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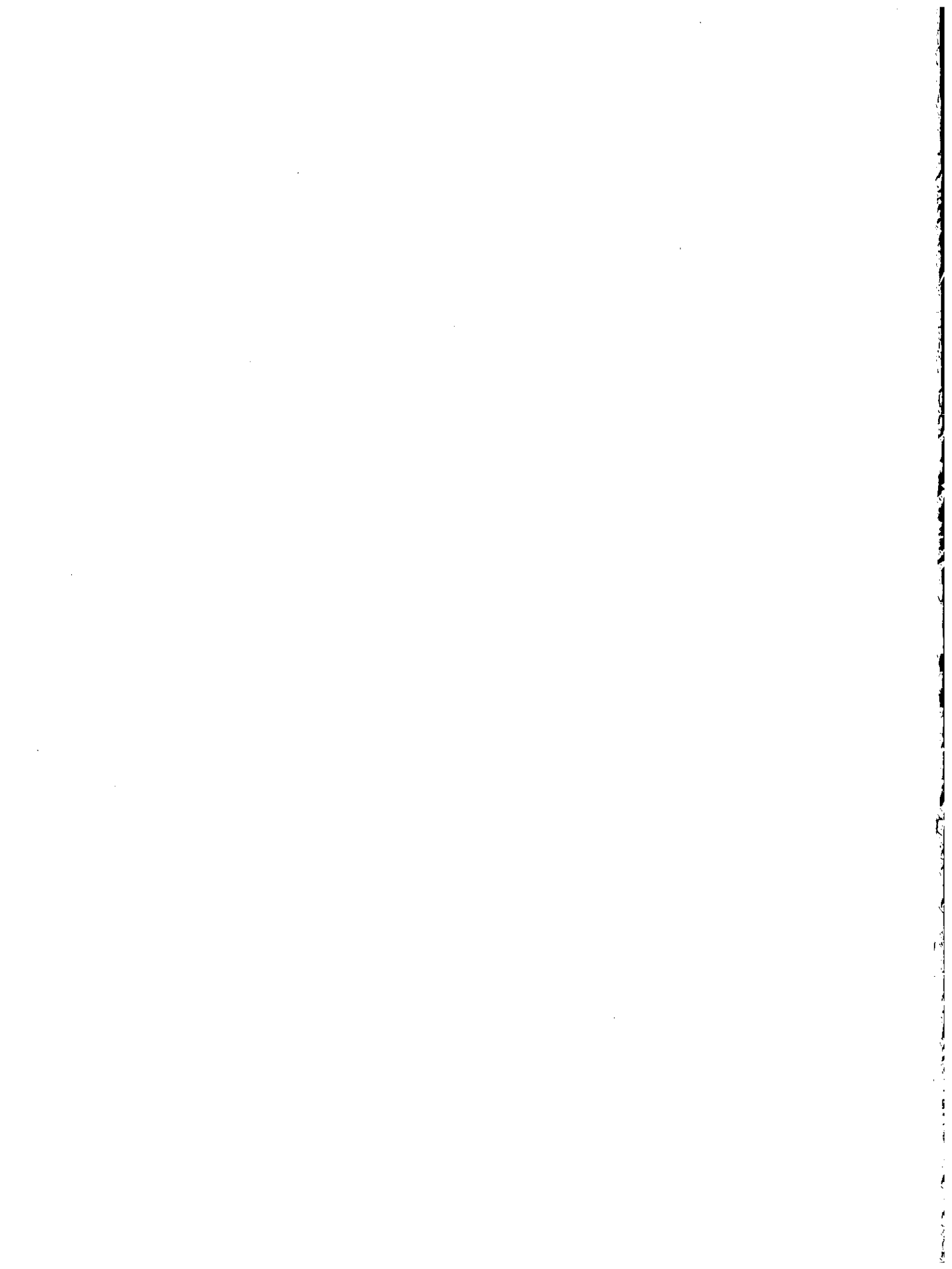
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

LATIN AMERICAN AND CARIBBEAN INSTITUTE
FOR ECONOMIC AND SOCIAL PLANNING



TOWARDS A NEW PLANNING APPROACH IN THE SMALL CARIBBEAN COUNTRIES

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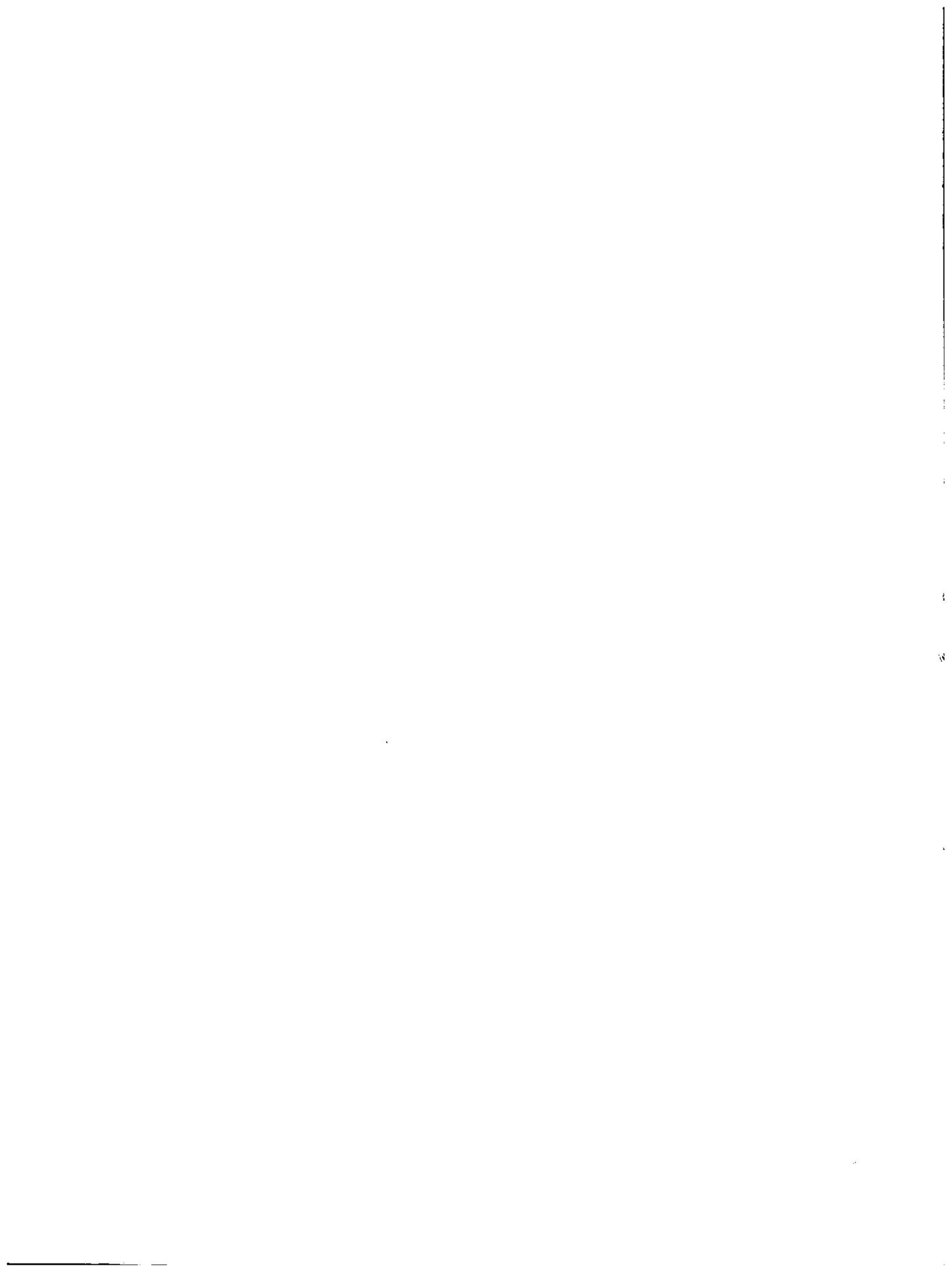
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INTRODUCTION

The purpose of this document is to discuss the role of planning as a tool for better allocation of resources and at the same time to analyze the state intervention approaches available to the Caribbean countries facing economic management problems. The chapters examine how the quality and consistency of the policies as well as their coherence in the use of the policy instruments affect the adjustment, stabilization, recovery and, if possible, economic and social growth efforts by the governments.

It is a discussion paper hoping to contribute to the dialogue and exchange of ideas among planners and decision makers.



TOWARDS A NEW PLANNING APPROACH
IN THE SMALL CARRIBBEAN COUNTRIES

I. The Concept of Micro-States or Island Economies

1. The English, Spanish, French and Dutch-speaking Caribbean subregion is made up of a number of countries which for geographical, economic and social reasons fall into the category of "micro-states" or "island economies". This new category has in recent years been the object of considerable attention from researchers and institutions because of the particular challenges posed to the theory and practice of economic and social development.

2. At the end of 1984 the 20 member countries of the Caribbean development and cooperation Committee (CDECC) had a population of about 29 million. That is, a total population comparable to that of countries such as Colombia or Argentina. But if Cuba, Haiti and the Dominican Republic are excluded, the population falls to approximately six and a half million. The total area is 626,787 sq. km., the Gross National Product reached US440,301 million in 1984 and the labour force in the same year was 8,511,000 people.

3. The concept of a "small" country is not easy to define. It is relative and cannot easily be measured with a single variable. However, population size has been taken as reference point for the establishment of the various existing classifications. Thus, Philippe Hein found in a recent publication that the various definitions of "small" may be subdivided into three groups:

(a) the first group of countries, with a "high" cut-off point, would consist of all those with a population of between 5 and 15 million,

(b) countries whose cut-off point would be around 1 million inhabitants, and

(c) the "low" cut-off point group would consist of all those with populations under 500,000. 1/

4. Similarly, at a recent meeting the non-aligned group of countries found that the principal factors in the definition of "small island" would be:

(a) a population typically below 400,000 people and rarely in excess of 1 million;

(b) a total area of less than 400 sq. km. 2/

5. The coincidence in a single country of small area and limited population size is not a factor which per se determines a special condition of underdevelopment. However, in the case of Caribbean countries these factors are accompanied by others such as scarcity of natural resources, lack of cultivable land and deficiencies of basic infrastructure. In addition, insularity imposes further burdens which aggravate the aforementioned conditions and therefore make development problems more difficult to resolve.

