combination of three circumstances occurred which was decisive in causing the unprecedented trade-balance deficit on current account: the rise in interest rates, the reduction (in relation to the sum programmed) of earnings from petroleum sales, and the overvaluation of the peso. The trade-balance deficit amounted to "nearly 13 billion dollars, a figure equivalent to 6% of the gross domestic product and 45% of the value of exports of goods and services".^{3/}

In 1981, owing to the above-mentioned difficulties in the area of foreign trade and in public-sector financing, the application of the Global Development Plan was revised in the areas of investment and imports. Some investments were deferred, and those which were thought to have the greatest capacity of generating employment were maintained, as well as social projects. In the sphere of public financing, tariffs and prices were raised (the domestic price of petroleum and petroleum products went up, and so did public service tariffs). Public expenditure, however, soared by 98% in 1981, in nominal terms, as against an increment of 45% in 1980. Current expenditure increased by 50%, approximately at the same rate as in 1980, while capital expenditure rose by 50% in 1981 as against 37% in the preceding year. The biggest increment was in debt amortization, which increased by 206% in 1981 in relation to 1980. But real investment, even so, expanded by 95% in 1981,

^{1/} The reference is to monetary, foreign trade, price, wage and employment policies.

^{2/} Mexico's reply to ILPES Survey, p. 19.

^{3/} ECLA, Economic Survey in Latin America, chapter on Mexico, August 1982, p. 5.

that is, by almost the same percentage as in 1980. On the other hand, the situation deteriorated during 1981 in respect of current income, which increased by only 38%. The fiscal deficit, which in 1980 had been reduced in real terms, rose by 106% during the following year. These maladjustments reveal a certain difficulty in applying restrictive fiscal measures and in controlling public expenditure, which partly represents a weakness in the planning system.

(d) Sectoral planning and regional development

The Global Development Plan, 1980-1982 was published in 1980. Most of the sectoral plans had already been published before. Among these were the National Urban Development Plan (1977), the National Industrial Development Plan (1979), the National Employment Programme (1979), the National Plan for Co-operative Development (1979). During the two-year period 1980-1981 the National Tourism Plan was published (1980) as well as the Federal District Urban Development Plan (1980) the National Education Plan (1980), and the Agroindustries Plan (1980). These plans were implemented mainly through public expenditure and were put into effect by the appropriate institutions. They have not always been linked with one another, however, nor co-ordinated with the Global Development Plan. Indeed, some plans published prior to the Global Plan contained different macroeconomic projections.

This situation is in line with the mode of development of the Mexican planning system, which is viewed as an organization in which there is a constant feedback resulting from the changes in internal and external circumstances.

In the territorial sphere, the Global Development Plan places marked emphasis on regional development and on the discouragement of economic and urban concentration in the Federal District and Guadalajara areas, as part of the industrial and agricultural development strategy. To that end fiscal and credit incentives are used, together with the physical planning of industrial projects in which the State is a participant. Another important element in the Plan strategy designed to boost regional development

is the emphasis laid on agricultural development and on food production. From the institutional standpoint, the COPRODES were replaced by the COPLADES. These institutions have a higher degree of autonomy at the regional level, inasmuch as they are no longer Federal but pertain to the states, and they have exerted a positive influence on the planning of regional development.

Summing up, it may be pointed out that in the two-year period 1980-1981 the achievements of the Mexican economy were considerable in respect of growth, in historical terms, and even in comparison with the recent record of steady growth over the past 3 decades: in four years the level of living of the Mexican population rose by 25%. From the sectoral standpoint, significant progress was achieved in the "Mexican Food System" and in the agricultural sector in general.

Great strides were also made in the social field. Institutionally, the planning apparatus was notably reinforced by the strengthening of the Programming and Budget Secretariat and by the emphasis placed on sectoral and regional planning. But external circumstances in 1980 and 1981 generated balance-of-payments disequilibria and a difficult situation in respect of public financing, which jeopardize some of the objectives of the Plan, besides creating inflationary pressures. As a result of all this, during 1982 severe restrictive measures had to be adopted to correct the above-mentioned maladjustments.

4. Planning in Trinidad and Tobago, 1980-1981

(a) Background data on economic trends in the two-year period

As is common knowledge, the Trinidad and Tobago economy is highly dependent on petroleum, a sector which contributes 36% of the gross domestic product, and which likewise constitutes a major source of public financing.

Up to 1980, the economic growth rate of Trinidad and Tobago had been considerable, with a rate of 7.3% in that year, one of the highest in Latin America. In 1981, partly owing to the evolution of petroleum prices

and production, the gross domestic product decreased by 2.7%. Inflation, the reduction of which was one of the important policy objectives during 1981, was lower during 1980 and 1981 than in 1979, a year in which it had amounted to almost 20%.^{1/} The foreign trade situation was very different from the picture shown by the rest of Latin America and the Caribbean, since both in 1980 and in 1981 a surplus was recorded on the trade balance and in the balance on current account.

Foreign exchange reserves increased during the period 1980-1981 by 200 million dollars, reaching a level of 3.6 billion dollars, equivalent to about 8 times the value of Trinidad and Tobago's external debt. The movement of the terms of trade was still favourable during 1981, but this situation changes in 1982.

(b) Economic growth in the 1970s

Trinidad and Tobago underwent a fundamental change in its economy during the 1970s, thanks to the development of petroleum and the rise in petroleum prices as from 1973. The successive price increases, from 3.3 dollars per barrel in 1973 to 31.3 dollars in 1980, multiplied export earnings several times over. (It should be noted, too, that the real price of petroleum was multiplied by 4.4 between 1973 and 1980.) In 1974 a fiscal reform was introduced by virtue of which a large proportion of the exceptional petroleum profits was transferred to the State.

Thus the gross domestic investment coefficient ^{2/} climbed from 0.23 in 1973 to 0.27 in 1977-1979. Between 1973 and 1979 the annual growth rate of investment was 21.0%, compared with an annual increase in the product of 8.7%. Public investment far outsoared private investment, shooting up from 5.7% of the product in 1973 to 14.9% in 1977-1979.

^{1/} Variation in the consumer price index.

^{2/} Gross domestic investment/gross domestic product.

At the same time, to prevent an unduly large increase in imports and domestic consumption, gross domestic saving was stepped up, and rose from 26.3% of the product in 1973 to 41.4% in 1977-1979. In order to turn petroleum earnings to good account, a number of National Development Funds were established to execute investment projects in various sectors of the economy. Among these were the following: Food and Agriculture Fund, Petroleum Development Fund, Building Projects Fund, Caribbean Integration Fund, Roads Fund, Housing Fund, Participation in Commercial Enterprises Fund, University Radical Complex Fund, etc. Thus, public expenditure came to represent 40% of the gross domestic product, including a substantial infrastructure, social services and welfare component, besides participation in commercial enterprises.

Other developments during the period were the increase in domestic saving invested outside Trinidad and Tobago and the maintenance of an expanding volume of international reserves.

Thanks to the sustained growth rate of the product, up to 1980 the rate of overt unemployment was gradually and steadily reduced. In 1975, it stood at 15%, from which level it fell to 11% in 1980.

(c) Development plans in the period 1980-1981

In Trinidad and Tobago there has been no development plan since 1973. What would have been the fourth national plan ought to have been formulated in 1975. However, a different procedure was followed. The essential instrument of government action became the annual budget, through which each of the many agencies that had been coming into being and expanding since 1973 set about defining their own investment projects. This triggered two main problems: dearth of human resources and shortage of financial resources. Most of the projects began to require more and more skilled manpower, both in the technical and in the administrative field, with the result that the various public sector agencies started to compete with one another for the personnel in question; at the same time, the cost of the projects proved higher and, in many cases, the periods envisaged for putting investments into effect were longer than had been projected. From 1975 onwards relatively

considerable deficits occurred in public expenditure in national currency, and these difficulties grew worse in the period 1981-1982.

From the 1982 Budget Speech of the Prime Minister and Minister for Finance and Planning information can be gathered as to the scope and purposes of planning vis-à-vis the most decisive challenges with which the government was confronted. Among them are mentioned across-the-board boosting of levels of productivity; encouragement of the export sector; expansion of food production and dynamization of the housing and transport sector; but, above all, improvement of the efficiency of public enterprises. In addition the Government aimed at broadening the coverage of the social sectors and facilitating popular participation in development tasks. To planning, specifically, the following functions were assigned: (i) preparation of a medium-term public-sector investment programme as an initial phase in the evolution of a long-term multisectoral plan; (ii) preparation of the overall plan of Government expenditure within the existing financial constraints.

As regards the institutional framework, it should be pointed out that the National Advisory Council established in 1976, which had drafted the five-year report in mid-1981, was superseded by the National Economic Planning Commission, of which the Technical Secretariat is the Ministry of Finance and Planning.

In 1982 a Task Force for planning was set up at the government level. The objective of this group was to reformulate multisectoral planning, in view of the stagnation of petroleum prices since 1981, the decline in domestic production, and the commitments already assumed on account of the vigorous investment effort were undertaken by the public sector.

In this context, the government wishes to re-open the discussion on planning, not necessarily re-creating the plans that had been made before 1973, but identifying the main economic likely to arise, in view of the changes foreseen in the external escenario.

5. Planning in Uruguay, 1980-1981

(a) Background data on economic trends in the two-year period

During the second half of the 1970s the growth rate of the uruguayan economy was relatively high, within a liberal economic policy which placed emphasis on export promotion, as proposed in the Plan for 1973-1977. This process reached a critical point, however, during the two-year period 1980-1981.

In 1980, which was the last year of expansion in the 1976-1980 cycle, the growth rate of the gross domestic product was slightly lower than in the quinquennium as a whole --only 4.5%. There was a boom in the agricultural and construction sectors, which expanded at rates of 11% and 9%, respectively. In 1980, international reserves increased for the fifth consecutive year, the growth rate of exports being 30%, for example, the same as that of imports.

