ECONOMIC PLANNING AND THE UNDERDEVELOPED NATION

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TABLE OF CONTENTS

CHAPTER I

NATURE AND PURPOSE OF THE PLAN

Historical Perspective

While the basic concept of economic planning is far from new and can be traced back to Plato's formulation of the basic idea in the fourth century B.C., the scientific integration of the principles of planning into the framework of economic theory has been accomplished primarily since the end of the First World War.[1]

Planning theory has, historically, followed three basic schools of thought. Foremost of these schools, particularly in terms of the quantity of available literature and in terms of impact upon the popular mind, has been the socialist school. The socialist school has emphasized the humanization of the wage relation and the equalization of the distribution of the national product.[2]

Secondly, and equally famous, although presently less obtrusive is the nationalist school of thought. This school is popularly epitomized in the form of Fascism and Nazism. The prominent aim of these two movements is the satisfaction of a seemingly insatiable lust for political and economic power and centralization.[3]

The third, and somewhat less well-known, school of planning is the rationalist school. The economic rationalist, in the context of planning, is strongly oriented along the lines of scientific methodology and outlook.

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[1]B. C. Tandon, "Some Ideological Approaches Towards Planned Economies," Indian Journal of Economics, IXL, (July, 1958) p. 141.

[2]Ibid.

[3]Ibid., p. 143

His primary concern is with the problems of optimization of available resources.[1] The scientific planner is traditionally obsessed, to a greater or lesser degree, with the building of a state, or set of institutions, which will function with machine-like regularity, guaranteeing the capitalistic system conditions of maximum and perpetual economic efficiency.[2]

The fundamental tenet of this so-called technocratic approach is the "rationality of man". It is supposed that man, if shown the social advantages of directing his efforts in a certain direction and towards a specific end, can be induced to work towards this end with the continuous guidance of the technocrat or the scientific planner.[3]

Economic planning in both theory and practice has come into its own in the main-stream of economic thought only during the past thirty years. As late as the mid-1920's the literature of planning was dominated almost exclusively by writers, both socialistic and technocratic, of strongly recognized leftward learnings.[4]

It must be realized that, by its very nature, planning stands as an almost complete contradiction of the phrases "pure capitalism" and "economic laws." Economic planning inherently implies direction, co-ordination, and interference, and, therefore, developed an aura of repute only with the collapse of the classical system.

Today, the basic question which confronts the modern society in its economic life is not that of "plan" vs. "no plan", but that of "what kind of

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[1] Ibid., p. 144

[2] Ibid.

[3] Ibid., p. 145

[4] Ibid.

plan". The only alternative to planning through direction and/or coordination is laissez-faire in its most extreme form. The reaction of both the popular and professional mind to the pitfalls of laissez-faire has been such that, if Sir William Harcourt were alive today, he would be forced to admit that "we are all Planners now".[1]

Of the three schools of planning mentioned previously, the dominant force in the American and in many of the European streams of thought of the current decade is the rationalist school.[2]

The basic economic problems which concern the world of today, particularly that part composed the underdeveloped or developing nations, are those pertaining to the proper and efficient utilization of the productive resources. The goals have been designated in terms of economic growth in the macro-economic sense; of increased capital formation, of rising levels of Gross National Product, of a rising standard of living for all, or virtually all, of the inhabitants of the nations. This is opposed to the goals of redistribution and leveling closely associated with the egalitarian socialists. Equalizing or leveling devices such as progressive taxation and planned inflation have, when utilized, been generally relegated to the status of means to rationalist ends or else to ends of secondary importance. In short, where the egalitarians have been interested primarily in the distribution of an existing national product, the economic rationalists have concentrated their efforts primarily towards the providing of a greater and greater product and only secondly with a normative distribution of this desired product.

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[1]A. F. M. Durbin, Problems of Economic Planning; Papers on Planning and Economics (London: Routledge and Keegan Paul, 1949.) p. 41

[2]Tandon, p. 148.