6. It is worth pointing out that the "special case" conditions also impinge on the functioning of the market in special ways. Thus the concepts of indivisibilities, complementarities, externalities and economies of scale have different connotations in the case of small

island countries from those they usually possess in the case of larger countries.

7. With regard to the above, the journal World Development published in 1980 a special issue devoted to the analysis of "island states" from which we think it is useful to extract certain results. Edward Dommen, on comparing 19 economic, social, demographic and political characteristics of 26 island countries with the same number of continental countries, came to the following conclusion: "The study supports the view that Island Countries are different and indeed that they are particularly fortunate places, where life is longer and nature is bounteous though the menu may be short. Politics are friendlier. Hurricanes are more dangerous than social unrest. The question is, why do so many people emigrate?" 3/

8. Deena R. Khatkhate and Brock K. Short, in their analysis of the monetary and central Bank Problems Of "Mini-States", apply a criterion other than that of population and geographic area. Instead, they derive an economic criterion" from the ratio between the amount of total production destined for the internal market and the amount destined for the external market. This criterion would to a certain extent determine the degree of control exercised by the mini-state over the principal macro-economic parameters (inflation, employment, production). According to this criterion, the characteristics of a mini-state show that the goods produced are channelled into the external market, while those sold internally tend to be imported. It is certainly services that are both produced and consumed internally.4/ As an example, in 1983 the total value of exports as a percentage of Gross National Product was 72 per

cent for Antigua and Barbuda, 70 percent for Barbados, 64 percent for St. Kitts and Nevis, 40 percent for Dominica and 61 percent for Saint Lucia. For all of the OECS the total value of imports as a percentage of gross national product was 86 percent in 1983 (see Table 7).

On the other hand, in countries such as Chile, Argentina and the United States the first relationships between exports and gross national product were scarcely 27 percent, 10 percent and 13 percent respectively for the same year. The authors conclude from their analysis that according to the economic criterion a mini-state would be one which because of a high level of dependency on external trade has no control over its main economic objectives. That is to say, its management autonomy is limited.

9. In another interesting study Percy Selwyn analyses the relationship between "smallness" and "islandness", with a view to determining whether the category of small island, in comparison with that of small country, affords any analytic, predictive and normative advantages. Apparently, the concept of insularity does not by itself permit better analyses, better predictions or better conditions for the design of economic or social policy.^{5/} Thus Selwyn concludes that whereas the category of small island is a useful concept for the work of ecologists and naturalists, there are not sufficient grounds for making the same claim with regard to economic theory.

10. From another point of view, Paul Streeten suggests setting aside discussions about large or small and applying greater effort to the design of imaginative policies to make better use of existing possibilities. This approach might in the long run produce a better understanding of the problems of island countries. ^{6/}

II. The Idealism of a Special Theory

11. It is undeniable that the countries of the Caribbean display particular economic characteristics and factors which have to some degree suggested the need for a special chapter in the theory of economic development. In principle this could have a certain validity. But certain clarifications are necessary. In the first place, there is only one general economic theory whose reasoning and logic is independent of the size and degree of development of a country. Its rules and principles are such as to permit abstract generalization, deduction, induction, prediction or analysis of the result of a given decision on employment levels, growth, price levels or income distribution. In the second place, taking this knowledge as a starting point, policy design and the use of particular instruments will depend on the specific circumstances of each country. Thus in certain conditions the theory allows us to predict the result of a given event and in the best case to analyse the behaviour of and interrelationships between the different agents in the economy, but what cannot be justified is the propounding of a special theory for each separate case.

12. It is obvious that every country presents specific problems, and even more obvious that when the analysis is transferred from one country to another, each factor cannot be treated as a homogeneous resource. Therefore in the final analysis intuition, imagination and a correct appreciation of existing reality will determine the difference between a good and a bad policy.

13. In studies on Caribbean development there is often a marked emphasis on the need for a special approach in the light of the apparent scarcity of natural resources. This constraint is undeniably real, especially in comparison with the resources possessed by countries such as Argentina, Brazil, Mexico or Costa Rica. It must nevertheless be pointed out that the concept of scarcity, like that of plenty, is relative.

14. Given certain objectives and certain tools for achieving them, the design of an economic policy may in the final analysis have greater effect than available resources on the achievement of goals. That is to say, resources may be plentiful or scarce depending on the quality of policies, the consistency between objectives and methods or the consistency between methods. In the long run, these factors may have a greater impact than the relative scarcity of a given factor. Recent Latin American experience shows instances of economic bonanza with negative results in terms of well-being and growth. Cases in point are Colombia and Costa Rica at the time of high coffee prices following the frost in Brazil; Trinidad and Tobago during the oil price boom or Chile with its abundance of financial resources during the period of high international liquidity. A separate case would be that of Argentina with the enormous potential of its primary sector.

15. Many similar cases could be cited to show that shortage of resources is not always the chief barrier to the achievement of the higher levels of development as in Singapore or Hong Kong for example. It is usually inconsistency and lack of continuity in policy, wrong choice or combination of methods which are the main obstacles to the efficient mobilization and use of the scarce resources available.

16. In the case of the Caribbean micro-states this idea assumes enormous importance in view of the smaller number of options and the smaller degree of autonomy. In spite of these disadvantages, circumstances may well be propitious for assigning greater attention to discussions on policy design rather than focusing analysis on barriers to development caused by small size or insularity.

17. If the specific problems of well-being and growth posed by Caribbean countries are to be resolved then a different approach is needed. This does not imply disregard of the general principles which govern the behaviour of markets and the price system. On the contrary, it poses an additional challenge both in the field of theory and in the application of these principles. The following pages therefore attempt to suggest some ideas concerning the contribution planning may make in priority areas of economic and social development of the Caribbean.

III. Additional Consideration for the Exercise of Planning in the Caribbean

18. Given the specific socio-economic characteristics of the Caribbean countries, the process of adjustment, recovery, stabilization and, if possible, growth and redistribution requires a different approach from the theory and practice of planning. The arguments for that new approach have been analyzed in different meetings and papers, but for clarification purposes the following should be stressed.

(a) The greater economic vulnerability of the Caribbean countries means that instead of planning primarily for the internal market adjustments have to be made to the economic situation as a result of

external forces with little or no domestic control. This is reflected in the price of the region's major exports which have a low income elasticity or are too sensitive to recession like the tourism industry. Thus, the economic structure of the Caribbean countries is based on a few basic commodities with consequent dependence on unstable world prices and demand conditions. That situation places a tremendous challenge on the traditional concept of planning in terms of anticipation, quick reaction to international changes and fast response against short-term shocks in international payments and receipts. To understand this characteristic, it is sufficient to mention that the price fall in one of the principal commodity exports affects the whole economy in such a way that can ruin productive activity.

(b) Caribbean countries still do not have strong and well organized central planning offices to carry out the short-term economic stabilization policies, the medium-term structural adjustment measures and the long-term structural transformation. Most of the current planning activities are designed and executed at the sectoral level. However, the coordination role of the central office is far from being an effective practice:

(c) The above two limitations are further hampered by serious data limitations in scope, quality and time, all of which preclude meaningful and precise analysis for planning purposes. This data is crucial for identifying and forecasting the state and trend of the international economy so as to design an economic policy which is consistent with that stage of the cycle. Z/

(d) The economic policies intend principally to overcome internal disequilibria (inflation/recession) and those designed to overcome

external disequilibria (persistent deficit in the balance of payments) depend on exogenous factors that make the establishment of stabilization measures difficult. Under these circumstances the scope for the manipulation of the traditional fiscal and monetary instruments is narrower and more limited than in some other developing countries. For instance, in the typical case of overvalued exchange rates, the result has been a decline in some exports and hence a rapid deterioration of the current account.

However, a simple devaluation is not the ideal solution due to the inelasticities, quotas and trade instructions of the export products. These limitations need also to be analyzed within the context of economies with few degrees of diversification and high import component in their productive structure.

With respect to the capital market, the lack of real credit in local currency manifests itself either in credit rationing or in higher interest rates resulting in a major imbalance when public external indebtedness can no longer be obtained to offset this situation. Again, the usual practice of liberalization and the deregulation of the domestic financial system does not seem to be the right solution.

In the case of the price policy, given the high level of basic foods imported and the low contribution of the manufacturing industry to total output, the trends in the cost of living depend in great proportions on the ups and downs of price commodities in the international market. Thus, imposing additional difficulties to exercise control over the inflation and stabilization measures.

With regard to the monetary policy, the money stock and, in particular, the monetary base, cannot be effectively controlled by the Central Bank for achieving internal stability because it is an exogenous variable that depends primarily on external forces (tourism, exports). This applies more directly to the seven east Caribbean states. 8/

(a) Most islands rely heavily on external inflows to finance their capital investments. The shortage of local capital is the result of small public, private and foreign savings that arise from the following situations: (i) small states trying to provide goods and services at high per capita costs and with limited tax bases. In the end, the fiscal revenues fail to cover current expenditures and thus make no contribution to the finance of capital expenditures. 9/

(ii) Due to underutilization of capacity and low rates of return private savings do not contribute enough to total savings. Also despite the high levels of income per capita, the propensity to save of those groups having the potential is very low.

(iii) Foreign savings depends basically on concessional flows and investment from abroad in very-limited amounts, as well as the access to private sources of finance. Several basic factors cause this situation: Counterpart financing shortage and ongoing operating, maintenance and management problems. From the planning point of view the savings constraint makes the design and implementation of the public investment program more difficult. This lack of internal budgetary support has been traditionally replaced by the form of cash grants of aid in response to the impossibility of financing public expenditures through national revenues. Therefore, this particular situation has to be taken into consideration by any new attempt to introduce planning in the Caribbean.