The year 1981, however, began to reveal a picture appreciably different from that of 1980, owing to several special circumstances. In 1980 there was a change in political expectations after the rejection of the constitutional formula proposed by the Government in a plebiscite held in November.

Furthermore, devaluation in Argentina as from March 1981 began to push up the price of assets in Uruguay, with the resultant weakening of the former strong incentive for Argentinians to invest in real estate in Uruguay. At the same time, Brazil affected a maxidevaluation, which also reduced the volume of the country's import and tourist trade. Lastly, the fall in international prices of meat and wool, the traditional staple exports of Uruguay, meant that the economic situation deteriorated. The growth rate of the gross domestic product was negative in 1981, declining --for the first time since 1972-- by almost 1%.

Inflation was again reduced in 1981. After reaching 60% in 1979, it dropped to 43% in 1980 and went down to 30% in 1981. As part of stabilization policy the rate of devaluation of the peso was kept below that of domestic inflation, and this also has a negative effect on exports and on import-substituting domestic production.

On 1 September 1981 a new administration assumed the government of Uruguay and a period of three- and-a-half years was scheduled for the return to a civilian government and the proposal of a new constitution.

(b) Main economic policies in 1980-1981

Uruguay's economic policy model is similar to those applied in Argentina and Chile in the second half of the 1970s. It is based upon emphasis on the role of the market in resource allocation and on that of the private sector as the leading agent of the economy, together with a conservative fiscal policy, in which the aim of the public sector is to balance the budget.

The economy has opened up to the exterior, with an exchange rate attractive to exporters and tariff levels designed to encourage production only of those goods in respect of which Uruguay has comparative advantages. As regards the monetary market, with the reduction of the fiscal deficit, the main source of issues consists in net liquidations in the foreign exchange market. An intensive inflow of external capital is ensured by a liberalization of interest rates which keeps them at levels far above those current on the international market. From the standpoint of growth, the inflow of capital makes it possible, according to the model, to increase the supply of loan funds for financing investment projects. In line with this general philosophy, the following were the main economic policy measures adopted during 1980-1981:

(i) Control of the public-sector deficit

In 1979 the public sector showed a surplus, and in 1980 its accounts were balanced. In 1981, however, the deterioration of the economic situation brought down tax revenue to a lower figure than had been budgeted, giving rise to a deficit of 5% of total expenditure.

This has cast doubts on the possibility of maintaining a balanced-budget policy for 1982 and the subsequent years, while it is apparently becoming difficult to attain anti-inflationary objectives and those pursued by the policy of nominal exchange stability.

(ii) Exchange policy

The devaluations carried out by Argentina and Brazil affected Uruguayan exports, as well as income from tourism. Exchange policy took the form of maintaining pre-announced mini-devaluations ("crawling-peg" policy), which were lower than the rate of inflation. In order to attract the flow of capital required to close the widening trade gap, the rate of bank interest was kept at high levels (in 1981 it reached about 60%, in comparison with a 30% rate of inflation, a measure which was successful up to 1981).

(iii) Openness to the exterior

Although a policy of openness was pursued, tariff reductions were uneven, and changes in decisions took place, some tariffs being reduced at first and then raised again.

Fiscal considerations induced an increase in tariff duties from 50% to 77% for some products which Uruguay does not and will not potentially produce. In contrast, tariff rates for intermediate goods in general were kept at 10%.^{1/}

(iv) Monetary and credit policy

A restrictive monetary policy was pursued, in line with the objective of curbing inflation. Liquidity in the economy was reduced in real terms in 1980, a circumstance which began to affect the level of activity. During 1981, moreover, high rates of interest, combined with the fall in agricultural prices faced farmers with a difficult indebtedness problem. The government consented to sponsor a renegotiation of debts at the end of 1981. This too has raised doubts as to the coherence of the credit policy model of "not favouring any sector at the cost of another", as proclaimed by the authorities.

(c) Planning and "conclaves" in the period 1980-1981

Uruguay has had three development plans in the course of its history. The first, corresponding to the period 1965-1974, and prepared

^{1/} Quaterly Economic Report, London, The Economist Intelligence Unit, First Quarter 1982, p. 6.

by the Commission on Investment and Economic Development, was abandoned shortly after its publication. The Planning and Budget Office presented a new Plan for the period 1968-1972, which was not implemented in its entirety.

For the period 1973-1977 a fresh plan was prepared, which propounded the economic strategy that has been basically followed by the government since 1974. This plan placed emphasis on support for private enterprise, incentives to foreign investment and encouragement of exports. Although these guiding principles have been maintained, the Plan as such was not implemented; subsequently no new development plans have been formulated in Uruguay, which has resorted to a different procedure for defining and co-ordinating economic policy.

The year 1973 witnessed the earliest of the meetings called conclaves, 1/ which brought together the President of the Republic, Ministers and principal functionaries, as well as representatives of the Armed Forces. These conclaves have no legal sanction, but they are the meetings on the basis of which the essential features of Uruguayan government policy have been established. They are not held at legally-established intervals, nor is there any rule determining their membership, but at all events they are the most important mechanisms for defining and co-ordinating government policy.

In 1974, as a result of the San Miguel and Colonia Suiza conclaves held in the previous year, a document was published under the title of "Política Comercial de la República" ("Trade Policy of the Republic"),

1/ "Planning in Uruguay has been characterized (since 1974) not by the establishment of rigid objectives and quantified targets but by lines of policy which are sufficiently flexible to be adjusted to the changes that the conjuncture requires. Periodically, Government Conclaves are held, in which what has been done in the preceding period is evaluated, and objectives and policies are established which will provide guidelines for the decisions to be adopted in the ensuing period." Uruguay's reply to the ILPES Survey.

which virtually superseded the Development Plan for 1973-1977, since substantial economic and political changes had occurred during 1973.

At the end of 1981, Piriápolis was the scene of the Fifth Conclave, at which the main features of the preceding conclaves were taken up and the foundations of the development strategy were laid.

As stated in the Piriápolis document.^{1/} "It was felt that economic growth and development would be achieved by exploiting the country's comparative advantages, to which end internal economic liberalization measures were adopted and were accompanied by increasing openness to the exterior."

The handling of short-term policy was based on the monetary approach to the balance of payments, as pointed out in the same document: "The objective of elimination of the fiscal deficit (once) attained, devaluation of the national currency ceased to be an indispensable mechanism for the conservation of international reserves. The pre-announced exchange rate, in an increasingly open economy, came to constitute the pivot of the price system, determining the absolute level of prices and --when the period of adjustment was over-- the tempo of their variation or the rate of inflation, in accordance with the pre-announced rate of devaluation and the international inflation incorporated in the goods imported and the goods imported and exported by the country."

In respect of resource allocation, steps were taken towards freer operation of markets, with the intention of securing more efficient allocation of resources available in Uruguay. To that end an attempt was made to eliminate the tax and tariff regulations existing in the economy.

^{1/} Office of the President of the Republic, Planning Co-ordination and Diffusion Secretariat, Lineamientos básicos de la política económica y social. Cónclave Gubernamental, Piriápolis 1981, Eastern Republic of Uruguay, Montevideo, 1982, p. 4.

In short, a new mechanism was instituted for the definition and co-ordination of public-sector policies and activities and for the guidance of the private sector. These conclaves differ in several ways from the plans formulated before: (1) quantitative targets are not established for the economy or for the various sectors of production; (2) their reports do not contain a detailed list or estimate of the resources to be used over the period in which their decisions will enter into force; (3) they are not held at predetermined intervals, nor are their lines of policy established within an explicit time framework, although implicitly they have coincided with changes in the economic and political situation, some of which have been foreseen; (4) their decisions are more binding on the public sector than those normally found in development plans in Latin America; and (5) the conclaves generate decisions with respect to short-term policy, which also distinguishes them from the former development plans, prepared for the medium term and containing no decisions of that type.

(d) Institutional mechanism

The responsibility for implementing short-term policies, in line with the strategic orientations laid down in the conclaves, is mainly incumbent upon the Ministry of Economic and Financial Affairs and the Central Bank.

The Secretaría de Planeamiento, Coordinación y Difusión (SEPLACODI) (Planning, Co-ordination and Diffusion Secretariat), the institution legally responsible for planning work in Uruguay, has had an important role to play in relation to public investment, which must be approved by it in order for the Ministry of Economic and Financial Affairs and the Central Bank. appropriate budget attribution. Responsibilities were also assigned to it, as from the Piriápolis Conclave, in the following areas:

In the field of public investment, its faculty of "approving public investment plans with a three-year time horizon and annual adjustments" was reaffirmed.^{1/} It is also allocated methodological responsibilities in connection with the preparation and presentation of investment plans.

^{1/} Piriápolis Conclave, p. 97.

With respect to public enterprises, SEPLACODI is responsible for "setting up a Task Force with the participation of whatever State organs it may deem desirable, to provide advisory assistance to the Executive Power in the delimitation of those activities which must be considered strategic for reasons of sovereignty or security or general interest; in the determination of non-strategic areas to be developed by private enterprise; and in the establishment of a legal and organizational régime whereby criteria and competitive entrepreneurial action can be imposed".

It was also accorded faculties to give advisory assistance in the privatization of public enterprises, and in the formulation of tariff and subsidy policies enabling State enterprises to obtain adequate returns.^{1/}

In the area of natural resources and environment SEPLACODI is responsible for establishing a Task Force and proposing an institutional framework for the development, "on regional, organized and co-ordinated lines, of activities aiming at the conservation of natural resources and the preservation of the environment".^{2/}

With regard to territorial development, SEPLACODI has a mandate to promote mechanisms for co-ordination among the Task Forces and the various State departments responsible for the implementation of regional projects, in keeping with the objective of improving income levels in the country's relatively more depressed zones and regions.

(e) The conclaves and economic policy

The directives emanating from the conclaves were gradually implemented, within the overall framework of financial liberalization and a restrictive monetary policy.