Definition: Economic Planning

Economists, over the last twenty-five to thirty years, have produced a wide and varied assortment of definitions for the term "economic planning". Several of these, however, stand out as being uniquely articulate and comprehensive. Two such definitions are those of John E. Elliott and Karl Landauer. Elliott defines planning as "the attempt to apply reason and foresight to the ordering of human affairs and the attainment of human purposes".[1] Landauer claims that "Planning . . . (is) (the) . . . guidance of economic activities by a communal organ through a scheme which describes, in quantitative as well as qualitative terms, the productive processes that ought to be undertaken during a designated future period."[2]

The essential purpose of planning, then, is to form a bond or a tie between the reality of the present and the prospects of the future. It is the attempt to formulate future programs against the successes and failures of past performances and against the ever-changing goals and yardsticks of the contemporary social and economic values.

It can, therefore, be said that a plan is simply a "program for future action". And to the rationalist, the core of the program is the allocation of the social and economic resources in such a way as to subscribe to, and to insure the enforcement of, the economic laws of distribution which have so thoroughly permeated the confines of classical and neo-classical theories of economic development.

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[1]J. E. Elliott, "Economic Planning Reconsidered," Quarterly Journal of Economics, LXXII, No. 1, (February, 1958), p. 59.

[2]Karl Landauer, Theory of National Economic Planning (Berkeley: University of California Press, 1947.), p. 13.

The Need for Planning

In order to break down the barriers of social and cultural tradition which have inhibited social and economic planning for centuries on end, it was vitally essential that a real need for planning be demonstrated and that the inherent characteristics of the unplanned or laissez-faire economy which inhibit the optimum utilization of resources be vividly pointed out.

Capitalism, in various stages of development has many defects, allows many to argue in favor of economic planning. Foremost among these defects and the one which started the recent concern, is the problem of economic stability. The basic lesson which the history of the modern business cycle managed to teach by 1930 was that an inevitable product of private enterprise and the invisible hand was a periodic breakdown of production and distribution which led to unemployment and associated poverty and social misery.[1] It is now widely realized that errors in judgment of opportunities and investment expectations have become more and more costly. It was thus the attempt to alleviate fluctuations in national income which led the way to the incorporation of planning theory into the core of contemporary Political Economy.

A second, and more recent, motivating force toward economic planning has been the increasing emphasis on promoting and controlling the short-term and long-term growth of the national product of both the developed and the underdeveloped nation. This aim includes the attempt to provide a national product favorably disposed to the ever-growing, and in some cases ever-compounding, human divisor.[2]

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[1]Durbin, p. 47

[2]*Ibid.* p. 49

Economists since before the time of Malthus have realized the importance of providing an ever-growing national product in order to insure a constant or increasing per-capita level of income in the face of a secularly rising population curve. It has only been in recent years, however, that the potency of technology and invention as offsets to the tendency towards diminishing returns has been sufficiently appreciated to give rise to a coordinated social movement to direct and plan by using this method of approach.

The third need for economic planning has arisen from the increasing recognition of the distinction between the Veblenian concepts of "finance" or business and "industry" or active or productive investment. These concepts point out the growing complexities that have increased the tendency for a wider and wider gulf to develop between the saver and the investor, and between the owner and the controller of the modern corporate enterprise.[1] The inevitable need for the coordination of these independently motivated acts of saving and investment has forced societies to take an active interest in the process of providing channels for the making of investment decisions.

The fourth need for economic planning comes from the problem of controlling the process of international trade. The self-regulating ability of foreign trade was one of the last tenets of the classical system to undergo a devestating collapse. But the attitudes of the contemporary political realists in regards to the existing political situations have succeeded in exploding this myth and in showing that in international trade (as well as in inter-regional and in intra-regional trade) the proper contradiction of "economic law" is, again, some form of "economic planning".

The fifth and final need for economic planning has risen from the in-

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[1] Ibid. p. 51

ability of the unplanned economy to cope with major changes in both the economic and non-economic spheres. Capitalistic systems based more-or-less upon the laissez-faire tenets have proven to be somewhat elastic and capable of coping with moderate needs for resource movement and reallocation. In times of great economic and social upheaval, however, the methods of wealth transfer and resource movement have been both slow and exceedingly harsh under laissez-faire capitalism.[1] It is precisely such an economic and social upheaval which is now facing the nations of the underdeveloped world, and the inelasticities i.e. rigidities and immobilities of the unplanned economy that cannot be tolerated if the basic social and political framework is to undergo a mutually advantageous and peaceful transition.[2]

In the advanced nations it was the problem of stabilizing the economic fluctuations which became to be regarded as uniquely inevitable that gave rise to planning. In the underdeveloped nations, on the other hand, it is the impending changes in the social and political structure of the society which is forcing them take a closer look at the tools and virtues of economic planning. The need for economic planning in the underdeveloped nation then is derived from the problem of coordinating and controlling the rapid evolution of social, economic, and political institutions. Whereas in the advanced nation the central interest in planning stems from the desire to re-time and re-orientate investment decisions so as to prevent significant fluctuations in the level of national income, the underdeveloped nation looks to planning as a device for lifting its entire social structure and economic system from

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[1] American agriculture serves as an excellent example of this tendency.