(f) Adequate planning is fundamental to proper economic management. However, the improvements to development through technical assistance face a serious constraint in terms of lack of counterpart personnel. This lack of human resources represent a significant capacity limitation to the multiple institutions and donor agencies that have already established programmes and offices in the Caribbean. Paradoxically, there is a large amount of technical assistance in the field of training, advisory services, seminars, workshops and conferences, but most of these do not result in action or implementation because of the lack of counterpart personnel. A better coordination and a more realistic appraisal of recipient capabilities is urgently needed. In light of the above points, a realistic approach would seem to suggest increasing and improving the manpower capabilities of the existing Planning Units so that maximum advantage can be taken of the technical assistance offered. In cases where Planning Units do not now exist, it seems necessary to organize such units to facilitate the development process under discussion.

In addition, given the size and other limitations, including scarcity of manpower resources, the ideal solution seems to be the centralized coordination of planning activities and planning information. In such a case, the Central Planning Unit with adequate control would be able to make substantive inputs to planning at the sectoral level and in so doing avoid duplication and dispersion.

IV. Planning Opportunities during the Process of
Adjustment and Reactivation

19. There have been a number of Economic and Social studies of Latin America and the Caribbean and the recessive and regressive characteristics are well known.^{10/} The negative impact of both the debt and debt service ratios in almost all countries is also known. It is not in our interest to extend the analysis. On the contrary, it would be more helpful and necessary to identify some elements that would allow the countries to overcome the crises and, in particular, to identify possible contributions of planning to the improvement of economic management in the overall role of public sector.

20. In Latin America there are several examples of failures and mistakes that arose from the allocation of resources by using market forces exclusively. Such failures were caused inter alia by market imperfections, the meagre distribution of income, and the absence of opportunities for a fragmented and heterogeneous market. Basically some of the mistakes were due to the generalized assumptions about the so-called "rationality" of the various agents in the economy.

21. If the above situation was far removed from the objectives established, it is also true that the generalized interventionism has recorded its own mistakes and failures. Under the risk of repetition the excess of controls and regulations; the lack of coherence among the different policies; the lack of incentives linked to performance and management rather than bureaucratic styles also lead to the same situation.

22. Paradoxically, the experiments of liberalization ultimately led to instances of greater intervention and the generalized intervention without coordination led also towards instances of disequilibrium and institutional disorder.

23. Between these extremes the exercise of planning as a process of decision-making, has been exempted neither from vicissitude nor failures. In the first place, the "blueprint" approach under the assumptions of an absolute state autonomy has been characterized by its ambitious normative conception where the inventory of objectives is greater than the limited resources and over the existing economic, political and institutional restrictions. Under these conditions the level of execution almost always shows a lag with respect to the programmed targets because of insufficient financial support, lack of political commitment or simply lack of administrative continuity. In the second place, the planning techniques do not show improving links between management, budgeting and evaluation. These tasks are crucial especially during recession

24. Thus, the recession took the process of planning by surprise and without appropriate institutional strength. The planning mechanism seems unable to provide the answers or the tools needed for an equitable adjustment and therefore cannot promote recovery and foster growth.

25. In these circumstances what are then the most important topics about the role of state? Bearing this question in mind some specific topics will be discussed in the following pages. Before starting though, perhaps it would be convenient to restate some ideas:

Undoubtedly, the presence of the state has never been required before as during these times. Its interventions is fundamental for

overcoming the crisis and alleviating the regressive aspects of the process of adjustment, as well as for improving the social conditions of the mass of the population.

26. Starting from the above premises does not mean to call for a larger state involvement in economic activity. It does not mean to repeat past mistakes. The scarcity of resources and the worsening of the old problems (unemployment, fiscal deficit, trade deficit) present an ideal opportunity for state action to initiate appropriate reforms and necessary changes. The crisis can contribute to a faster modernization in terms of a better definition of state functions, coordinated concentration of efforts in critical areas and the establishment of a different framework for efficiency.

A. Market Intervention

27. For many reasons planning has been always attempted to intervene in all the markets and in all the activities of the economic agents. This is ineffective because it fails to initiate practical selectivity to distinguish the priority tasks in the short, medium and long term. For example the initial action should be directed towards the correction of external and internal imbalances; to favor in a selective way the low income earners, particularly those in extreme poverty; to provide the fulfilment of basic needs; to facilitate people's access to basic services and to offer those public goods needed for promoting growth and welfare.

28. Secondly, policy instruments should be used to intervene with clarity and precision. In most of the cases significant reforms fail due

to the lack of appropriate instruments for implementation. Urban reforms without methods for controlling land use or to gain the appreciation generated by the new investments; rural reforms without appropriate methods of expropriation, acquisition of land or promotion of land cultivation; tax reforms without specific methods for distinguishing between productive or unproductive work or between consumption and investment; fiscal reforms without comprehensive instruments for improving income distribution among target groups or without adequate mechanisms for controlling public expenditures; monetary or financial reforms without instruments of articulation in harmony with other policies; trade reforms without clear distinction of the goods and services classified for import substitution or export promotion.

29. In principle, the state intervenes in order to promote development and it is said that each objective there should be one specific instrument (Tinbergen's principle). This optimum situation faces some practical difficulties. On the one hand, the objectives in a dynamic situation are not independent and on the other the great permeability of the real and monetary markets makes difficult the use of one instrument vis-a-vis the policy. The crucial message for policy-making lies in the well known "principle of effective classification of markets"^{11/} This is to intervene with those policies (policy-mix) which can be more effective but always trying to manipulate the instruments in such a way as to create the minimum disturbance to other objectives so avoiding the aggravation of existing equilibriums.

According to Gustav Ramis, the simple economic efficiency in the use of policy instruments is not enough. What is relevant is the independence and autonomy for using those instruments.^{12/} Due to

political, institutional, social and legal reasons most of the instruments show rigidities or inflexibilities with the result that policies do not react in the direction anticipated or with the speed required.

30. In connection with the above, it is also important to anticipate the possible relationships that arise from the simultaneous use of instruments. Often new policies are counter productive because they result in a different impact from that anticipated. This is why it is important to identify in advance the objectives and to specify with clarity the instrument used during its implementation.

B. Global Congruence: The Appropriate Compatibility
between Needs and Resources

31. In general terms the objective of planning is the optimum allocation of resources, but in practical terms, planning is concerned with the compatibility between resources and possibilities. In other words, the real contribution to the developmental process relies on the correct evaluation of resources in order to determine what it is possible to do within certain limitations. Unfortunately, planning has been understood as a useful exercise for the evaluation of needs to determine what is desirable to do. Thus, if there is not a clear distinction between the above two concepts the idea that all the objectives are possible or that there is an infinite number of degrees of freedom from which to choose the desired targets may be assumed erroneously.

32. The above distinction could be illustrated by saying that finally the task of planning consists in establishing priorities according to the

principle of scarcity and therefore, it involves the idea of sacrifice or postponement of certain goals because it is impossible to obtain all of them simultaneously and completely. Once the priorities of the objectives have been defined in relation to the available resources and critical problems, the next step has to deal with the internal consistency of those objectives to avoid contradictions. In the light of the above clarification, it is appropriate to mention the following points:

(a) Economic and Social Development plans tend to overlook the principle of scarcity and in doing so the need of fixing priorities within a minimum level of internal consistency, because they tend to include all the goals and interests of a wide range of interest group.

(b) Following the establishment of priorities, the plan itself should be considered as a valuable opportunity to state the social or economic problems as a balance between objectives, restrictions and means instead of writing extensively global or sectoral diagnoses. With this evaluation available it is easier for the policy makers to become aware of the difficulties and constraints for the fulfilment of several objectives at the same time.

(c) Since at the beginning the plan should indicate that any policy option with employment intensive, foreign currency intensive, internal indebtedness intensive characteristics, requires a well weighted ranking of sacrifices and an equitable postponement of expectations. This message is a direct responsibility of the state and at least from the technical point of view should be realistic.

1. The Relationship between the Diagnosis and the Strategy

33. Very frequently a diagnosis of socio-economic plans presents an analysis of the economic system which includes a description of the interrelationships among variables (flows) of a different nature with an explanation of the causes of the problems. In this way, the starting point is a supposed knowledge of the system where the problems would be structural by nature and their roots perfectly identified. In spite of this worthy effort, the proposed strategy is a basically "supply oriented approach". This occurs because the plan sets up a structural problem, but its strategy acts as a theoretical background to preserve or protect the system, to smooth the roughness and to generate an adequate supply of goods and services in a style compatible with the expectations of the population.

34. In that way, the strategy does not correspond to the diagnosis. Simply it attempts to adapt its performance but not its structure; it seeks to correct the speed but not its course. In short, the strategy tries to achieve a more dynamic system by supplying the indispensable needs but without the idea of change or transformation.

35. Herein lies the idea of incompatibility between the diagnosis and the plan of action. Unfortunately, the development plan accentuates that incompatibility and wraps it in a coherent rhetoric. Under this approach the dynamics of the system described in the diagnosis has not taken into account the presence, reactions and interests of the economic agents at the internal or external levels. Thus, the role of the state is conceived as a simple supplier of goods and services in order to keep the existing system in operation. This approach is accompanied by a set of

general guidelines where the decisions of the economic agents are supposed not only to be rational but also to act in the direction stated in the plan.

36. As an alternative, Carlos Matus has proposed the establishment of a "strategical approach" which basically aims to close the gap between the politicians and the technicians and between theoretical diagnosis and reality. ^{13/} His proposal also tries to reduce the discrepancies between the planner with his "analytical globality" and the current man with his "operative globality." For the former, the interrelationships among factors (flows) occur in such a way that everything influences everything and therefore the gigantic scope of the plans. For the latter, everything has its own solution, but without recognizing the need for integrating the parts with the whole.

37. Within the same characteristics the sectoral diagnosis end by containing a summary of compartments which are isolated from the global strategy. Even though each sector has its own specific problems and bottlenecks, this is not a valid excuse for greater dispersion or lack of congruency with what has been stated for the economy as a whole.