During 1980-1981 the policy of privatization of enterprises that had previously been announced was not applied, despite official declarations of the government's intention to put it into effect. The main reason seems to have lain in the overall market situation, given the prevailing recessive trends. It is not easy to see what Uruguayan entrepreneurial

^{1/} Ibidem, p. 99.

^{2/} Ibidem, p. 104.

groups could take over the enterprises, in a situation such as that described. On the other hand, a substantial sale of assets to foreign enterprises is a step that has not obtained full government backing; apparently concern is felt with respect to mass purchases of real estate and land by foreigners.

Short-term economic policies also diverged from the basic lines of action announced.

In the monetary field, a restrictive policy was pursued during 1980, albeit a few preferential credit lines for agriculture; were maintained the policy of liberalization of interest rates was continued, but at the end of 1981, in view of the level to which these rates had mounted (about 60% per annum), proposals began to be put forward for their "non-fixed" reduction, 1/ in order to palliate the serious problems that the high cost of financing was creating in some sectors of production, particularly agriculture.

In the area of fiscal policy, public expenditure remained at a relatively stable proportion of the GDP, despite the declared objective of reducing the size of the public sector. In 1972-1973 the expenditure in question had amounted to some 16% of the product, and in 1980 it reached approximately 16.5%. Only in April 1982 was it announced that the maintenance of public expenditure in nominal terms would mean its reduction in real terms, given the level of inflation still prevailing.2/

To sum up, it may be concluded that in Uruguay, although there was no development plan in force, some elements of a planning process did exist, and were applied as from 1974. There was a policy project and mechanisms were designed for putting it into effect. The main authority for economic planning and policy was constituted by the conclaves and, during the period 1980-1981, the decisions they adopted aimed at a higher degree of openness to the international economy and fuller participation

1/ In January 1982, after conversations between the banks and the Government, the former uniformly lowered interest rates by approximately 15%.

2/ See Latin America Regional Reports, Southern Cone, London, England, Latin American News Letters Ltd., April 9, 1982, p. 5.

in the economy by the private sector and the market. The application of short-term policies combined with export market trends implied a high level of external indebtedness, and also, given the priority accorded to the objective of reducing inflation, a progressive overvaluation of the peso. From 1981 onwards, in consequence of the change in conditions in external capital markets, as well as of trends in the Argentinian and Brazilian economies, some of the mechanisms for the application of the model began to be shelved, in particular the pace of tariff reductions, exchange policy and financial openness.

Thus, the coherence of the model applied up to 1980 was impaired by a combination of unfavourable external factors joined with unforeseen negative effects of some of the economic policies pursued.

6. Planning in Venezuela, 1980-1981

(a) Background data on economic trends in the two-year period

During the years 1980 and 1981, the Venezuelan economy laboured under conditions of relative economic stagnation, in which the gross domestic product fell by 0.3% on an average, the situation being more recessive in 1980 than in 1981. This state of affairs started in 1979, when a policy of relative economic austerity was launched with the aim of limiting the growth of public expenditure and overall demand. To that end, investment expenditure was reduced, a policy of placing prices on a realistic footing was applied and a restrictive monetary policy was put into effect. The rate of overt unemployment began to rise, and urban underemployment likewise increased. The former reached 5.4% in 1979, 5.9% in 1980 and 6.5% in 1981.

As a result of the price liberalization policy, during 1980 inflation spiralled at an annual rate of 19.6%, but the restrictive monetary policy brought it down to an annual rate of approximately 11% in 1981.

In the external sector, the year 1981 closed with a surplus on current account of about US\$ 4 billion, which was somewhat below the 1980 figure, and was obtained by virtue of the continued increase in the

price of petroleum (12%), which offset both the contraction in the volume of exports of goods and services and the higher value of imports. In consequence of a net capital outflow of US\$ 1.5 billion, partly caused by the negative differential between the internal and international rates of interest, the global external balance closed with a surplus of US\$ 2.5 billion and accrued reserves amounting to a similar sum. The increase in the external debt was marginal.

(b) Venezuela's Five-Year Plan, 1981-1985

During 1981 the Sixth National Plan (1981-1985), consisting of the overall plan and twelve sectoral plans was adopted and established the following global objectives: (a) to improve national income distribution, (b) to attain a steady and permanent rate of economic growth, (c) to step up the efficiency and productive capacity of the economic system, (d) to strengthen the socio-cultural processes of the population with the aim of consolidating the democratic system, (e) to reduce interregional disparities, (f) to maintain the export potential of petroleum and petroleum products.^{1/}

In the explanatory introduction to the Sixth Plan mention is made of the linkage existing between the improvement of income distribution and the expansion of employment, matters which are the object of specific policies to attain the objectives established. Major emphasis is also placed on the question of regional development and the need to reduce the interregional differences existing in Venezuela.

The economic strategy propounded by the Plan posits the maintenance of output levels in the petroleum sector, in which, however, a large-scale investment programme will be put into effect with a view to expanding future production capacity. This programme is expected to afford the industrial sector ample opportunities to enter upon a new phase of import substitution, especially in respect of capital goods. Similarly, the improvement of income distribution is aimed at dynamizing the domestic food market and a wide range of manufactured wage goods.

^{1/} See Republic of Venezuela, Central Co-ordination and Planning Office of the Office of the President of the Republic, VI Plan de la Nación 1981-1985, Caracas, 1981, p. 16.

The strategy also postulates the improvement of the efficiency and production capacity of the system, a goal to be attained through more efficient utilization of idle installed capital and by the incorporation of modern technological processes. In this connection, and also to strengthen the structure of industry, incentives to foreign investment -regarded in the Plan as a strategic variable- will be maintained. Lastly, the strategy indicates the need for reduction of interregional disparities in income and employment, organization of the territorial distribution of economic activity and greater participation of the population in development activities. The attainment of these objectives, and of those established in the social area, will ultimately make it possible for the democratic system to be consolidated and perfected.

(c) The objectives of the Plan and economic trends in the period 1980-1981

It is clearly too early to attempt an evaluation of the degree to which the objectives and targets of the Plan have been attained, since 1981 was the first year of its application. Attention may usefully be drawn, however, to the factors which in that year had a favourable or unfavourable impact on its implementation.

For the period 1981-1985 the Plan posited an average growth rate of the product of 3.5% or 4.5%, according to the hypothesis considered.^{1/} In 1981 the product increased by only 0.6%, mainly owing to the decline in exports of goods and services, whose volume contracted by 6.3%, and to the almost total absence of variation in the terms of trade. After two years in which the latter had substantially improved, in 1981 the rise in the price of petroleum and other exports was offset by the increase in import prices. Furthermore, the restriction of domestic demand deriving from the stabilization programme launched in 1979 had contractive effects on manufacturing output, which increased by only 1.3% in 1981, and on construction, which declined by almost 3%. It must be recalled that the Plan came into force after gross fixed investment had fallen by 16% and 11% in 1979 and 1980, respectively.

^{1/} The Plan postulates two hypotheses, one "low" and one "high".

For the same reasons noted, other indicators failed to keep pace with the postulates of the Plan. For instance, the Plan envisaged an increase in employment averaging between 3.5% and 3.8% in the period 1981-1985. In practice, the growth rate of employment was approximately 3.5% during 1980, but in 1981 it was lower; reaching only 2.5%. Thus overt unemployment in the economy could be observed to increase from 5.4% in 1979 to 6.3% in 1981, while output remained virtually static. This implies that there was a reduction in productivity in the two-year period, which suggests that underemployment may have increased. With respect to exports, the Plan assumed that these would diminish slightly at an annual rate of 0.1% during 1981-1985. But in 1981 the volume of exports shrank by 8.5%, which was a contraction far in excess of what had been anticipated, attributable mainly to the falling-off in the hydrocarbons market.

Since 1981 was only just the first year of the Plan, it is to be hoped that as a result of the application of the economic policies it incorporates and of favourable changes in external markets, the Venezuelan economy will return to the path mapped out by the Plan, and will fully achieve its objectives and targets.

(d) The institutional organization of planning

During the period 1980-1981 no major alterations took place in the Venezuelan planning system. The Oficina Central de Coordinación y Planificación de la Presidencia de la República (CORDIPLAN) (Central Co-ordination and Planning Office) is of course the institution responsible for planning activities, providing advisory assistance to the Office of the President of the Republic. For the definition of sectoral plans there are Sectoral Planning Committees, formed by those responsible for planning in the institutions linked to the sector, and chaired by the Director of Planning of the Ministry in charge of this area within the Executive.

In order to organize and co-ordinate the public indebtedness process, a committee for the financial co-ordination of state credit activities was set up (Comité para la Coordinación Financiera de la Gestión Crediticia del Estado), whose functions will be that of centralizing the negotiation of credits and standardizing loan procedures, with the aim of securing more

expeditious access to financial markets and better treatment therein. It is formed by the Presidents of the financial entities corresponding to CORDIPLAN, the technical secretariat.

Similarly, to link planning with economic policy, in 1980 and 1981, short-term operational plans were presented. These plans are submitted by CORDIPLAN in July of each year, so that Congress may take them into consideration in the debate on the next year's budget.

In the field of regional planning, several lines of activity have been promoted. In 1980, for example, the National Council for Regional Development resumed its activities. There are seven Regional Development Corporations, two of which were established in 1981: the Development Corporation of the Region of Los Llanos and the Development Corporation of the Central Region. The function of these corporations is to "study, investigate, plan, co-ordinate, control, finance and promote regional development".1/

The most important changes in the planning process consisted in the regionalization and sectorialization of the Sixth National Plan. To that end the Sectoral and Regional Planning Committees were created.

(e) Planning and short-term policies

The Plan is mainly in the nature of a guide for the public sector, since "there is no mechanism to ensure that the objectives established by the Plan will be fulfilled by the various public-sector institutions".2/

The principal form taken by the participation of planning in short-term policy is the contribution of expert opinions, so that the objectives of the Plan may be taken into account in the formulation of short-term policy. A case in point is the part it plays in collaboration with the Board of Directors of the Central Bank of Venezuela, and with various sectoral authorities.