[2] Ibid. p. 52

the depths of poverty and backwardness to a relatively high level of income and general development. It is hoped that the resultant rate of growth would be in excess of that which would be possible under normal, free-market circumstances.

One of the many problems which the underdeveloped nations face is that of the proper allocation of the factors of production. It is the basic thesis of this author that the foremost cause of underdevelopment and secular stagnation in the nations under discussion is the inability of their economic and social systems to effectively mobilize the resources necessary for economic progress to occur. Not only do these nations face the normal problems of economic inducement inherent in the advanced and advancing nations of the world, but they are also burdened with an incredible army of neutralizing offsets to these economic inducements. These offsets often take the form of social and cultural rigidities which if not relieved or removed are capable of permanently stifling all forms of economic progress. These rigidities are, by their very nature, such that they cannot be removed except with the aid of both time and a dedication for zealous reform.

Objectives of the Underdeveloped Nation

With the basic need for economic planning in general in mind, it is possible to derive logically the basic objectives which the economic plan in the underdeveloped nation seems to have. In their broadest form, these objectives appear to be two-fold. The first objective is the coordination of the economic forces and resources of the nation so as to provide an economic climate favorably disposed to development. This is in essence an attempt to bolster the basic inducement mechanisms requisite for the increased mobility of the essential productive factors. The second objective is to guarantee certainty and definable direction to the future of the economy so that a solid economic foundation can be formulated to aid the essential evolution, or, indeed, revolution, of the social and cultural institutions. This involves the instigation of certain economic policies, such as changes in the fiscal structure, etc., to aid in the actual modification of these extenuating factors. The precise nature of the social and institutional changes to be sought will be discussed specifically and in some detail in the section devoted to the obstacles to economic planning, but it is important that their implications in economic planning be at least acknowledged at this point in the discussion.

In keeping with the attempt to control the productive factors of the underdeveloped nation, the plan is concerned primarily with regulating, first, the flow, quantity, direction, and accumulation of productive capital. The plan is concerned secondly with the recruitment and cultivation of entrepreneurial talent, and thirdly with the training and education of the skilled and semi-skilled labor force. Land is relegated to a lesser role in the national plan simply because it, being a natural phenomenon, is generally fixed both in quantity and quality in the planning period. Thus, direct land policy control is necessarily limited to conservation, rehabilitation, and exploration, rather than to extensive reallocation of the particular resources except as related to the general transition from an agricultural to an industrial orientation of the nation as a whole.

With this background information in mind, it is now possible to list and briefly describe, systematically, the most important of the specific policy objectives.

The first of these objectives is to provide a platform from which a development program can be permitted to take-off.

The second objective is to provide a new and improved linkage between ex-ante savings and productive investment expenditures. There is no phase of economic development any more indispensible than that of capital accumulation and the expansion of investment outlets. It is precisely at this point that the cultural and institutional structure of the underdeveloped nations seems to exert its most profoundly adverse effects. It is, therefore, essential that a nation attempting a program of economic development plan its fiscal and financial policies in such a way that a favorable climate for capital accumulation be created.[1]

The third object of economic planning in the underdeveloped nation is to effectively control the foreign trade of the nation. Most of the underdeveloped nations suffer from a chronic secular balance-of-payments difficulty due, at least in part, to their highly inelastic demand for imported goods (both of a durable and a consumable variety) and the relatively inelastic supply and the limited variety of the goods which they are able to produce for export.[2]

The fact that both their import demand and their export supply functions are more inelastic than those of the nations upon whom they depend for most of their foreign commerce, coupled with a secular, inflationary trend, caused by the inability of the nations to expand their productive capacity quickly enough to meet the rising demand for goods and services, forces the general conclusion that the underdeveloped nations constantly face the threat of coming out on the short end of trade agreements which are primarily determined