38. Finally, from the methodological point of view it is also important to mention some other points. The diagnosis and the strategy cannot be an abstract conceptualization, but on the contrary, the practical expression of a political commitment about what to do with whom and for whom.

2. Relationship between Objectives and Policies: Economic Management

39. The set of objectives stated in the plan confirm what is called the "Objective Image". From the diagnosis the plan outlines a new scenario

that in its description pretends to be in a superior state. In order to achieve that, the objectives have to be accompanied by an appropriate number of policies with a clear distinction between those oriented towards the predicted effect of the short run adjustment from those trying to foster economic development in the long run. "It is important that this framework policy be flexible enough to permit the economy to adjust to external disturbances, that it provide adequate incentives for longer term growth, and that it permit the attainment of the objectives of equity and social advance.^{14/}

40. In order to establish a sound macroeconomic policy within which economic agents can function efficiently, the World Bank underlines the following tasks:

(a) Policy flexibility to permit adjustment to changing circumstances.

(b) Stabilization efforts that also permit price adjustments that increase efficiency.

(c) Managing the system of incentives rather than formulating comprehensive long-term targets for investment, production and consumption.

(d) Improving the capacity of public sector entities to formulate sound investment programs, with particular emphasis on appraising major public sector projects.

(e) Consulting and coordinating both within governments and with the public.

(f) Concentrating on a few selected policy issues and programs in place of elaborate blueprints.

(g) Improving the provision of information to keep better track of the key economic developments.

Several of those objectives seem to be the fundamental basis towards the establishment of a sound macroeconomic policy. For each one of them the literature is abundant and the experience of the last decade has left the countries with important lessons. To insist on the theoretical aspects is not the principal aim of these pages. But on the contrary, what is needed is to learn from the experience and to avoid in the future the same mistakes.

C. Macroeconomic Adjustment

41. In terms of adjustment policies the developing countries in particular the small island developing countries cannot assume that the basic foundations of the economic theory are inadequate for understanding some particular problems and thus what is necessary is to formulate a different theory. This costly and useless exercise could be restated by saying that given the fact that there is not a unique path of adjustment the appropriate policy-mix should contain some key elements: First, a coherent manipulation of policy instruments in such a way that the internal and external disequilibrium could not be aggravated one at the expense of the other. The lessons from other countries confronting adjustment problems show that policy inconsistencies were the main reason for the failure of the reforms. For instance, the prolonged appreciation of the real exchange rate accompanied by a rapid tariff reduction programme or an anti-inflationary monetary policy followed by a full wage indexation system. Perhaps the most common ambiguities come from the

attempts to control inflation, reduce fiscal deficit and promote trade by manipulating the rate of money growth, the tax system, the rate of exchange and the interest rate. Without having a clear idea of that scenario it is possible to find that the expected objectives of the policies are not achieved but on the contrary, that new problems arise in terms of unemployment, capital outflow, capacity sub-utilization or insufficient working capital. Second, flexibility is perhaps one of the most important characteristics for a successful adjustment policy. Taking into consideration the high vulnerability to external forces, the Caribbean economies have to react quicker than some other countries in order to adopt the appropriate corrective measures. Third, a high level of pragmatism which means to promote a practical oriented approach within a clear definition of the most important problems and realistically to set out some targets towards solving the most pressing needs of the population in extreme poverty.

42. With respect to stabilization, the main effort involves the reduction of price distortions for achieving greater efficiency. This task includes the use of a great variety of instruments for the establishment of equilibrium in both the internal and external sectors. The following list of policy instruments gives an idea of how important and difficult it is to fix the right prices of goods and services to reflect their scarcity.

A. Trade Policy

Instrument

Purpose

A. Import Regime a/

1. Tariffs and Duties

- Increase fiscal resources
- Correct balance of payment disequilibria
- Protect local industry
- Promote greater efficiency
- Augment value added

2. Administrative Controls and Regulations

(a) Import permit or licence

- Control imports

(b) Invoices, bill of lading

- Control goods shipped

(c) Certificates (origin, value quality, weight, insurance)

- Regulate imports

(d) Fines, penalties, shipment restrictions, technical specifications

- Supervise imports

(e) Quantitative restrictions and anti-dumping measures

- Protect local producers

B. Export Regime

3. Direct Tariff Incentives

(a) Tax exemptions, tax reductions

- Encourage export production

4. Direct Credit Incentives

(a) Pre/post-shipping credit

- Foster exporters

5. Global and Specific Subsidies

- Promote foreign trade

Instrument

Purpose

6. Certificates

- (a) Bilateral/multilateral - Encourage trade
- (b) Tax refund certificates - Spur exports

7. Indirect Incentives

- (a) Draw-back - Stimulate production of traded goods

8. Free Zones

- Facilitate acquisition of goods
and services

9. Multilateral Agreements

- (a) Bilateral/multilateral - Encourage trade
- (b) Integration schemes - Expand transactions

10. Exchange Rates

- Reorientate production
from non-traded to traded goods
- Restrain import demand
- Regulate foreign exchange
- Re-establish export competitiveness

11. Agencies, Institutions, Chambers

Associations

- Promote foreign trade

B. Fiscal and Tax Policy

<u>Instruments</u>	<u>Purpose</u>
1. <u>Income tax, Sales tax</u>	- Recuperate income tax elasticity
<u>Value Added Taxes,</u>	- Strengthen fiscal budget
<u>Property Taxes, Land Taxes</u>	- Correct inequalities
<u>Building Taxes</u>	- Rationalize expenses
	- Reduce fiscal deficit
	- Enlarge tax scope
2. <u>Taxes on Selected Services</u>	- Increase fiscal revenue
(Tourism, spectacles, etc.)	
3. <u>Taxes on International Trade</u>	
(CIF, FOB, Ad-valorem)	- Augment public revenue
	- Reduce trade deficit
	- Control consumption
	- Promote import substitution
	- Improve income redistribution
4. <u>Law of State Purchases</u>	- Favour local production
	- Promote industrialization
5. <u>Norms and Regulations</u>	- Control public expenditures
6. <u>Guidelines to state-owned</u>	
<u>Enterprises</u>	- Control performance
7. <u>Exemptions, Deductions,</u>	
<u>Rebates</u>	- Compensate tax payers

C. Monetary Policy

<u>Instrument</u>	<u>Purpose</u>
1. <u>Rate of Interest</u>	<ul style="list-style-type: none">- Promote private savings- Control exit of capital- Incentive investment- Adjust capital market to external conditions- Reduce inflationary pressures- Modify relative prices of factors of production (labour and capital)
2. <u>Rediscount Facility</u>	<ul style="list-style-type: none">- Reactivate specific sectors of production- Orientate investment towards some activities
3. <u>Reserve/Deposit Ratio</u>	<ul style="list-style-type: none">- Control means of payment- Expand credit- Modify monetary liquidity
4. <u>Currency/Deposit Ratio</u>	<ul style="list-style-type: none">- Control money in private sector- Regulate monetary demand
5. <u>Marginal Reserve</u>	<ul style="list-style-type: none">- Expand or reduce money supply

<u>Instrument</u>	<u>Purpose</u>
	- Reduce Interest rate
	- Finance public sector
6. <u>Open Market Operations</u>	- Finance public expense
	- Control means of payment
	- Control money demand
7. <u>Indexation</u>	- Introduce monetary correction on goods and services according to rate of inflation (housing, salaries, bonds, exchange rate) to reflect real value
8. <u>Foreign Exchange Reserve Cover</u>	- Preserve stability
9. <u>Statutory limits on Central Bank Credit to Central Government</u>	- Administrate available funds
10. <u>Moral Suasion</u>	- Warn or persuade economic agents

D. Price and Wage Policy

<u>Instrument</u>	<u>Purpose</u>
1. <u>Price Regulations of Public Services</u> (Tariffs)	- Pricing for efficiency - Achieve self-financing - Reduce fiscal deficit - Control demand - Promote self-financing
2. <u>Minimum and Maximum Price</u>	
(a) Price controls	- Protect consumer
(b) Guidelines (productivity, inflation)	- Stimulate production
(c) Mark-up	- Control cost of living
3. <u>Minimum Wage</u>	- Protect workers - Improve income distribution
4. <u>Specific and Global Subsidies</u> <u>on Goods and Services</u>	- Favour low income groups - Compensate high cost of living - Increase supply - Stimulate local production - Compete with imported goods and services

Instrument

Purpose

5. Indexation of Basic Parameters

(Wages, interest rate, price of public services, exchange rate)

- Facilitate access of basic needs to target groups of the population

- Control demand-pull inflation

- Reduce cost-push inflation

- Adjust price increase expectations

- Maintain competitiveness of the economy

E. Employment and Income Distribution Policy

<u>Instrument</u>	<u>Purpose</u>
1. <u>Public Investment Programmes</u> (Housing, roads, etc.)	- Reduce unemployment - Expand productive capacity - Generate greater value added
2. <u>Subsidies to Labour</u>	- Promote labour hiring - Change relative prices of factors of production.
3. <u>Information on Market Conditions</u>	- Foster labour mobility
4. <u>Social Security Taxes</u>	- Finance social services
5. <u>Tax System</u>	- Increase tax progressively to finance social expenditures.
6. <u>Control of Assets and Capital</u> (Physical, human, financing)	- Redistribute income - Facilitate access to groups in extreme poverty.
7. <u>Supply of Basic Needs</u>	- Reduce income inequality - Increase welfare

Instrument

Purpose

8. Formal and Informal Training

- Facilitate access to
labour market

9. Social and Economic Reforms

(Laws)

- Reduce inequalities
- Promote development
and income distribution

F. Financing Policy

Instrument

Purpose

1. Financing Reform (law)

- Regulate, order, control
stabilize, financing
intermediaries.