Short-term policies in general have not been linked with medium-term plans; in the medium-term lines of policy laid down in the Sixth Plan, however, some references are made, by way of orientation, to short-term policies.

1/ Venezuela's reply to the above-mentioned ILPES survey.

2/ Ibidem, p. 32.

During 1982 a start was made on a revision of the Sixth Plan in the light of two circumstances: the new external situation, and the application of internal policies designed to control monetary growth and to reduce the fiscal deficit. The new external situation stemmed from the increases in external debt servicing, from the stabilization of petroleum earnings, and from the flight of capital mainly attributable to the differential between Venezuela's interest rates and those of the main international financial centres. In this situation of greater austerity, with fiscal revenue affected by the reduction in the real price of petroleum, and with a restrictive monetary policy, the level of expenditure proposed in the Sixth Plan was reduced.

Chapter IV

ECONOMIC POLICIES DURING THE BIENNIUM 1980-1981

There are obvious connections between the planning process and the formulation and implementation of economic policy. Accordingly, the present chapter, after making brief reference to the critical economic situation prevailing since 1980, reviews the economic policies applied by the countries during the two-year period, in the fiscal, monetary and foreign trade area. A third section contains an overall analysis of how the external framework conditioned these policies, and, lastly, in the fourth section, the weak features and strong points of planning are examined in relation to the management of short-term policies. In the annex are recorded the generic formulations of fiscal, monetary and foreign trade policies, as they are outlined in the development plans of a group of countries of the region.

Given the complexity and comprehensive range of the subject, its treatment is necessarily in the nature of a synthesis; in addition, where information permits, the analysis has been extended up to 1982.

1. Background of economic trends in 1980-1981

What emerges as the essential feature of the trends followed in 1980-1981 is the slackening of the pace of regional growth. During the second half of the 1970s the region had attained notable growth rates, considering the constraints imposed by the external framework -the petroleum shock and the behaviour of the central economies. In fact, during the six-year period 1974-1980 the annual growth rate of the OECD countries averaged 2%; over the same period, the corresponding figure for Latin America was 5%.

This behaviour fostered hopes that the countries of the region might gradually become more independent of international economic trends. In reality, it was determined only by a strategy based on external borrowing which took advantage of the favourable international liquidity conditions prevailing, and which counted on their lasting over the medium term.

An initial negative effect was felt as early as 1981: the region's growth rate was only 1.5%, the lowest since 1940; the per capita product also declined (1%), something which had not happened since 1959. In the following year, the situation grew worse: the total gross domestic product decreased (1%), in consequence of which the per capita product fell by 3.3% and was reduced in each and all of the countries on which ECLA has comparable data at its disposal.

The biennium 1980-1982 also witnessed an acceleration of inflation; during this period the average annual rates of variation in consumer prices were 56% and 57%, respectively, which implied an increase for the fourth year in succession, while there was also a wider inter-country diversity of inflationary situation.

In 1982 inflation in the region spiralled to an unprecedented level, with a weighted average rate of nearly 80%. It increased in 13 of the 23 countries on which data are available, its acceleration being particularly marked in Argentina, Bolivia, Costa Rica and Mexico. Although with individual features in all these cases, abrupt devaluations ultimately had a heavy impact on the level of domestic prices. Colombia stands out as an exception to this rule, since in 1982 not only did its rate of inflation decline, but it completed a decade of notable stability in its annual price variations.

The two-year period also represented a breakaway from the downward trend in overt unemployment which had been observable up to 1980, since this rate rose in 1981 and in 1982 attained figures unusually high for the region.

Furthermore, the distressful conjuncture through which the region is passing has thrown into relief the independence of social objectives apparent in the management of economic policy, and the lack of linkage between the two areas. Where the prevailing strategy was one of growth with automatic distribution it affected equity from the start because of the lower growth rate, but the unfavourable effect on income distribution

was still greater when the essential weight of the adjustment was borne by the labour market, overt unemployment and urban and rural underemployment increasing, and real wages decreasing. The negative social impact was aggravated by the reduction in public expenditure on social programmes of a labour-intensive character or supplementary to job-intensive private programmes.

Indubitably, the external disequilibrium noted as from 1980 became the principal cause of the performance of the Latin American and Caribbean economy described, decisively affecting its import and debt service capacity and exerting an adverse influence on economic growth, employment, price stability, income distribution and resource allocation.

Moreover, the behaviour of the sector, as will be seen in the following sections, critically jeopardized the management of economic policy and the work of planning.

2. The economic policies applied during the period 1980-1981

An account is given here of the main short-term economic policies applied during the two-year period 1980-1981 in most of the countries of Latin America and the Caribbean, and for that purpose an ad hoc classification was made in each case. Those analysed are: fiscal, monetary and foreign trade policies.

(a) Fiscal policies

The fiscal policies applied during the biennium were of a diverse character, owing both to the different objectives pursued and to the problems faced by the various countries. Basically, three types can be identified: (i) expansionist policies with regard to government expenditure and programmes; (ii) policies to reduce the fiscal deficit; (iii) policies for keeping the budget balanced.

The first of these categories is exemplified in Mexico, Paraguay and Saint Lucia; the second in Peru, Colombia, Honduras, Dominican Republic

Jamaica, Venezuela, Costa Rica and Brazil; and, lastly, the third in Uruguay, Trinidad and Tobago and Chile.

(i) The countries which have established expansionist programmes have done so for different reasons. In Mexico's case, they were based on a strategy with substantial State intervention, which gave priority to employment and redistribution objectives and in this context entailed a notable increase in public expenditure. This form of expansion was due in the case of Saint Lucia to the maintenance of the effort to restructure the national economy, and in that of Paraguay to the continuance of the investment programme, as well as to the increase in government services, in the context of an economy which had been growing at a rapid rate during the quinquennium 1975-1980. In the three instances analysed, the proportion of the GDP represented by public expenditure increased during the period under consideration. On the income side, difficulties differing in intensity arose, with the result that income grew proportionately less than expenditure. The adjustment was made through an increment in the public sector deficit (Mexico) or the appearance of a deficit of moderate size (Paraguay). These situations were unfavourably affected by the international recession (in Mexico's case by the fact that petroleum earnings were less than had been budgeted). In consequence of the magnitude of the imbalances 1/ in Mexico public policies had to be drastically revised in 1982, given the impossibility of keeping up the policy of expanding expenditure.

(ii) The countries that applied policies to reduce the public-sector deficit obtained dissimilar results, particularly as regards the effects on public investment. Almost all the countries were relatively successful in cutting down the public-sector deficit, but did not manage to do so on the scale desired (Costa Rica) or did so only in 1981 (most countries). On the other hand, there were countries in which no reduction of the deficit was achieved, as in the case of Peru and Honduras.

1/ In 1981 the public deficit amounted to 14% of the GDF.

Most of these countries, simultaneously with the application of policies of containment of public expenditure, revised public enterprise tariffs and prices.

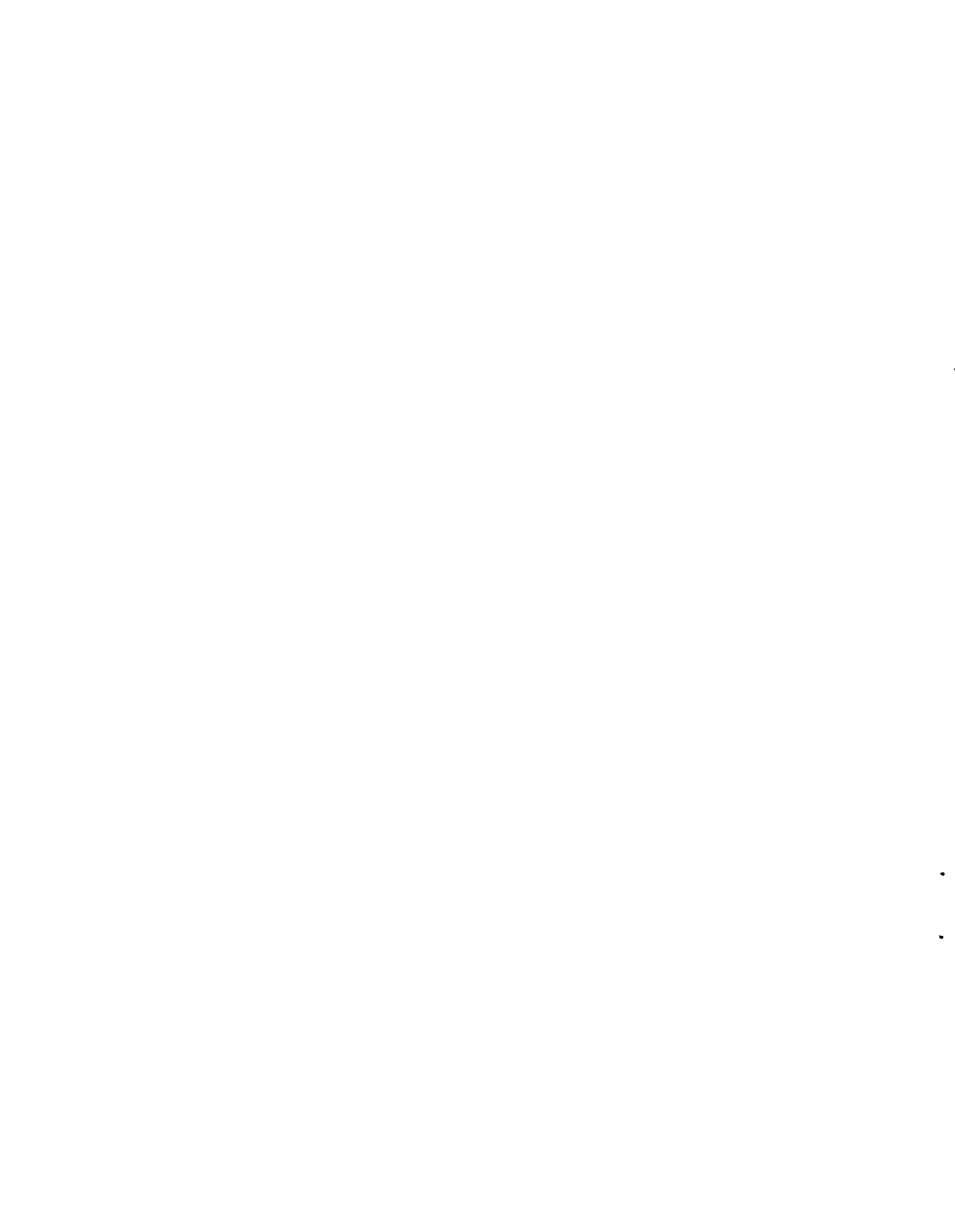
(iii) Generally speaking, the countries in the third group mentioned --those whose objective was to keep the budget balanced-- reached the goals established: Chile and Trinidad and Tobago showed budget surpluses and Uruguay had a slight deficit amounting to barely 1% of expenditure. This was achieved by means of an improvement in the collection of tax revenue, as well as through increases in the prices and tariffs of public services.