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[1]Landauer, p. 19

[2]*Ibid.*

by the nation's terms-of-trade position. Therefore, a coordinated policy of international trade is desperately needed in the underdeveloped nation. Such a policy will tend to bolster the trading position of the nation through the use of various methods of trade control, with particular emphasis on wuch instruments as discriminatory tariffs, priority-purchase lists, and exchange control devices, and other techniques similarly adaptable to the particular problems at hand.[1]

The fourth objective of national economic planning is that of controlling and directing investment outlays. Not only is there a real need in the underdeveloped nations to construct devices which will lead to a more efficient transmission of savings into investment, but also an equally vital need to control the utilization of the savings which have been thus transmitted. Inefficient allocation of investment funds has real and definable drawbacks even in the most highly developed nations where capital tends to be in rather abundant supply, but if such inefficient allocation is disadvantageous in the advanced nation, it is catastrophic in the underdeveloped areas where capital is acutely scarce.

The first and obvious duty of this phase of the economic plan, then, is the proper utilization of investment in terms of social overhead or public capital through the building of dams, highways, airports, etc., to facilitate the inducement of complementary private investment. The second function of the plan in relation to this objective is the actual designation of essential participation in the allocation of productive investment. This could include the constituting of governmental enterprise or the subsidization or direct control, through licensing, etc., of private enterprise. The nature of this

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[1] *Ibid.*, p. 21.

control will be dependent, of course, upon the economic and political structure of the nation involved and upon the effectiveness of the existing inducement mechanisms in accomplishing the economic goals of the nation.[1]

The fifth objective of the economic plan is to determine and/or control the supply of trained labor and entrepreneurs through the vehicle of public education. The Western world has not always thought in terms of public educationas a _prime mobile_ of economic resources. However, when the supply of a resource is dependent upon the effectiveness and orientation of public training, and when a nation has difficulty in keeping its training programs in tune with current needs, to avoid incorporating such institutions into the plan is to court disaster.

The underdeveloped world is, as a whole, blessed with an abundance of labor, but, virtually none of these nations has succeeded in even closely allocating this labor into the types of economic activities needed for development. For example, most of the African nations are generally conceived of as being faced with a severe shortage of entrepreneurial and administrative personnel and with a similar shortage of facilities to train individuals for such tasks. India, on the other hand, is often conceived of as having acquired too great a supply of the intellectual elite in relation to the demand for their services. The result is that India faces an underemployed intellectual class in addition to facing a severe _shortage_ of men skilled in the crafts and the technical trades and with no apparent means of remedying this difficulty. Therefore, in light of the conditions prevailing in the underdeveloped world, education de-

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[1] W. Arthur Lewis, _The Principles of Economic Planning; A Study Prepared for the Fabian Society_ (London: George Allen and Unwin Limited, 1949) p. 11.

serves its just place in the economic plan both in qualitative and in quantitative terms.[1]

The sixth objective of the economic plan is to induce the inflow of a substantial amount of foreign capital. Although it has already been stated as an objective of the plan to strengthen the transmutation of savings and investment, there are many obstacles to the adequate fulfillment of such an objective which makes it essential that the domestic supply of investment funds be augmented by foreign resources. Failure on the part of the government to obtain such funds from public and private sources will simply mean that the development process will be slowed, perhaps unnecessarily.[2]

The last, but far from least and possibly one of the more important, objectives of national planning is the reorientation of the economy of the backward nation from agriculture to industry. The adequate development of an industrial base is heavily dependent in these nations upon the non-agricultural utilization of many resources, particularly labor, which are currently going into agriculture. In order to re-allocate these resources and still maintain a sufficient level of food production to adequately feed the ever-expanding population of the developing nation, it is essential that a significant increase in agricultural productivity be accomplished.

In conclusion, then, the basic prerequisite of an economic plan is that it be comprehensive.[3] A plan, if it is to be effective in the finest rationalistic tradition, must encompass all of the various institutions and processes within the economic system which are capable of affecting either

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[1]*Ibid.*, p. 14.

[2]*Ibid.*, p. 17.