2. Anticipate Refund by Central Bank
of Exports

- Facilitate short-term
financing

3. Maximum quota of Exchange Reserve
For Imports

- Control expenditure
of exchange reserves
- Allocate scarce
resources

Instrument

Purpose

- | | |
|---|---|
| 4. <u>Control of Anticipated Disbursements and foreign exchange licence</u> | - Control movement of foreign exchange (sub-invoicing, over-invoicing) |
| 5. <u>Foreign Exchange Insurance and (SWAPS) Operations</u> | - Facilitate financing of banking system.
- Increase Foreign exchange reserves by Central Bank |

43. Most of the above instruments are used simultaneously by the policy makers in an effort to re-establish equilibrium in different markets. This means that without a minimum level of coordination among the public institutions, the risk of contradiction and confusion is greater. Under these conditions the price distorting policies have as a common cause a complex system of government intervention that is not properly designed or implemented. According to the empirical research carried out by the World Bank in a large sample during the 1970's "Those countries with the worst distortions experienced significantly lower domestic savings and lower output per unit of investment, thus leading to slower growth". 15/ The above mentioned result gives a clear indication of the fundamental role that could play the economic planning by setting clear and few objectives within a well calculated system of policy instruments. This is not a call for a bigger state with more intervention, but on the contrary to draw attention to some matters related to the role of the state for overcoming institutional weaknesses that constrain the process of adjustment and discourage the efficiency of the economy.

D. The Promotion of Development and the State Owned Enterprises

44. To promote economic development with more restrictions and less degrees of manoeuvring is not an easy task. However, these are the conditions in which almost all the Caribbean countries should have to perform their basic functions. Furthermore, the worsening of most of the economic and social indicators compel the state to establish a clear ranking of priorities. But before doing so any fundamental action starts with some institutional reforms to improve overall efficiency of public resource management.

45. In connection with the above, the concept "size of state" is difficult to define because it implies and depends on many things simultaneously. In spite of this it would be useful to mention some criteria to appreciate that concept. On the one hand, it implies the state's contribution to the total production of goods and services. On the other hand, it signifies the proportion of public expenditures or tax revenues to the Gross National Product. Finally, the conceptual size of the state is frequently associated with the level of market intervention and in that case it means the universe of controls and regulations for the allocation and redistribution of all kinds of resources.

46. From the above distinctions it follows that it is important to know not only how much the state spends, how much the state invests and how much the state produces, but also how the state performs its functions and where the state allocates its resources. Depending on the answers given to the above questions, it is possible to know up to what extent the size of the state is consistent with its contribution to the national product. In other words, the concept in question could be interpreted as

an input/output relation between the public sector and the economy as a whole. But without knowing in advance the value of the relation it could be an error to judge the concept of intervention, moreover when the international comparisons induce to false appreciations due to the different productive structures and different possibilities of participation in the market.

47. Undoubtedly, the role of the state in the production of goods and services is crucial for the promotion of development. However, where the controversy takes greater favour is in connection with the following points

(a) Need for a clear definition of basic production activities according to the criteria of strategic areas, priority areas and complementary areas. Departing from that classification will depend on the convenience of abandoning those activities that the private sector can carry out with greater efficiency.

(b) Need for a clear setting up of economic and social objectives for each enterprise which implies a periodical review of priorities.

(c) Need for a clear system of control and evaluation in order to enable the government to consolidate information on its public entities. This includes a control system on expenditures, investments, financing and overall performance with respect to the social and economic objectives.

(d) Need for a clear system of incentives within a comprehensive decentralization framework to allow the public enterprises to compete more effectively with private firms and in this way to break the false separation between competitive performance and efficient state owned management.

48. Governments are trying to introduce some kind of evaluating techniques that could correct some of the problems experienced by public enterprises. Inter alia and as an illustration it is appropriate to mention the following

A. The Signalling System for Evaluating Public Manufacturing

Enterprises in Pakistan

49. In order to maintain performance and provide incentives for improved management of its public enterprises a signalling system was introduced in 1983. The system consists of three basic components: A management information system, a performance evaluation system; and a bonus salary system.

50. The information system consists of a computerized file on the basis of standardized reports submitted every month by each enterprise. This report includes information on production, costs, salaries, inventories, profits, taxes, duties, revenues, employment, value added, productivity and prices.

51. The performance evaluation system "consists of the negotiation of annual targets for each enterprise before the beginning of each fiscal year and the evaluation of results at the end of the year... the final objective is to define targets in terms of "public profits" which measure the difference between social costs and social benefits contributed by a firm to the economy - that is, the difference between what a firm takes out and puts into an economy".^{16/} Accordingly, the performance criterion is the result of a weighted average of private profitability, physical production, productivity and energy consumption.

52. Finally, the bonus system is an incentive that works in the following way: The grades depend on the range of weighted scores in a scale from A-E. Three months salary is paid to managers of firms that achieve Grade A, two months for Grade B, one month for Grade C, half a month's salary for Grade D, and none for Grade E. "Bonuses are paid to all employees in managerial grades in a unit, but not to workers who currently are eligible for bonus payments under union contracts."17/

8. The Control of State Owned Enterprises in Brazil (The SEST System)

53. The special secretariat for control of the state enterprises (SEST) was established in 1979 in an attempt to make investment, expenditure and internal and external credit programmes by state enterprises more compatible. These enterprises were previously controlled by the ministries under which they operated, but this did not help to achieve an adequate global consistency of the macro-economic objectives with the many decisions adopted by those enterprises on prices, foreign exchange, internal and external indebtedness, employment, etc."18/

54. The SEST system comprises of a great variety of instruments for achieving its basic objectives: among others, it is relevant to mention the following: (a) Each enterprise has to submit a budget proposal every year to SEST which in its turn proposes to the economic development council (CDE) the necessary modifications and ceilings on current expenditure, capital expenditure and sources of both internal and external factors of production. In short, it is a balance between uses and inputs and the outcome will reflect the state's contribution to enterprises or vice versa. (b) According to the SEST guidelines and on

the basis of its report and the final approval of the President of Brazil state enterprises may be created, expanded, abolished, more controlled or their capital increased. In general, the SEST is primarily concerned with setting and enforcing firm-by-firm ceilings, supervision of purchases and monitoring performance with agreed sanctions in the case of non-compliance.

55. In spite of some shortcomings and the need to improve the system, a recent document mentions the following main positive results of the SEST system: (d) Greater compatibility between the expenditure programmes of the state-owned enterprises and the government's macroeconomic targets (fiscal deficit, employment, wages and pricing policy); (e) A better regulatory system and a more reliable financial information management system. 19/

C. Classical Mechanisms

56. The classical mechanisms for monitoring state enterprises include a wide variety of systems that depend on the political, economic, social and institutional environment of each country. In particular, the most common practices are the following: Boards of Directors or Boards of Trustees which are made up of representatives outside the enterprise with the purpose of establishing guidelines, policies and maintaining instructions; special national institutions primarily concerned with the financial performance of the state enterprises particularly those in charge of basic public services like drinking water supply, electricity, sewerage, public transportation, garbage collecting etc; setting up special decentralized institutions for the execution of sectoral policies at the level of health, education, tourism, housing, environment, natural resources, infrastructure.

57. In spite of those good intentions the ideal conditions for operating efficiently still need to be achieved. The lack of managerial rules and more importantly the basic lack of appropriate performance evaluation systems have created more confusion to the concept of autonomy, in some cases this has led to a parallel decentralized administration more expensive and more powerful than the central one, without making any significant improvements in public sector efficiency in terms of deregulation and reformulation of policies.20/

IV. General Overview of the Different Approaches to Planning

A. The Administrative Planning Approach

58. In a recent document prepared by the United Nations Development Programme 21/ the need for closing the gap between economic planning and administrative planning in order to achieve greater efficiency in the overall functioning of the public sector was emphasized. Traditional planning gives marginal attention to the administrative variables under the assumption that the public apparatus is ready and capable of implementing the plans and projects, but without recognizing the complexity of the bureaucratic apparatus. At the same time the administration promotes changes and reforms without the necessary linkages with the global and sectoral linkages. If this is the case, both result in a useless exercise.

59. Based on past experience the planning system needs to take into consideration the administrative restrictions, incorporate those barriers in the formulation of the plans, weigh those constraints and in this way

predict a more realistic scenario. Simultaneously, the future plans need to make explicit their institutional demands at the global and sectoral levels as a precondition for a viable implementation of the technical proposals. It is not easy to understand the workings of public institutions and it is even more difficult to develop an economic policy through a complex chain of organizations that utilize different mechanisms for control and regulation. The situation is further aggravated when the concept of efficiency and performance is associated with the number of projects, actions or instructions stopped, delayed or simply ignored. Unfortunately, there have been examples of this in Caribbean countries. In short, the public administration, as the basic framework for state action, needs to be reformed in order to make the decisions adopted by the government more congruent and viable otherwise, the efficiency of the planning process will suffer due to the lack of an appropriate administrative structure.

B. The Strategical Planning Approach

60. Carlos Matus in his well known book "Planificacion de Situaciones" 22/ defines strategic planning as a dynamic process where there is a permanent interaction between political and economic viability. It is an attempt to integrate the economic plan and political plan where the theoretical approach of the former takes into account the political action of groups with their tactics and strategies. In this sense economic planning is conceived as an important part of political planning that requires also to be incorporated into the general theory of systems.

61. Traditional ILPES's literature about planning stresses four basic functions: Foresight for reducing uncertainty; Articulation between means and goals; Cohesion for reducing diversion in the state action and finally, to achieve agreement among different people through participation or concertation. However, more recently the discussions about strategic planning have attracted a great attention in response to the social and economic crises. The governments are facing market shifts, uncertainties, more restrictions and an accelerated pace of technological change. Under these new conditions the public institutions need to respond quicker and more effectively by experimenting with new modalities in their modus operandi.

62. Bearing in mind the above ideas Nagy Hanna recognises in the evaluation of strategic planning four major stages:

(a) Financial planning (management by budgetary control)

(b) Long range planning (management by extrapolation; improved forecast

ng.