(b) Monetary policies

The conditions of application of monetary policy, levels of inflation and, in general, the problems encountered have differed in nature and magnitude in the different countries, and this has set a very distinct stamp on the character of the policies concerned, which can be classified under three basic heads: (i) markedly anti-inflationary policies; (ii) policies for the control or limitation of inflation; (iii) expansionist policies.

Policies of the first type were those pursued mainly by Uruguay and Chile, which sought to bring down inflation to international levels, maintaining or improving, in addition, the competitiveness of domestic industry and enterprises vis-à-vis the rest of the world. To this end exchange policies were adopted consisting in adjustments lower than the rate of inflation (Uruguay) or in a nominal exchange rate pegged to the dollar (Chile). Owing to the situations that arose in the financial systems of both countries during 1981 another objective was added: that of maintaining the solvency of the financial system. For this purpose support was given to financial and banking institutions in the two countries. Furthermore, as a mechanism of adjustment to the crisis which began to make itself felt during 1981, interest rates were allowed to rise more steeply on the domestic market, whereby saving was encouraged and the level of expenditure in the economy was reduced.

The desired results were obtained in terms of rates of inflation: in both cases the monetary situation was tightened up and inflation was reduced.



The desired results were obtained in terms of rates of inflation: in both cases the monetary situation was tightened up and inflation was reduced. These successes were dimmed, however, by a decline in employment and production and a critical balance-of-payments situation, which was especially notable as from the second semester of 1981.

A second group of countries aimed at keeping domestic inflation under control by means of a more active policy on the part of the monetary authorities than was pursued in the foregoing group, besides setting a higher value in short-term management on economic policy objectives other than inflation. Cases in point are afforded by Argentina (from early 1981 onwards), Brazil, Costa Rica, Honduras, Jamaica. In Argentina, a turning-point occurred in 1981. Up to approximately March of that year, the policy applied had been similar to that of Uruguay and Chile, i.e. based on the monetary approach to the balance of payments. But the loss of international reserves, expectations of devaluation, and the speeding-up of inflation, made it very difficult to maintain such a policy, for which reason the path chosen was that of devaluation and the granting of credit to the public and private sectors, so that the product should not decline more sharply than it was already diminishing. Brazil was, up to a point, in an opposite position. Since 1979 the country had been facing a difficult balance-of-payments situation, owing to the rise in petroleum prices. During 1980, a sufficiently effective adjustment to this situation had not been contrived, with the result that the external debt had increased inordinately, as had also inflation. This led to the adoption of a restrictive policy as from 1981, when the growth of credit was controlled, and a monetary constraint became apparent in the economy which brought down the level of the product and thereby that of imports.

In the third group of countries -including principally Ecuador (1980) and Mexico- monetary policies of a more expansionist character were applied. In both the countries mentioned, among the priority objectives was the maintenance of a given level of public expenditure,^{1/} which could not

^{1/} In both countries the increases in public expenditure greatly exceeded the increase in the product.

be entirely financed by taxation and external credit, for different reasons in each country. Government programmes were an integral part of the development plans, in which priority was given to increasing employment, as well as to redistributive objectives. In Ecuador, this policy was given up during 1981, owing to the inflation which had been generated, as well as to the difficult foreign exchange situation encountered during that year: public investment programmes were severely cut down in relation to the Plan. In Mexico an expansionist monetary policy was pursued, while at the same time credit was increased, mainly in order to finance an ambitious public investment programme, as well as for distribution and employment purposes: credits for agriculture, small-scale industry, etc. On the other hand, the expansion of credit made for difficulties on the foreign exchange market, through which a flight of capital was channelled in 1981 which was even larger than the outflow that had taken place during the critical situation in 1976.

(c) Foreign trade policies

Foreign trade policies bore witness to the harshness of the effects of the international recession on Latin America. They reflect the way in which the economies reacted to the recession.

As has been analysed in a number of documents,^{1/} two main changes came about in the biennium: the rise in petroleum prices (in 1979) and the upswing in international interest rates, besides the contraction of world demand and the deterioration of the terms of trade for the non-petroleum-exporting countries.

Here three types of policies applied can be distinguished:

- (i) Those aiming at "automatic" adjustment;
- (ii) Those based on periodic devaluations;
- (iii) Those based on import controls.

(i) Policies of the first type were applied in Uruguay, Argentina (up

^{1/} See, for example, CEPAL, Economic Survey of Latin America 1980, E/CEPAL/G.119, Santiago, Chile, 1981; CEPAL, Balance preliminar de la economía latinoamericana durante 1981, E/CEPAL/L.279, Santiago, Chile, 1981; U.S.A. Economic Report of the President, transmitted to Congress, January 1981, Washington, D.C., U.S. Government Printing Office, 1981.

to March 1981) and Chile. In these experiments preference continued to be given to the objective of reducing inflation, in conjunction with liberalization of foreign trade through a reduction of tariffs and of quantitative controls. In Chile a nominal exchange rate pegged to the dollar was maintained, and in Argentina and Uruguay devaluations were kept below inflation, with the aim of adjusting inflationary expectations through the exchange rate. During 1980 and 1981, this policy was applied with no variation in Chile. It was energetically overhauled in Argentina (after March 1981) and in Uruguay (where some tariff reductions were revised in 1981). It should be mentioned that as from 1982 a similar revision was undertaken in Chile.

The results are part of the history of this period: distortion of domestic prices in relation to external prices, balance-of-payments crises, increasingly high levels of external indebtedness. The three countries mentioned have applied policies of devaluation or floating of their currencies since 1981. In practice, the growth experienced in the preceding years had been largely based on the expansion of exports, as well as on external borrowing which made it possible to finance those economies' rising levels of imports and expenditure. The combination of an overvalued currency and an increase in imports with the fall in the prices of export products and the rise in international rates or interest caused serious imbalances in the external sector, which became the foremost concern of economic policy towards the end of the period under review. In the three countries considered, the procedure to which recourse was to make the necessary adjustment was a reduction of the product, with a consequent curtailment of imports; a price adjustment -by different means- was also postulated, to encourage exports and restrict imports. But the external disequilibria were on too large a scale for these last measures to suffice to correct them, and the upshot was that the policies of automatic adjustment ended by becoming policies of recessive adjustment.

(ii) In a second group of countries, composed in particular by Peru (as from July 1980), Brazil, Colombia and Jamaica, policies of periodic

devaluations were pursued. Colombia maintained a system of regular devaluations exceeding the rate of inflation, so as to procure a real devaluation of the peso and thus encourage exports and contract imports. In Brazil, the rise in petroleum prices during 1979 and the upswing in interest rates made it indispensable to adopt measures adjusting the trade and capital flows. Accordingly, a maxidevaluation (exceeding the rate of internal inflation) was effected in 1981 and export subsidies were reintroduced, while in addition a halt was called to the reduction of tariffs.

(iii) A third group of countries is formed by those which adopted various measures for the control of imports during the biennium, as a response to the negative balance-of-payments trends, and which tried to deviate as little as possible from the system of a fixed exchange rate. Among these countries were the Dominican Republic, Paraguay, Honduras, Costa Rica and Ecuador. During the period 1980-1981, however, besides the import controls introduced, they had to adopt various measures directed towards the creation of a double or multiple exchange market. Thus, in Costa Rica, as from 1980, given the impossibility of maintaining the existing fixed official quotation, a floating exchange rate was applied, and the Central Bank ceased to handover dollars at the official price. The colón rapidly devaluated, and by the end of 1981 dollar quotations had increased by over 300%. However, while the free dollar was left available for certain transactions, a new official exchange rate was established for essential imports and the existing fixed official parity was maintained for debt payments over a relatively lengthy period. A similar system was set up in Paraguay, where permission was given for a part of export returns on meat and other products to be liquidated in the free market, in which foreign exchange for services was mainly purchased. In Ecuador it may be noted that the difference between quotations for the free dollar (for services) and the official dollar began to increase; in addition, as an alternative to devaluation, quantitative import controls were stepped up. Nevertheless, given the pressure on the dollar and the difficult balance-of-payments situation, it was impossible to maintain exchange parity and in May 1982 a devaluation of the sucre was decreed.

3. The external sector and the management of economic policy

External disequilibrium has indubitably become the main stumbling-block to the performance of the Latin American economies, decisively affecting their capacity for payment and producing a fresh crop of exchange controls, import restrictions, differential exchange rates, etc. This is certainly exerting a determining influence on growth, employment, price stability, income distribution and resource allocation.

In other words, the behaviour of the external sector has compromised economic policy as a whole and the work of planning, for which reason it merits special consideration.