[3]Landauer, p. 14.

economic growth or economic stability. Obviously, the intensity with which any or all of these processes are considered in the plan is dependent upon the individual problems of the separate countries and the type of planning, i.e., directional or non-directional, positive or indicative, etc., but no factor capable of influencing the solution of the basic problems under investigation can be properly excluded from the category of "appropriate subject matter for the economic plan".

CHAPTER II

THE PLAN AND ITS OPERATION

Formulating the Plan

Economic planning consists of two broad, basic phases. First the plan must be formulated, and, secondly, it must be executed in a manner compatible with its formulation and objectives.[1] Some economists believe that the process of formulation is the easier part of economic planning. Planning, in this stage, consists of thinking, talking, writing, and hoping. It is usually accomplished by a group of individuals composing the central planning body and requires very little in the way of leadership ability aside from the willingness to work with the other planners. It involves talking about and analysing cultural, insitutional, and economic obstacles, but does not, in itself do anything about them.

The second phase, however, is where the plan meets its real test. Officials draw up plans, but the people make them work. The deficiency of most economic plans and planners is their unique propensity to talk rather than act. The importance of proper formulation is not to be underrated, however, because proper analysis and careful delineation of the problem is the necessary, if not the sufficient, prerequisite for constructive action. A discussion of an economic plan must, by its very nature, begin by taking a look at the machinery and procedures utilized in the formulation.

The precise nature of the plan and the prescriptions which are to be expected from planning vary, of course, with both the magnitude of the job to be done and the ability of the central organs of government to do the job. However, any plan, regardless of the method of implementation, should at

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[1] Landauer, p. 14.

least examine all of the factors which might affect the plan. It should be, as was pointed out in the first chapter, a comprehensive document. The real difference between various formulations should be in the actual prescriptions for change rather than in the number of factors analyzed.[1]

It is possible to put forth a general pattern by which a plan should be formulated. In general the formulation can be divided into four basic stages.[2] The first stage of planning is that of determining the basic constraints which bind the economic system and which limit and control the basic decision-making process. It is, therefore, necessary to estimate the amount of national income which the country could presently expect at a full enployment level. This is the "box" within which the projects of development must fit. Against this yardstick, there must be placed the aggregate social desire for consumption, investment, and the basic governmental services.

From this estimation of the national income a budget can be derived which will be referred to as the master plan, or, more accurately, the "master budget". This budget furnishes the essential data from which several more specific budgets can be derived. These are, principally, the consumption and investment budgets or plans.

The consumption budget shows two things. First,it shows how the people desire to distribute their income between consumption and saving, and it shows how they desire to distribute their consumption among the available goods and services. Secondly, the consumption table shows the sources of supply of these desired items, both domestic and foreign, and summarizes in detail the probable points of chronic shortages and surpluses and briefly

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[1]Ibid.

[2]The basic outline of the stages of planning discussed in this section is derived by Lewis, pp. 107-112.

indicates the general reactions of these industries, in a historic sense, to the various stimuli which might possibly be applied to alleviate these conditions.

The consumption budget is dealt with first because, in a democracy consumption is the most difficult item on the income accounts to be controlled by direction. This is particularly true in an underdeveloped country where the implementing institutions tend to be particularly weak. While several methods by which some unnecessary consumption can be eliminated or controlled will be pointed out in the section devoted to the implementation of the plan, there is a limit below which the government is unable to suppress consumer demand, and, therefore, to this degree, consumption must be looked upon as a given quantity.

The second budget, that dealing with investment, is composed of several parts. First,there is a delineation of the various projects which need to be undertaken, in order of priority with those promoting export producing industries on top and agricultural improvement projects a close second. Second, there is an estimate of the various raw materials which will be needed, as well as a survey of the types of plants and the quantity of the variously skilled labor which the fulfillment of the investment demand requires. This budget also surveys the various sources of supply of the needed materials, plants, and labor, and points out the probable areas of shortage or surplus and enumerates the specific difficulties which will probably be encountered in increasing the supply.

In addition, there is the table or budget of the government for the fulfillment of its role of provider of the basic services which governments traditionally provide, as well as a list of the various projects in which the government hopes to engage in order to aid the development process. This item will tend to take on a residual character, being dependent upon the level of national income, the percentage which will be available through either taxes or credit, and the amount which must be committed to consumption and to private investment. It is the remainder of the national income which may be allocated to government development projects or distributed in the private sector to be utilized for additional consumption or private investment. The actual usage of the funds is dependent upon the particular criterion being utilized by the economy to form the priority lists and the ability of the various elements of the economy to best meet the established criterion.