(c) Strategic planning (management by strategic analysis and positioning)

(d) Strategic management (management by widespread strategic thinking, well defined strategic framework, effectively communicate vision and strategy and strong culture). In this evaluation "strategic planning" is seen as a modality to influence "position" in the market by providing strategic criteria for resource allocation, by examining the contribution to growth and welfare of each enterprise in the light of its competitive position and by concentrating their resources on the most promising activities and to withdraw resources from old and less productive ones. The functioning of this new style requires an adequate

level of decentralization, an operative information system and an active incentive structure to stimulate innovation, "creativity" and "capability transformation"^{23/}

63. In the context of "Strategic Planning" the idea of capability transformation "implies a discontinuous departure from historical behaviour". To ensure an optimal transition to the new capability, the process of change is managed in a way that anticipates, minimizes and controls resistance. As a first step in managing change, a preliminary analysis is conducted in the nature of change in capability needed to support the strategy. The result of this analysis is a "readiness assessment" or a "resistance map." Using this map, measures can be taken to build a supportive environment and to eliminate unnecessary resistance that may be due to misconceptions and fear.^{24/}

64. In closing, the above mentioned ideas about strategic planning show that improvements in public sector efficiency not only depend on a well designed strategy, but also require an adequate managerial environment with greater decision-making decentralization and flexible information and monitoring systems for further reformulation of policies in consultation with the economic agents.

C. The Project Planning Approach

65. During the 1960's and 1970's the Planning Agencies started to change the traditional practice of planning in response to its failures and unsuccessful results. That trend led to a "project planning approach" where the most important task consisted of identifying a set of projects sector-by sector and from that exercise to outline the national

investment programme. In this respect most of the "blueprints" included a global analysis, a list of projects and the estimated budgetary allocations for implementation.

66. The new modification brought about some preciseness to the state action. It was a positive tendency towards the establishment of priorities and a further step for improving the efficiency of public investment and resource use. Most of the governments benefited from the creation of sound and viable local institutions to oversee not only the organization management policies and procedures, but also the whole array of factors and problems during the implementation and operation of the projects.

67. In spite of the progress achieved the overall performance of the "project approach" has not been easy. Among others, it is useful to mention the following shortcomings:

(a) Lack of institutional and manpower capacity to identify, appraise, evaluate and implement specific project proposals.

(b) Lack in providing counterpart financing for projects.

(c) Lack of supervision of the ongoing projects at the national and regional levels.

68. In addition to the above-mentioned problems, the project planning approach overemphasized the micro level, without having a comprehensive global framework for establishing the necessary links and relationships among interdependent or complementary projects. As a result many countries faced a situation of fragmentation, dispersion and concentration on short-term rather than long-term results. At the same time the administrative difficulties of dealing adequately with a large number of projects imposed severe administrative constraints for

evaluating and monitoring expenditure and performance.

69. Some governments have established small central project units within the Ministries of Planning with major emphasis on the financial viability of the overall programme; To gain efficiency in the execution of the public investment programmes; to judge technical, financial and economic viability of major projects; and at most to evaluate the consistency of the programme with the countries development priorities. Such criteria follow the guidelines adopted by the Inter-American Development Bank, the World Bank or the LMST (Little-Mirrlees-Squire - Van der Tak) methodology provided by UNIDO and the OECD. 25/26/

In principle these techniques assume that no two projects are alike; each has its own contribution to development objectives and is expected to be economically, technically and financially sound. In this regard, each project is passed through a project cycle which with some variations includes the following phases: Identification preparation, appraisal, presentation, implementation, supervision and evaluation.

70. In the light of this it is important to quote the following "If properly executed, the project planning process is lengthy and time consuming since it involves the identification of worthwhile project ideas on which pre-feasibility studies, before the project is deemed to be worthy of implementation. However, if this process is carried out systematically it should be possible to assign different degrees of priority to projects in accordance with their differing ability to contribute to the national economic objectives.27/

71. In the case of the small Caribbean countries it is important to mention that the absorptive capacity is limited by recipient planning and implementation capability. So the project planning approach needs to

develop more flexible procedures and implementation mechanisms. It is necessary to concentrate scarce resources in key areas in connection with a well defined and properly identified macroeconomic policy framework within which projects can make a positive contribution.

D. The Sectoral Planning Approach

72. Because of the challenges faced by governments to achieve certain goals at the sectoral level - health, education, housing, etc, and because of the need to coordinate certain policies like tourism, environment, trade, energy, etc., a path was chosen which apparently delegated to different ministers responsibility in the design, execution and evaluation of their respective plans, programmes and projects.

73. In the case of most countries with published plans, the sectoral policies and programmes were supposed to be written in consultation with the central office and according to the priorities and objectives stated by the central government. However, in the small Caribbean countries the absence of insufficiently experienced personnel capable of undertaking economic development planning and promotion at the central level has determined that the basic planning functions are currently carried out by the respective ministries. This is certainly the situation with the exception of Jamaica and to some extent Barbados.

74. The sectoral planning approach can be seen as an improvement or as a further step towards a higher stage of maturity in the sense that once the countries have the appropriate technical staff with suitable qualifications in planning, the central planning agencies are able to relegate basic functions to other ministries. But this remains to be

implemented in the case of most Caribbean countries. In most cases the central planning agency is located within the Ministry of Finance or reports to the Minister who has responsibility for that portfolio, but in general, the inter-institutional linkages tend to be weak. Referring to this, Reid stated "To summarize, the current activities of the Planning Agencies of the seven LDCs seem to lack a consistent focus and direction. No attempt seems to have been made to draw up action programmes in basic planning activities within which the operations of the agencies could be organized. Relationships with executive ministries tend to be weak which seems to restrict their capability to formulate and implement national programmes for the promotion of the development of their economies. 28/

75. The effectiveness of a sectoral planning approach in contributing to the better overall allocation of resources depends in no small measure on the level of coordination and contribution to the objectives and priorities stated in the national plan or strategy. The contribution to the achievement of national goals requires from the various ministries a decentralized, but coordinated system of decision making. The plans of those bodies should be well assembled and should be in tune with the national strategy if minimum success is to be achieved.

E. The Regional Planning Approach

76. The roots of regional planning may be found at three centrally located positions:

(i) At the political level, regional planning is conceived as a process of decentralization, delegation of functions or democratic participation in decision-making. 29/

(ii) At the economic level, the arguments in favour of regional planning are related to a balanced spatial distribution of population within the countries, a more efficient exploitation of natural or energy resources or generally, to avoid economic and demographic concentration in the capitals or metropolitan areas.

(iii) At the institutional level, regional planning is understood as an instrument of integration deeply rooted in the interests and problems of the regions instead of being characterized as a tool by the central authorities.

77. In the implementation of these regional objectives, the phenomenon of hierarchy raises a further issue of great significance for the analysis of state action; that of centralization and decentralization. The terms sound simple, their meaning obvious, but as soon as governments try to formulate precisely how they differ, a great degree of complexity becomes apparent. It is clear also that real economic systems contain a blend of centralized and decentralized structures of authority. Depending on these structures, the effectiveness of the regional institutions vary considerably and there are no examples of "isomorphism" between the structure of production relationships, the organizational structure and the structure of outcomes desired. "Isomorphism" means a state in which shapes of structures fit each other snugly, as a glove in hand. For this reason, it is necessary to make a distinction between two kinds of regional decentralization:

(a) Apparent administrative decentralization, where the top level delegates supervisory tasks to lower ones, but does not grant them any autonomy and real decision-making decentralization, where institutions, agencies or enterprises receive a greater leeway to make decisions on

their own.

78. With some exceptions, most of the Latin American and Caribbean countries exercise a kind of apparent administrative decentralization where the planning office merely decentralizes the decisions adopted centrally. Under real decentralization of decision-making the institutions acquire a certain degree of independence and autonomy.

79. Additionally, the concept of resource allocation for balanced regional development has to bear in mind the forces inherent in any mixed-economy. On the one hand, the private sector allocates its resources according to the principle of profitability which in turn is strongly influenced by the economics of scale of metropolitan areas based on access to mass consumption and the reliable supply of inputs for the production of goods and services. The market in this case provides incentives for polarization and concentration in the large cities. But on the other hand, the state as regulator of the economic process and producer of goods exerts through its strategic actions some measures for industrial dispersion and the opening of new alternatives for industrial allocation and re-enforcement of regional autonomy within a normative bias towards regionalization and decentralization.

80. The current procedures and methods for dealing with regional planning, according to a recent study on seven national cases which are the most significant examples of planning mechanisms and institutional structures are the following:

(a) Fiscal funds and tax incentives for new and needed industries located in the medium size cities.

(b) Sectoral investment funds and land use controls.

(c) Free zones and industrial parks.

(d) Credit support to small industries and fiscal exemptions to regional investment.

(e) Strengthening of municipal financing structures and frontier plans for the settlement of the population in the inner space.

(f) National commissions for regional development and regionalization of the countries according to their productive structure or natural resources endowment.

(g) Land distribution and particularly rural agrarian reforms 30/

31. The policy instruments described gives a sufficient idea of the purposes sought by the authorities: that is, employment generation; exploitation of available resources, mitigation of rural urban migration and a different allocation of public and private investments for the aim of balanced development. However, in spite of efforts in the conclusions of an ECLAC/UNCHS paper, it is clearly stated that "metropolitization, centralization of investment and concentration of population are still outstanding features of the region's development" 31/ In fact, this conclusion is a reflection that after twenty years of planning experience, there is still a wide disparity between the official line and the real forces leading the process of decentralization. Planners have periodically neglected the interest of corporations and the conditions of the market. By functioning in that way regional planning has considered those factors as exogenous data. On the contrary, what is expected is that the plans should be an instrument for matching the economic viability of projects and programmes with their political viability. This aim implies a permanent process of consultation and interaction

among different groups in order to be sure that the technical and the political proposals have a minimum level of incompatibility.