The external sector crisis has affected the countries of the region in different ways, in accordance with the diversity of their economic structures, their petroleum situation, the degree and type of their external indebtedness and, finally, the economic strategies and policies applied. Even so, the overall situation is characterized by a notable increase in deficits on current account and a substantial change in the financing of such deficits. This situation undoubtedly reached its dramatic climax in 1982, although the phenomenon of a new type of indebtedness had been brewing up throughout the 1970s.

As is common knowledge, in recent years there has been a significant change in the level and composition of the external debt, associated with a similarly marked distinction between the sources and costs of credit.

Whereas in the 1960s three-quarters of the net capital flows entering the region had been constituted by direct foreign investment and official credits, in 1980 the corresponding proportion was only one-third. In its turn, private bank financing, which in the decades referred to has fluctuated around 10%, in 1980 amounted to 70% of the region's net

financing.^{1/} This meant that the debt to private banks came to represent about 80% of Latin America's total external debt.

With the shift of the supply of international credit for Latin America to private sources, changes took place in the conditions of access to credit, for example, loan maturities were shorter. The rate of amortization of the bank debt was 42% in 1977-1980, 46% in 1981 and probably higher in 1982.^{2/}

As regards the cost of credit, in 1980 Latin America had to spend about 18 billion dollars on payments of profits and interest. These disbursements rose to 24 billion in 1981 and to 34 billion in 1982. Interest payments figure as the determinants of these amounts, since not only did the stock debt increase, but as from 1977 the real rate became positive. This heavier cost is seen to represent a greater burden still for Latin American debtors when nominal rates are compared with trends in the prices of the region's staple export products. ECLA estimates indicate in the light of this criterion, that in 1982 the real cost of credit for the region reached levels close to 25%.^{3/}

The bigger the disbursements for debt servicing, in consequence of shorter maturities and higher rates of interest, the closer will the debtor economies come to liquidity crises. What is more, even if external financing were to guarantee high rates of return and generation of exports over the medium term, that would not resolve the problem of short-term

^{1/} IDB, Economic and social progress in Latin America: 1982, Report, Washington, D.C., chapter 7. In the same publication it is pointed out that the official figures for external indebtedness underestimate the region's real debtor position, inasmuch as they do not include debts with no official guarantee and those contracted with maturities of less than one year, both of which are significant components of the region's present state of indebtedness.

^{2/} IDB, op. cit.

^{3/} CEPAL, Provisional balance-sheet of the Latin American economy during 1982, E/CEPAL/L.279, mimeographed text.

requirements of available foreign exchange. Compatibility of time profiles of costs and benefits is of fundamental importance here to ensure fluidity of payments; and, the greater the degree of dependence on private financing, the harder to attain may this compatibility of payments become.^{1/}

In these circumstances, mere policies of regulation of demand are unlikely to be successful in effectively reducing external deficits as long as the above-mentioned exogenous factors remain uncontrolled. Accordingly, urgent changes in the international financial system are required over the short-term, since at present the burden of the adjustment falls almost entirely on the deficit countries; and over the long-term, the need is to resolve the structural problem faced by the developing countries in their trade relations with the central countries and in their integration schemes.

While mismanagement of fiscal and exchange policies may account for a significant proportion of the downward movements in the product in the Southern Cone countries, just as extra-economic problems hinder a better performance on the part of the Central American economies, there is no room for doubt that the formidable constraints of the external economic framework have stringently conditioned the region's economic possibilities.

The resurgence of the external bottleneck has ended by demolishing those development strategies which relied excessively on external saving. Favourable borrowing conditions in previous years gave an impulse to an erroneous linear projection of these trends as a framework for development strategies, and encouraged policies of external borrowing without these having been linked to public or private programmes of investment and adequate generation or saving of foreign exchange. The result was that "some countries obviously obtained more credit than they could use

^{1/} Fishlow, A., La deuda latinoamericana: problema o solución, CIEPLAN, Notas Técnicas N° 39, Santiago, Chile, October 1981.

productively; i.e., external loans took the place of domestic saving and facilitated an increase in consumption, speculation and the purchase of armaments".1/

A matter of deep concern is the vulnerability of the economies of the region to external shocks, at both the trade and the financial level. This high degree of sensibility fosters erratic patterns of growth with fiscal and monetary repercussions of a cyclical character which, on occasion, tend to magnify the effects of the international cycle.2/

A rapid glance at the world financial scenario suffices to reveal the high level and great variability of the rate of inflation, and a high interest rate which has repercussions on the developing countries' debt servicing and on the economic activities of the industrialized countries: which in turn leads to a deterioration of the terms of trade for the developing countries, in particular those in the non-petroleum-exporting group. The notable instability in foreign exchange markets and the pronounced external disequilibria, however, seem to be only a manifestation of a deeper-seated economic crisis. Here there is an underlying problem of international competitiveness and of differences in productivity among industrialized countries, a question which is related to the limits and possibilities of the so-called redeployment of industry and to the technological and political readjustments which this process involves. Upon this fundamental problem, structural in character and only exacerbated by the fuel crisis, is at present superimposed a more transient problem deriving from the restrictive policies applied by the industrialized countries to combat inflation. The monetarist nature of these policies has pushed up the real interest rate in financial markets, and this hinders expansion plans and the readaptation of production and technology.

1/ CEPAL, Provisional balance sheet of the Latin American economy during 1982, op. cit., p. 48.

2/ Attention should also be drawn to the markedly pro-cyclical behaviour of the private international banking system.

Of course, the sum total of external disequilibria must be nil, so that the non-petroleum-exporting developing countries will continue to show high deficits as long as: (a) there is no symmetry in the payments adjustments required of surplus and deficit countries; (b) the petroleum-exporting countries do not increase their absorption capacity; and (c) the industrialized countries do not alter the distribution of their deficit, stepping up their imports from the non-petroleum-exporting developing countries.^{1/}

Redefinition of borrowing criteria is patently of high priority for the region's economic policy. This undoubtedly revives the question of the desirability of lingering loans to investment projects with high rates of return, and of a kind that will generate or save foreign exchange. This, in turn, brings to the fore once again the importance of the social evaluation of investment and pre-investment projects and programmes, especially those of the public sector.

The regulation of external borrowing itself (in respect of amounts, terms and use of loans) appears of crucial importance, if it is borne in mind that the magnitude of the resources involved creates difficulties even for the management of monetary policy, hampering efforts to neutralize the monetary impact on the supply side, and/or altering the private assets portfolio in destabilizing fashion on the side of demand.

The recrudescence of inflation, for its part, has given reliable evidence by now that it is not due solely to monetary pressures, so that both the stabilization of domestic price levels and the attempt to attain external stability and other objectives of economic policy call for more co-ordinated management, in order to prevent the subordination of the economy as a whole to short-term financial problems. It is therefore

^{1/} R. Zahler, Actual situación financiera internacional y sus perspectivas para el futuro cercano, CEPAL/IPEA Seminar, Brasilia, November 1981.

a matter of urgency that economic policy should once again take a medium-term view which may serve as a guide for the adoption of decisions of a conjunctural character. Planning must direct its action towards adequate collaboration in this important task.

Lastly, the present state of economic theory makes it possible to show that in face of the international crisis, it is not inevitable that adjustments be made in recessive terms, and still less inevitable that the cost of the adjustment should be essentially borne by the poorest groups. Furthermore, apart from what theory can offer, some of the experience of countries of the region indicates that at least in a considerable number of them it is possible to influence the depth and duration of the adjustment period, by invoking more flexible and creative (and ultimately more efficacious) criteria in the designing of economic policy.

This interrelationship between medium-term planning and economic policy is discussed in the next section.

4. Planning and short-term policies

This section presents first of all a review of the situation and principal changes recorded in the formal and explicit expressions of the relationship between planning and economic policy activities throughout the region. In its turn, it gives rise to some general considerations with which brings the section to a close.

(a) Brief description

In the first place, consideration is given to countries with no published plans. In most of them the planning body had no active participation in the design and implementation of economic policy measures, but it did in some cases have important functions to perform in the administration of the public sector. This is the case in Uruguay where the planning body is responsible for the approval of investment budgets of public sector institutions. Moreover, the fact that no published plan exists does not mean that some planning functions are not performed by the Government itself.

As mentioned previously, in Uruguay's case the so-called Government Conclaves have played the role of orienting the public sector's decision-making process and the Planning Office participates in this.

In Trinidad and Tobago the Ministries of Planning and Finance are under the same authority, here too, but no plans have been published since 1973, so planning has had no explicit influence on short-term policies. The budget has been the main economic policy instrument and has been prepared on an annual basis, which in its turn has given rise to some problems in the implementation of projected investment. Accordingly, in 1982, a working group was set up to prepare a comprehensive multisectoral plan.^{1/}

Some small Caribbean countries present a different set of problems because of their inadequate statistical base and their shortage of technical cadres. As a result, there is necessarily a weak linkage between their planning activities and short-term policy.

In the case of most countries with published plans, the planning body is of an advisory nature; thus its action is weakened by the Ministry of Finance in the field of fiscal policy and by the Central Bank in foreign exchange and monetary policy. In the case of Chile, however, ODEPLAN has played an important role in co-ordinating the ministries' activities and promoting the regionalization process. In addition, it has disseminated economic and social policy directives. The main short-term policy instrument continues to be the budget, whose management is the responsibility of the Ministry of Finance, as also the monetary and exchange policy which also ultimately depends on this Ministry.

In the case of Peru, short-term policy has been handled fairly independently of planning, whose activities as an "instrument of co-ordination between the various economic agents has been weakened by institutional

^{1/} See House of Representatives of the Republic of Trinidad and Tobago (1982), The Budget Speech 1982, p. 21.

changes and economic policy action, which have affected its programming activities (investment, public budget, etc.) and their sectoral context".1/

In Ecuador, annual operational plans are formulated but their policy proposals are dependent on decisions of the Ministry of Finance and the Central Bank in the areas of public expenditure and monetary and foreign exchange policy, which means, for example, that although the National Development Plan is approved, the national budget laws do not envisage all the resources necessary for its investment programmes. In practice, this means a limited field of planning action in key economic policy formulation and decisions.