From these three tables mentioned above, four others can be constructed. First, there is a budget for each of the industries likely to be in "serious" disequilibrium, showing the demand for the particular industry's product and listing ways of meeting the demand and changes or courses of action which might be initiated to attain the goals.

Secondly, there is a budget for each raw material which is likely to be in serious disequilibrium, setting the demand against the supply for the particular materials, and, once again, listing the possibilities of utilizing various means of stimulation or limitation to correct the problem.

Thirdly, there is the man-power budget. This budget lists, skill by skill, the supply and demand of labor and the possibilities of shifting men from one skill to another through retraining, the prospects of importing skills in short supply and exporting those in long supply, as well as the prospects of changing the general education programs so as to prevent the recurrence of such a shortage in the future.

Finally, there is the foreign trade budget which lists both the supply and demand for imports based upon the general consumption, investment, and government expenditures budgets and points out the probable effects which the shortage or surplus of imports and of exports will have upon 1) the balance of payments, and 2) the procuring of the consumption and investment goods necessary to make the development program a success.

Through the compilation of these budgets the various factors involved in the development program are classified and tagged, and the problems involved in improving the situations are enumerated and possible solutions are considered. It is in this first stage then, that the basic problems of resource allocation are isolated.

There is a real and positive difference between isolating and solving economic problems, so the second stage of planning is that of charting the proper course of action which should be undertaken to overcome the problems uncovered by the first stage. The precise nature of this action will, as earlier indicated, depend to a great degree upon the severity of the problems, the social standards of the society, the stability and forcefulness of the planning and governmental bodies and similar extenuating circumstances, but in all cases we can safely say that the action delineated in this stage of planning will be of two basic types.

The first type of action is that which is designated to increase the supply of scarce factors. Underdevelopment inherently implies an aggregative shortage of goods and services within the economy, and, therefore, action aimed at increasing the supply of these items can be recognized as the prime rationale of economic planning for the backward nations.

The second type of action is that aimed at controlling the use of the available factors. This type of action is primarily a stop-gap measure to help alleviate the adverse effects of the failure of the nation to obtain the first objective. When immobility and factor shortages exist even after all possible efforts on the part of the planning authorities have been expended, then allocational regulations such as rationing, priority lists, etc., are essential if the gains of development are not to be destroyed by inflation and adverse foreign payments balances, but they cannot be utilized as a substitute for the first and more positive type of action if development is to be actually speeded.

Once the best course has been charted and the modus operandi for executing the plan has been worked out, the second stage is complete and the foundation for the third stage is set. This stage consists primarily of what is commonly referred to as "target setting", that is, the setting of the goals which the various segments of the economy are "expected" by the planning officials to attain. Probably no segments of planning are so sensitive, so relative, so often abused, so over-rated, and so controversial as that of the establishment of the specific target.[1]

In keeping with the rationalistic framework within which this entire study is set, the target should be representative, not of what "should be" or of what the public officials feel would make a popular slogan. Instead, it should be an objective calculation of what the results of the contemplated and prescribed action would be assuming that every person involved in the implementation process did his job to the best of his ability.[2]

In reality, however, the targets which are too often utilized in economic planning are not the result of such rational calculation, but of the continual interplay of prejudiced forces of political power-struggles. Too often such targets are designed so as to be easily attained and to thereby make those implementing the plan appear to be more efficient than they actually are, or, else, are designed to make the public feel that the existing govern-

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[1]Lewis, p. 109.

[2]*Ibid.*, p. 110.

ment is indispensable because it is particularly capable of "doing something" and "getting ready to do something" which no other group dates to promise that it can do. Whatever the object of an improperly set target may be, the result is always the same: the defeat of the primary rationale for the existence of the target, that is, to provide an accurate test of the degree to which the various segments of the economy are carrying out the provisions of the plan.[1]

Good targets are highly useful, then, to the planning process, but the less rational the base of the computation of the target, the less indispensable the target becomes. Indeed it would not be totally unrealistic to assume that the false sense of security and accomplishment furnished by an exceedingly poor target would serve to make such a target in reality worse than no target, or measuring stick, at all.