6. The Systematic Planning Approach

82. The concept of "system" implies the opposite of the practice to study parts in isolation. "It explicitly entails emphasis on potential interactions among all the parts that are perceived or distinguished" 32/

By working on the theory that concept planners have different approaches, one group argues that the most efficient systems approach consists in identifying the key area problems or bottlenecks and to face them with specific actions and tools 33/ In that way the inefficiency will be reduced or eliminated. A second group favours the use of science for developing models that attempt to describe the interactions and relationships of a system. Thus, the theoretical model building is an interpretation of the "real world" and generally the sciences employed are mathematics, computer science, economics, or behavioural science like psychology or sociology 34/ a third group has a strong humanistic influence and associates the system with persons and consequently the first task consists of observing the human values like liberty, dignity, aspirations, motivations and personal perceptions of the world. 35/

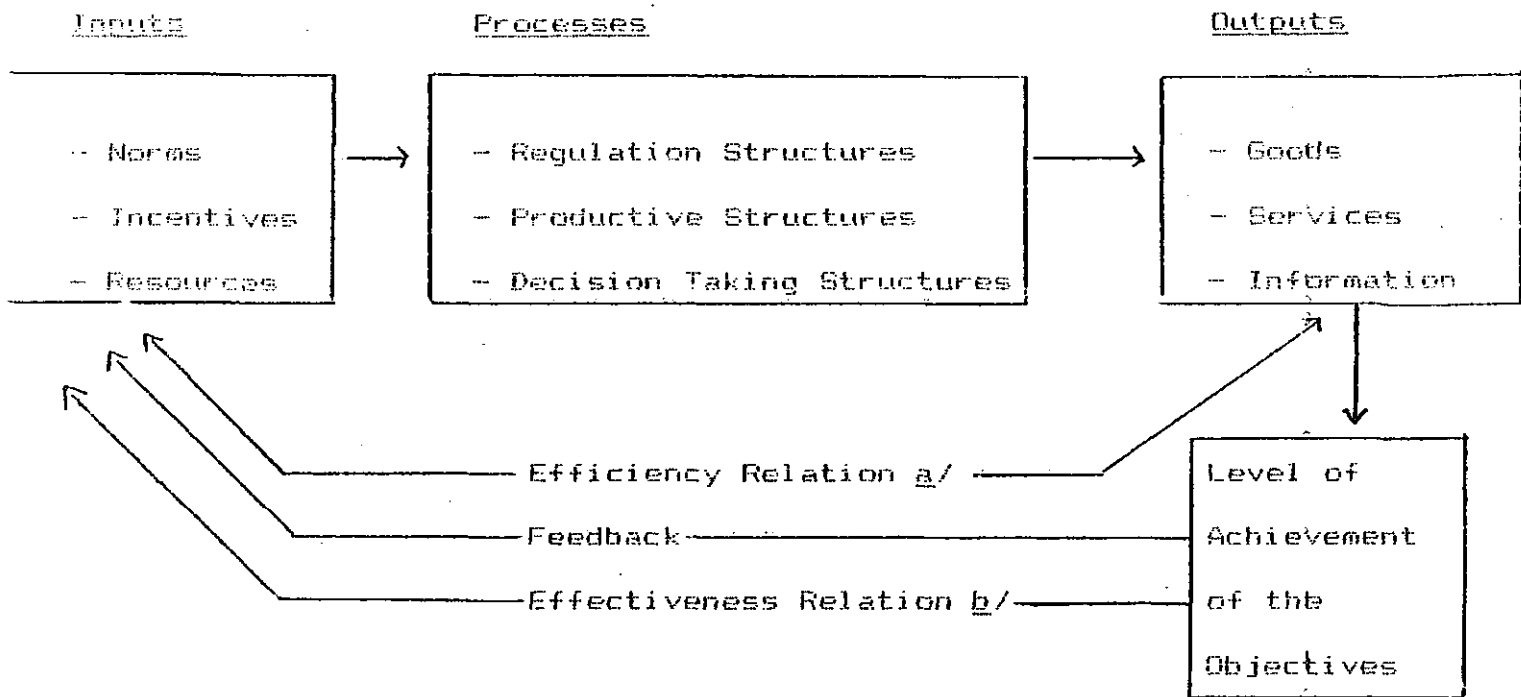
83. In the first two systems the approach to policy making and planning the attention is concentrated in the inter-relationships and their results, but assuming ex-ante the kind of flows that will arise. The difficulty with this methodology is the idealism in establishing the restrictions that impede the proper functioning of those flows. In that scenario there are no real actors with specific interest and conditions

and due to the problem of disaggregation the society or the economy interpreted in the plan is an homogeneous entity that should follow a linear path of development.

B4. At this point, and in the light of the purpose of this paper, it can be assumed the system-based methodology for real world problem solving is a useful tool for a global description of the economy and for a better understanding of the complex system of feedback prevailing in any society. From the planning perspective it is important to understand how an output of a process flows back and is utilized within that process as an input. This information allows the planners to prepare a better analysis in the "blueprints" for clearer problem identification and solving, thus providing a clearer insight of the relationship between the economic variables. 36/ However, with the systems planning approach there is a risk that the economic system will be seen as a "Black Box" in which some changes of input into output are achieved without appropriate cause-effect explanations (See Graph 1)

Graph 1

The Systems Planning Methodology



a/ Refers to the relation between input and output (increasing, decreasing, constant returns of scale)

b/ Refers to the level of success (failure) in achieving the objectives.

VI. Final Considerations

85. Bearing in mind the preceding discussion, the following conclusions emerge from the analysis. It must be recognized that planning as a tool for the maximum use of resources is still in the process of adjustment of its analytical techniques and methods to the new complexities of economic changes. Also, it seems to be more useful to recognize its weaknesses and limitations than to repeat the same mistakes of the past. It is therefore essential for the planners to formulate innovative approaches rather than ones based on hypothetical methodologies that cannot improve the situation. First, by looking at the different approaches it is worth remembering the need for a more efficient institutional pattern of government decision making machinery. The current institutional weakness in most of the Caribbean countries does not provide an adequate environment for the promotion of the reforms needed to cope with economic adjustment issues. Second, with respect to the current policy framework, the planning bodies are best placed to produce an optimum relationship between the resources available, the objectives established and the instruments used. On the one hand, the diagnosis needs to be consistent with institutional, administrative and political obstacles, while on the other hand, the policies outlined need to clearly express the kind of instruments and mechanisms selected for their implementation. Finally, the objectives also need to be pragmatic and realistic and should be confined to sectors and groups of high priority.

Caribbean countries could learn from this review of planning approaches and public management experiences and so promote new flexible and strategical methods that would be more suitable and appropriate for the specific circumstances existing in the region.

TABLE 1

Growth Rate Per Annum of Some Aggregates
for the OECS Countries

1974-1984

STATES	POP	Y_c	R_c	E_c	X	M	BOT
Antigua	1.58	12.72	15.85	12.40	1.86	12.36	-18.03
Dominica	1.06	12.98	13.76	14.10	15.08	14.28	-13.76
Grenada	0.90	18.30	17.48	13.42	11.17	15.88	-19.40
Montserrat	0.16	15.61	15.35	14.26	25.60	17.49	-16.14
St. Kitts- Nevis	0.01	9.90	7.87	15.45	10.92	14.29	-24.74
St. Lucia	1.72	13.50	14.39	18.66	16.14	13.76	-15.08
St. Vincent	3.51	15.08	17.95	17.30	24.74	15.75	- 8.89
OECS	1.62	13.76	15.48	15.35	12.46	14.02	-16.14

SOURCE: Annual Statistical Digests of the Member States of the OECS.

POP: Population

Y_c : Gross Domestic Product

R_c : Current Revenue

E_c : Current Expenditures

X_c : Exports

M : Imports

BOT: Balance of Trade

TABLE 2

Annual Growth Rates of Per Capita Variables
and Population for OECS as a Unit, 1974-1984
 ° (Year to Year Growth)

YEAR	Y _P	R _P	E _P	X _P	M _P	POP
1974-75	11.12	10.37	15.53	11.56	7.16	2.45
1975-76	10.01	17.29	16.07	19.17	14.07	1.74
1976-77	14.10	13.46	3.67	4.13	16.66	1.07
1977-78	17.54	12.43	8.72	19.21	19.14	1.16
1978-79	15.06	38.48	30.33	1.40	15.24	1.13
1979-80	23.76	11.43	17.69	16.06	31.41	.84
1980-81	13.96	10.26	15.69	17.56	11.97	-.06
1981-82	6.40	9.01	10.88	-3.80	-2.18	2.24
1982-83	3.38	11.52	12.74	11.05	12.45	3.16
1983-84	6.61	8.63	4.63	12.56	4.76	2.58
1974-84	12.20	13.76	13.50	10.66	12.46	1.62

SOURCE: Annual Statistical Digests of the Member States of the OECS
 See, "Fiscal Performance and Fiscal Capacity in the Organization of
 Eastern Caribbean States (OECS) Member States" by S.B. Jones-Hendrickson,
 November 1985.

Y_P = GDP per capita
 R_P = Current revenue per capita
 E_P = Current expenditure per capita
 X_P = Exports per capita
 M_P = Imports per capita

TABLE 3

Measures of Openness for the Caribbean Countries

<u>Country</u>	Exports of Goods and Services as % GDP	Imports of Goods and Services as % of GDP
<u>MDCs</u>	<u>42.9</u>	<u>48.5</u>
Bahamas	84.0	64.7
Barbados	70.0	70.8
Guyana	61.8	85.4
Jamaica	40.2	53.1
Trinidad and Tobago	31.4	38.4
<u>LDCs</u>		
Belize	53.1	75.3
<u>OECS</u>	<u>55.9</u>	<u>86.2</u>
Antigua and Barbuda	72.8	89.6
Dominica	39.3	66.5
Grenada	34.8	74.7
Montserrat	34.3	71.0
St. Kitts and Nevis	64.3	108.0
St. Lucia	61.3	94.8
St. Vincent and the Grenadines	70.4	95.2
Anguilla		
British Virgin Islands		
Cayman Islands		
Turks and Caicos Islands	38.0	100.0