In the monetary and foreign exchange areas the degree of planning action is generally more limited. Some attempts have been made in Mexico and Brazil to integrate certain aspects of credit planning in monetary policy. Thus the SEST System of Brazil provides that public enterprises should programme their credit requirements along such lines as to co-ordinate them with the Central Bank's monetary policy directives. Similarly, Mexico implemented a credit policy in accordance with the development plan, assigning preferential credit to the activities envisaged therein.

Some countries have a Monetary or Financial Council,2/ in which the planning body participates; its degree of participation in these areas was limited, however, during the two-year period concerned, judging from the content of the replies to the ILPES surveys. Thus, for example, in the case of Paraguay it is noted that in spite of the participation of planning in the National Economic Co-ordination Council, which is the supreme authority in economic matters in the Paraguayan public sector, its possibilities of exerting any effective influence are limited by the shortage of technical personnel and budgetary restrictions.

1/ Peru's reply to ILPES Survey on National Planning Systems, p. 9.

2/ In 1981, Venezuela set up the Financial Office with the participation of CORDIPLAN.

(b) Some important considerations

It might be expected that the main guiding principles of economic policy would be included in the plans in order that the fundamental directives of fiscal, monetary, external, employment, prices, income and other policies would be consistent with the basic accumulation, growth and distribution patterns envisaged in the development strategy and medium-term plan. The drastic changes in the external context of economic relations of the countries of the region, however, have required that increasing importance be given to economic policy measures more closely linked with the conjunctural situation, in particular monetary and financial measures. The essentially dynamic character of these requirements calls, in its turn, for a continuing review, evaluation and reformulation of instruments and partial objectives, which more often than not affects the actual validity of medium-term goals and objectives. Changes insufficiently foreseen in the movement of key macroeconomic variables, in particular of the external sector, have thus necessarily led to redefinition of priorities, at the expense of growth, distribution, employment and even price stability, in the interests of controlling the external disequilibrium.

The 1980-1981 situation, and dramatically the year 1982, helped to bring to light in many cases the excessive rigidity of some economic plans and the difficulties designing alternative scenarios.

Furthermore, it is a fairly well-known fact that planning bodies are far from being able to maintain an overall control of the economic policy process. It generally happens that the management of the budget and of monetary and financial operations tends to operate fairly independently, a feature which appears all the more important in a period of relatively abundant external resources, as occurred in the years prior to 1982.

The rigidity of medium-term plans and their tendency to become out of date, coupled with the autonomy of financial institutions, in some degree account for the emergence of development strategies based on indebtedness. A timely projection might have averted the underestimation of the real cost of credit and might also have analysed the most appropriate uses of those external resources.

In those countries where significant financial movements took place, planning bodies tended to remain excluded from the strategic decision-making process, despite the fact that in some countries they participate in the boards of directors of the Central Banks and are legally responsible for supervising the process of external indebtedness.

All this brings to the fore the necessity for a planning approach in the interests of political and technical efficiency. Planning should abandon its globally normative character and react more promptly and flexibly to political requirements and short-term economic challenges.

That is why the short-term situation --a mixture of political and economic phenomena that gives rise to the economic policy process-- appears as a challenge to development planning in the region which cannot be deferred. Progress towards a unified approach to the conduct of the economy requires greater co-ordination between three different but closely inter-linked areas: economic policy, development strategy and the plan.

The urgent nature of this compatibilization requires that planning be in a position to provide a medium-term framework for economic policy, together with a continuing projection of the results of short-term economic policy action.

In this context, plans, understood as a group of macroeconomic projects acting as a medium-term guide for the policy, should contain sufficient information on their financial implications, and suggest possibilities concerning specific instruments and policies which will harmonize the various temporary plans involved in the conduct of the economy.

Since undoubtedly it is not possible adequately to foresee all the future situations likely to affect the performance of economic policy, it may be useful to define some easily interpreted and rapidly obtained indicators as short-term guides. Continuing supervision of the evolution of these indicators with respect to features defined as critical would help to make it possible for the process of implementation of the goals of the plan --or their programmed partial non-fulfilment in accordance with

the available short-term data and implications-- to be accompanied by the preservation of the macroeconomic equilibrium within a medium-term perspective.

For its part, an effort of approximation from economic policy to formulations of a greater time horizon is also required. Monetary-financial and external sector information is obtained fairly regularly and could become a significant support for a particularly useful information base for the situation. The adequate interpretation of these indicators would enable periodic control to be maintained over the compared evolution of results and goals, yielding valuable information on gaps in value at constant prices. This would, of course, facilitate a planned, informed and more timely intervention when serious disequilibria are detected.

Finally, this effort towards making planning more flexible and economic policy more closely linked with a more permanent framework will be favoured with greater flexibility in the actual concept of planning, which is a technical challenge already faced by the region and being given increasing attention by the individual countries. As noted earlier, the existence of a "book-plan" does not appear as a sine qua non requisite of planning; but in any case the co-ordinated implementation of public programmes, the use of a group of specific indicators with a certain linkage between them and, lastly, the relative decrease in uncertainty with some macroeconomic projections, continues to appear of substantial importance in the unified action of conducting the economy.

The existence or non-existence of a formal medium-term plan, the statement of goals or the implementation of a group of institutional procedures is no longer under discussion; although much of this is decidedly useful, it would seem more convenient to orient substantive planning activities towards seeking greater consistency between public activities and ensuring maximum efficiency of economic policy processes in accordance with restrictions of technical, political and economic viability.

The reactivated debate on the role of the State in development processes, in particular the experience in the 1980-1981 biennium, will help to promote

this review of planning experience, considering that pressures in favour of an important and efficient government role in development activities seem to be increasing rather than diminishing.

Annex

ECONOMIC POLICIES CONTAINED IN PLANS

1. Fiscal policy

So far the contents of fiscal policy have been analysed in 14 countries for which information was available on government plans and programmes; some common features were found in these policies, and also some different elements, according to the style of development adopted by each country.

(a) Common features

In practically all the cases considered, some concern is shown regarding the scale and cost of central government operations, particularly in relation to services offered by the State itself. This concern covers such dissimilar experiences as those of Nicaragua 1/ and Uruguay and extends to the wide range of countries for which information was available. No standard reasons exist for this phenomenon. In some cases such as that of Trinidad and Tobago, they have been the "product of abundance" generated by petroleum activities, which caused investment projects and long-planned social projects for which the necessary funds were available to be undertaken.

1/ See Programa económico de austeridad y eficacia 1981, Managua, p. 18, in which it is stated that "In 1981 the State will not expand, which in the face of its responsibilities and heavier tasks would require a qualitative stride forward in its organization". This same concern is noted in Cuba, which states that: "The central and local administration of the State should be simplified and should rationally reduce the number of its cadres and employees in order to expedite its action". See Cuba, Proyecto de los lineamientos económicos y sociales para el quinquenio 1981-1985, Gramma (Havana), 14, 15, 16, 17 July 1980.

Many of these projects have turned out to be more costly than originally planned, which ultimately led to a relatively large public deficit. In other countries, the inflationary situation and external disequilibria were responsible for the higher expenditure involved and gave rise to concern for an improvement in public finances.^{1/}

Another common feature refers to the equity of the tax system. In practically all the countries explicit references are made to tax reforms which in relative terms increase taxation for the high-income groups and/or reduce the tax burden on the poorer groups.

(b) Differences

According to the styles of development and the specific growth policies adopted by the countries, differences are observable in fiscal policy and the importance ascribed to it within the context of global short-term policy.

In cases such as Uruguay, Chile and Argentina (1981) the predominant objective is to maintain fiscal equilibrium and reduce the public sector deficit. More intensive action has been taken in some of these countries than in others in reducing the size of the public sector and the sale of public enterprises, with a two-fold objective: on the one hand to obtain fiscal resources, and on the other to transfer those enterprises or activities to the private sector, which --according to the approach adopted-- would permit a more efficient development of productive activities.

Another group of countries proposes an increase in public expenditure and taxation or the tapping of external resources in order to attain various development plan objectives.

In some cases it is a question of providing the country with infrastructure and basic services (for example, in Paraguay) and in others of increasing the State's productive and social participation in order to promote growth rates which would otherwise not be attained, as in the case

^{1/} For example, Brazil, Argentina, Chile and Uruguay.

of the Mexican plan. Other cases may be found where fiscal policy is placed in an explicit relationship not only with growth objectives but with social and employment objectives as well (Mexico, Jamaica, 1978).

There are also different priorities in the use of government expenditure. One group of countries assigns greater priority to spending in the agricultural, rural and social sectors (Mexico, Brazil, Ecuador); a second group concentrates more on infrastructure and energy (e.g., Paraguay); and finally others adopt a neutral position between the various branches of activity (Uruguay, Chile, Argentina, Peru).

As regards global targets, some countries set quantitative goals in terms of fiscal expenditure or the public sector deficit, such as El Salvador, Jamaica, Nicaragua, Ecuador, Paraguay and Mexico. The rest of the cases analysed do not set quantitative fiscal goals in the medium-term plan, although their respective fiscal budgets must obviously contain them.

To reduce the fiscal deficit appears as an explicit policy objective in several countries and this once again occurs in widely differing national cases. The differences between them arise from the magnitude of the public sector deficits. As regards Jamaica and Nicaragua, with deficits of around 10% of the GDP, the reduction is proposed more intensively in the first of these countries, through a group of policies designed to raise public income and the rates of public enterprises and control current and investment expenditure, by means of a three-year programme in which the fiscal deficit is reduced from 13% to 5% of the GDP; Nicaragua proposes to reduce it by 1% of the GDP (from 9% to 8% in 1981). In the remaining countries, the orders of magnitude are somewhat lower. Lastly, in Paraguay and Chile, the maintenance of a balanced budget is proposed. The mechanisms and magnitudes for attaining these results vary significantly.