SOURCE: Derived from Tables 4 and 6

TABLE 4

Selected Economic Indicators on CDB's Borrowing Member Countries

Country	Area (km ²)	Mid-year Population 1983 ('000)	Annual Rate of Population Increase 1980-1983 (%)	Labour Force 1983 ('000)	Unemployed Labour Force 1983 (%)	Annual Change in Consumer Prices 1983 (%)	Annual Change in Money Supply (M1) 1983 (%)	GDP at Current Market Prices 1983 (\$m)	GDP Per Capita at Current Prices 1983 (\$)
MDCs (Total/Average)	245,895	4,725.4	1.7	1,930.4	...	13.3	7.4	15,082.9	3,192
Bahamas	13,942	223.6	2.2	96.4	...	4.1	12.5	1,665.2	7,447
Barbados	431	251.2	0.3	112.6	14.9	5.2	11.6	1,055.0	4,200
Guyana	214,970	813.6	0.9	279.1	...	15.0	16.5	485.0	596
Jamaica	11,424	2,287.7	1.6	999.8	26.4	11.6	4.5	3,493.6	1,527
Trinidad and Tobago	5,128	1,149.3	1.6	442.5	11.1	16.7	(8.1)	8,384.1	7,558
LDCs (Total/Average)	26,789	765.2	1.4	...	...	...	...	...	...
Belize	22,960	154.1	2.0	...	...	6.0	7.6	175.9	1,131
OECS (Total/Average)	2,910	565.0	1.2	208.4	...	3.7	4.5	613.3	1,085
Antigua and Barbuda	440	78.1	1.3	30.1	21.0	1.7	31.4	116.6	1,493
Dominica	750	81.3	1.0	31.3	...	4.1	0.5	78.5	966
Grenada	345	103.8	0.6	39.2	...	7.0	15.8	115.9	1,065
Montserrat	102	11.7	0.3	5.1	5.2	4.2	...	29.4	2,513
St. Kitts and Nevis	269	44.6	0.1	16.2	...	3.4	...	43.7	980
St. Lucia	616	126.6	1.7	45.5	...	1.5	1.6	138.8	1,096
St. Vincent and the Grenadines	388	113.9	1.6	41.0	...	5.5	17.6	90.4	794
Anguilla	91	6.7	(0.5)	2.3	...	...	...	...	...
British Virgin Islands	150	12.6	1.3	4.9	...	...	...	...	...
Cayman Islands	260	18.9	3.8	...	...	...	...	...	...
Turks and Caicos Islands	417	7.9	2.2	...	...	...	...	28.1	3,557
Total/Average (All Countries)	272,683	5,490.6	1.7	...	...	...	...	...	...

Note: The indicators have been prepared from information furnished to CDB by the Statistical Offices and other Government Agencies in the countries, International Organisations and CDB's estimates. Data for 1983 are, in some instances, preliminary.

SOURCE: Caribbean Development Bank, Annual Report 1984

TABLE 5

Selected Economic Indicators on CDB's Borrowing Member Countries

Country	Rate of Growth in GDP 1981-83 (%)	Value Added in Agriculture as % GDP 1981-83	Value Added in Mining as % GDP 1981-83	Value Added in Manufacturing as % GDP 1981-83	Value Added in Construction as % GDP 1981-83	Value Domestic Investment as % GDP 1981-83	Gross Domestic Savings as % GDP 1981-83
MDCs (Total Average)	(0.4)	5.8	19.1	9.2	11.1	16.5	11.4
Bahamas	1.2	4.9	9.2	3.8	3.3	10.0	29.9
Barbados	(2.1)	7.1	0.8	12.5	7.2	23.1	18.5
Guyana	(10.6)	27.1	5.8	11.1	8.1	25.9	2.7
Jamaica	(0.9)	11.4	6.8	18.1	8.1	21.8	9.1
Trinidad and Tobago	(1.8)	2.4	29.3	6.1	14.2	14.1	8.3
LDCs (Total/Average)	...	...	...	...	...	...	...
Belize	(0.1)	22.3	0.3	13.6	8.7	24.8	2.0
OECS (Total/Average)	2.0	17.4	0.7	8.2	8.6	38.2	3.1
Antigua and Barbuda	1.9	7.6	0.6	4.9	8.2	43.9	8.2
Dominica	3.8	29.9	0.9	6.7	8.4	30.2	(1.6)
Grenada	2.2	26.1	0.0	2.7	6.7	35.6	(1.8)
Montserrat	1.5	4.8	0.8	6.0	10.1	34.6	(11.3)
St. Kitts and Nevis	(1.7)	21.3	0.2	19.7	3.4	25.9	(14.0)
St. Lucia	2.2	14.8	1.3	9.9	9.9	47.5	10.5
St. Vincent and the Grenadines	3.3	17.3	0.4	12.5	11.9	32.3	7.9
Anguilla	...	...	...	...	...	...	...
British Virgin Islands	...	...	...	...	...	...	...
Cayman Islands	...	...	...	...	...	...	...
Turks and Caicos Islands	...	11.9	3.6	0.6	20.8	50.3	9.7
Total/Average (All Countries)	...	...	...	...	...	...	...

NOTE: The indicators have been prepared from information furnished to CDB by the Statistical Offices and other Government Agencies in the countries, International Organisations and CDB's estimates. Data for 1983 are, in some instances, preliminary.

SOURCE: Caribbean Development Bank, Annual Report 1984

TABLE 6

Selected Economic Indicators on CDB's Borrowing Member Countries

Country	Central Government Current Revenue as % GDP 1983	Central Government Current Expenditure as % GDP 1983	Central Government Current Account Surplus as % GDP 1983	Central Government Capital Expenditure as % GDP 1983	Central Government Overall Deficit as % GDP 1983	Central Government Domestic Financing as % GDP 1983
MDCs (Total/Average)	28.8	31.3	(2.5)	12.9	15.3	9.9
Bahamas	17.4	17.6	(0.2)	4.6	4.6	4.5
Barbados	25.5	23.0	2.5	6.0	3.5	1.6
Guyana	41.2	46.4	(5.2)	22.2	27.4	10.3
Jamaica	25.3	35.9	(10.6)	14.5	25.0	7.0
Trinidad and Tobago	32.3	34.0	(1.6)	13.2	11.5	10.4
LDCs (Total/Average)	...	...	...	...	...	...
Belize	28.1	24.8	3.3	4.4	1.1	0.4
OECS (Total/Average)	29.0	31.5	(2.5)	8.0	10.4	2.3
Antigua and Barbuda	24.8	31.1	(6.3)	4.0	9.1	2.7
Dominica	31.6	31.7	(0.1)	17.2	17.3	(0.1)
Grenada	25.9	25.1	0.8	9.2	8.4	3.4
Montserrat	29.9	26.5	3.4	5.4	2.0	(1.5)
St. Kitts and Nevis	40.6	49.3	(8.7)	10.5	19.1	9.0
St. Lucia	28.2	30.8	(2.6)	9.4	12.0	1.7
St. Vincent and the Grenadines	31.9	33.7	(1.8)	3.0	4.8	1.3
Anguilla	...	...	...	...	...	...
British Virgin Islands	...	...	...	...	...	...
Cayman Islands	...	...	...	...	...	...
Turks and Caicos Islands	36.6	35.4	1.2	11.2	10.0	1.5
Total/Average (All Countries)	...	...	...	...	...	...

Note: The indicators have been prepared from information furnished to CDB by the Statistical Offices and other Government Agencies in the countries, International Organisations and CDB's estimates. Data for 1983 are, in some instances, preliminary.

SOURCE: Caribbean Development Bank, Annual Report 1984

Table 7

Selected Economic Indicators on CDB's Borrowing Member Countries

Country	Exports of Goods and Services 1983 (\$m)	Imports of Goods and Services 1983 (\$m)	Tourist Expenditure 1983 (\$m)	Current Account Balance 1983 (\$m)	Change in Reserves () = Increase 1983 (\$m)	Outstanding Disbursed External Public Debt 1983 (\$m)	Interest Payments on External Public Debt 1983 (\$m)	Debt Service Payments on External Public Debt 1983 (\$m)	Ratio of Debt service to Exports of Goods and Services 1983 (\$m)
MDCs (Total/Average)	6,476.9	7,313.5	1,820.4	(1,524.4)	1,181.3	...	...	...	...
Bahamas	1,399.4	1,076.9	730.0	(51.8)	(8.5)	162.0	...	25.0	0.1
Barbados	738.7	747.4	251.6	(42.0)	11.5	172.7	...	36.6	5.0
Guyana	299.7	414.3	4.2	(158.1)	(4.6)	...	...	...	...
Jamaica	1,406.5	1,855.4	409.6	(288.6)	279.7	1,643.0	...	373.0	26.5
Trinidad and Tobago	2,632.6	3,219.5	225.0	(983.9)	903.2	739.3	...	207.8	7.9
LDCs (Total/Average)	...	...	314.1	...	...	...	...	...	...
Belize	93.5	132.5	8.0	(19.0)	6.7	70.2	4.1	7.6	8.1
OECS (Total/Average)	343.2	529.2	157.5	(99.7)	0.4	239.1	5.6	13.4	3.9
Antigua and Barbuda	84.9	104.5	51.2	(25.9)	0.2	80.0	0.6	1.9	2.2
Dominica	30.9	52.2	4.7	(7.8)	0.0	33.2	0.8	1.2	3.9
Grenada	40.3	86.6	26.3	(15.0)	0.4	48.4	1.2	1.9	4.7
Montserrat	10.1	20.9	6.0	(4.3)	0.0	2.7	0.2	0.2	2.0
St. Kitts and Nevis	28.2	47.2	9.7	(10.3)	0.0	11.6	0.7	0.7	2.5
St. Lucia	85.1	131.7	41.4	(29.2)	0.0	42.3	6.1	5.1	2.2
St. Vincent and the Grenadines	63.7	86.1	18.2	(7.2)	(0.2)	20.9	1.4	1.4	2.2
Anguilla	...	...	2.9	...	...	...	...	...	...
British Virgin Islands	...	...	81.5	...	...	...	...	...	...
Cayman Islands	...	...	59.2	...	...	...	...	...	...
Turks and Caicos Islands	10.7	28.1	5.0	...	...	...	...	...	...
Total/Average (All Countries)	...	...	1,934.5	...	...	...	...	...	...

Note: The indicators have been prepared from information furnished to CDB by the Statistical Offices and other Government Agencies in the countries, International Organisations and CDB's estimates. Data for 1983 are, in some instances, preliminary.

SOURCE: Caribbean Development Bank, Annual Report 1984

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