2. Monetary policies in plans

In the plans in force in the two-year period 1980-1981 the most important monetary policy objectives are to control inflation and, on a lesser scale, to provide adequate liquidity for the growth of the economy. The importance assigned to these objectives varies according to the countries concerned, In general, they may be grouped in three cases.

First, those countries where the control of inflation is not the prime objective of monetary policy. These include Mexico, Nicaragua and Venezuela, in whose plans greater emphasis is placed on increasing production and other objectives.^{1/}

There is a second group of countries in which the control of inflation does appear as of priority importance but combined with other policy objectives, mainly the maintenance of adequate liquidity for the growth of the economy; these are: Brazil, Ecuador, Paraguay, El Salvador, Costa Rica, Argentina (1981) and Trinidad and Tobago. Brazil, shows particular concern for the co-ordinated implementation of monetary policy and fiscal policy, a feature which is also noted in the plans of Costa Rica, Peru and Trinidad and Tobago.^{2/}

There is a third group of countries in which the objective of controlling inflation appears as of pre-eminent importance and monetary policy as the principal instrument for achieving it. These countries also seek to improve

^{1/} "Anti-inflationary policy should seek the causes generating the inflationary process in the structural problems of the economy and society... It is not possible, therefore, to solve such a difficult set of problems by means of simplistic and partial measures, with decisions which only refer to money in circulation or which, ignoring this and the relation between aggregate demand and available supply, may pay attention only to the promotion of production". Plan Global de Desarrollo, *op. cit.*, p. 132.

^{2/} In Trinidad and Tobago, the references to monetary policy appear in The Budget Speech 1981 since, as mentioned previously, there are no plans in existence.

the operation of the capital markets; this is the case in Chile and Uruguay. To some extent, Jamaica could fall within this category, since it has a strict monetary-financial programme, but at the same time it is stated that these objectives will be revised in accordance with the behaviour of the economy.

If the types of instruments used to implement monetary policy are examined, diverse situations may be found. In those countries where the fiscal deficit and the domestic credit of the public and private sectors are controlled, foreign exchange operations appear as the most important source of issue; this occurs in Chile, Uruguay and, to a lesser extent, Paraguay. In these economies, since no significant public sector deficit is recorded, the increases in the quantity of money are exclusively dependent upon the variations in international reserves. In the rest of the countries, the quantity of money is regulated mainly by the management of domestic credit for both the public and the private sector.

Most of the countries to control public sector credit considered plan in quantitative terms.

If the management of the rate of interest is analysed, basically two situations are found. First, those countries which leave interest rates to be regulated by the market and, secondly, those in which they are regulated or established by the economic authority. Among the former are Uruguay, Chile, Argentina and Paraguay, while the second group comprises Mexico, Ecuador, Peru, Nicaragua, Jamaica, El Salvador, Costa Rica and Brazil. This second group includes countries which have free rates for some markets, while regulating others that cover the majority of their financial transactions. In two cases, specific reference is made to the levels to which it is proposed to raise interest rates: Costa Rica plans to raise them to international levels, and Peru to real positive levels.

As regards the institutionalization of monetary policy and its integration with the plan, specific proposals are not generally contained in the plans. Thus, Paraguay gives a detailed monetary projection, but the plan does not explicitly provide the institutional machinery to implement it.

In any case, it may be said that, in general, the relationship between the institutional mechanisms of monetary policy and planning continues to be weak. In the majority of countries there is no completely effective functional relationship between monetary policy and the plan, to the point where in nearly all the plans this aspect is not developed. In countries with an indicative concept of planning, however, closer linkage exists between the guiding principles contained in the plans or programmes and monetary policy. This has been the case in Uruguay and Chile, where monetary policy has been more or less strictly subject to the Governments' anti-inflationary objectives, and to control of the public deficit. Brazil, whose plan contains no quantitative goals in budgetary and monetary management, does propose an institutional mechanism for co-ordinating the implementation of investment programmes of public enterprises, fiscal policy and monetary policy.

3. Foreign trade policies

In this case, it is interesting to consider the main objectives proposed with respect to three variables: exports, imports and foreign capital.

At the same time, consideration is given here to the changes occurring in these policies in the 1980-1981 biennium with respect to the proposals for the 1970s.

(a) Policies in relation to exports

Practically all the countries include export promotion policies in their development plans or government programmes. In the 14 cases analysed --which cover the various styles of development existing in the region-- they all envisage objectives in terms of increased exports and the promotion, diversification and expansion of markets; in some cases, non-traditional exports are especially promoted. Three policies are of particular note:

foreign exchange, fiscal incentives and export promotion policies by means of official or semi-official bodies; in this respect, the plans differ in the degree of their specificity.

Of the 14 cases for which data were available, only eight refer in their plans to foreign exchange policy, nine indicate fiscal incentives policies, and seven institutional mechanisms in support of exporters. Five countries make no reference to policies aimed at increasing exports. As regards the management of the exchange rate and export subsidies, three situations may be distinguished:

(i) A first group of countries includes those announcing the preferential use of foreign exchange policy, which is the case in Chile, although the policy underwent a change in terms of its real effects with the establishment of a nominal exchange rate in June 1979, in a situation of higher domestic than international inflation.

(ii) A second group of countries gives preferential attention in their plans to the fiscal instrument of export incentives. Among these are the majority of the countries which explicitly state their export policies (Argentina, Uruguay, Brazil, Venezuela, Ecuador, etc.); some plan to revise their export subsidies and bring them into line with international agreements on the subject (as in the case of Brazil).

(iii) In the case of Cuba, the exchange rate is not a mechanism for assigning resources in the traditional sense since the State controls foreign trade and effects purchases from domestic producers, who are also mainly State producers. Export promotion by official bodies plays an important role within this system.

Finally, with respect to institutional export promotion mechanisms in the 14 cases analysed, they are only explicitly referred to in Ecuador's plan, but it should be noted that most of the remaining countries have specialized bodies whose continuing mission is export promotion.

(b) Policies in relation to imports

There is a certain relationship between policies affecting the level and composition of imports and the development strategy adopted by the various countries; basically three different cases may be distinguished in this respect.

(i) Countries proposing an unrestricted policy of opening up to the exterior and desiring only to maintain activities enjoying comparative market advantages; sharp tariff reductions are advocated for the purpose. This is the case in Chile and on a lesser scale in Uruguay.

(ii) Countries at an advanced stage of the import substitution process, which are continuing with the process in the capital goods and basic inputs industries; this is occurring in Brazil and Mexico and, to a lesser extent, in Venezuela and Colombia.

(iii) Countries proposing import substitution in final consumer goods industries, since they are in the initial stages of the substitution process; these include Paraguay, El Salvador and Nicaragua among others.

As instruments for use in these policies, mention is made, in addition to the customs tariff, of selective fiscal and credit incentives to investment in import-substitution sectors. As regards tariff policy, of the 14 cases analysed four make no reference to it in the plan;^{1/} in one country (Chile) no changes are announced since a standard tariff of 10% has already been reached; and six countries announce various tariff adjustments, in particular to reduce them in a selective manner.^{2/} Of the two remaining countries, Mexico proposes the use of the tariff as the main instrument for controlling imports, and Ecuador the application of the common external tariff of the Andean Agreement. In those countries announcing a revision with the aim of lowering tariffs, such a reduction is shown as being dependent on various factors: availability of foreign exchange (Brazil) or levels of overprotection

^{1/} These are: Nicaragua, Jamaica, El Salvador and Cuba.

^{2/} These are: Argentina, Uruguay, Venezuela, Costa Rica, Brazil and Peru.

or redundant protection (Costa Rica). Uruguay, while in theory adhering to the system of reducing tariffs, in practice proposes to study the level of those lowered in 1979.

Generally speaking, no other possible instruments of import-substitution policy are considered.

(c) Policies concerning capital inflows

This is a crucial aspect of all growth strategies, since most of the Latin American and Caribbean countries aspire to obtaining capital inflows to supplement domestic saving. In some of the plans analysed (Brazil, Nicaragua) there is no explicit reference to this. The rest of the countries propose various policies which are fairly generalized. Six of the countries studied propose to stimulate the inflow of capital (Argentina, Mexico, Paraguay, Jamaica, El Salvador, Costa Rica), while the rest indicate a wide range of objectives: closer integration with the international capital market (Chile) and maintenance of the level of indebtedness and/or improvement of terms as regards maturity and interest rates (Uruguay, Ecuador, Peru, Venezuela).

With respect to mechanisms for obtaining these objectives, the plans indicate two general types of measures: regulation of direct foreign investment and of external credit. Eight of the 14 cases analysed make no express reference to direct foreign investment policy. In those plans in which it is mentioned, such as Mexico's and Venezuela's some general criteria are indicated: that foreign investment should be given selective treatment and that it will be welcome in those cases in which it contributes entrepreneurial technology or know-how. Uruguay and Jamaica propose to liberalize some regulations governing foreign investment; Ecuador announces the same treatment as in the countries of the Andean Agreement; and Chile, the same treatment as that assigned to local investors.

None of the plans analyse the institutional or legal machinery whereby foreign investment policy will be implemented.

As regards the inflow of capital in the form of external credit and indebtedness policies, several countries make no express reference in their plans to the regulations of external credit or indebtedness (Argentina, Mexico, Chile, Peru, El Salvador). In the plans of other countries, stress is laid on the need to control the level or profile of the debt in terms of the difficult foreign exchange situation prevailing in those countries during the periods of plan formulation. (Brazil, Costa Rica, Venezuela, Jamaica, Nicaragua, Paraguay, Ecuador, Uruguay). Most of the plans, however, contain no forecast of the extent of the external indebtedness actually reached by the countries in 1980-1981.

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