After the targets have been established, (assuming that it is deemed of positive value to establish them), the final stage in the formulation of the economic plan is that of publishing both the budgets which have been drawn up and discussed in steps one and two and the specific targets which have been established. This publication should explicitly and simply set forth the basic goals of the plan and its methods along with as much basic data as the public needs in order to analyse and criticise the planning operation and the government's role in that operation. As Arthur Lewis takes great pains to point out, such a step as this requires no excuse or explicit rationale in any democratically oriented nation, for it is by this means that the public enters into the planning process and acts as a check on the actions of the government and the planning board, just as these organs have acted in order

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[1] Ibid., p. 111.

to check the operations of the consumer and his market.[1]

It is true, of course, that, generally speaking, the public has no method by which it can make a positive alternative plan on its own, and is primarily limited to the more confined role of criticism, at least in the short-run. The public can nevertheless just by criticism prevent a particular action which it feels would be harmful to its basic interests and, in the long-run, can actually make, indirectly, positive changes in the system through its power to elect a parliament. In turn, the parliament ~~in turn,~~ can control the planning board through its power over finances, appointments, etc.[2]

In any case, it is vitally essential that the public be kept well-informed. If it is not, planning runs the risks of eventually taking the place of, rather than supplementing, democracy and unnecessarily abusing the concept of limited consumer sovereignty and destroying the essential guide posts, particularly in weakly administered nations, by which the reactions of the electorate to the policies of the plan can be judged.[3]

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[1] *Ibid*.

[2] *Ibid*., p. 112.

[3] See also: Jan Tinbergen, *Economic Policy: Principles and Design*. (Amsterdam: North-Holland Publishing Company, 1956) pp. 218-230. Tinbergen's analysis of the making of the economic plan is interesting although not particularly in contradiction to the program put forth in this section. He proposes that the decision-making be spread over a large number of governmental agencies. The underlying principles should be formulated by the political parties, the actual planning by the governmental agencies. Such planning would be based on the use of personal directives, starting with broad statements from which more and more specific pronouncements are derived at the various administrative levels. These are summarized in "declarations of intent" to be given to the public for its critical evaluation. Tinbergen emphasizes the importance of coordination among the agencies and the importance of maintaining clarity concerning the division of tasks between Parliament and the Government. Essentially, Parliament is to provide the general framework within which the Government can make specific decisions.

Long-Run vs. Short-Run Planning

Any planning body or government agency concerned with the formulation or the implementation of an economic plan is forced to pay considerable attention to the question of the duration of the planning period. In the underdeveloped and developing nations who have taken the lead in the field of economic planning, such as India, there has been considerable emphasis upon the selection of what we might call the "time unit" of planning, with a significant trend towards moderate- to long-term plans, principally, three to five years or longer in length.

The targets in these plans, (particularly the aggregative targets such as GNP, agricultural production figures, capital accumulation goals, annual growth rates, etc., as well as many more specific objectives), are set in terms of specific figures which the economy may be expected to attain at a later date, probably between five and fifteen years hence. These goals or targets certainly do have definite benefits to the plan in that they serve to crystalize the thinking of the planners in regards to the direction which the plan is to take, and to quantify some of the general aspirations of the government so that the public has a concrete idea of the scope of the plan.

The real danger in the utilization of long-term planning is that the quoted figures are too often presumed to embody more in the way of accuracy and precision than they actually are capable of containing. It should be remembered that "target" has been defined, within our rationalistic framework, as an objective calculation of the optimum results which can be reasonably expected from the prescribed action of the policy. Such a calculation can have really accurate validity only over a very limited time period.[1]

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[1]Gunnar Myrdal, Beyond the Welfare State; Economic Planning and Its International Implication (New Haven: Yale University Press, 1958), p. 128.

Over a period of five years or longer, not only is the process of development guided by the factors specifically tagged for control and regulation in the plan itself, but also it is influenced by exogenous factors which are, for the most part, beyond the dictates of the planning board and are generally of an unpredictable nature. These exogenous factors include such things as the rate of foreign investment, which is determined by not only the Marginal Efficiency of Capital in the developing nation, but also by the political and economic conditions in the investor nation and in the remainder of the world. Another external factor is the terms of trade, which, of course, depend upon the elasticities of factor demand in the importing and exporting nations. Furthermore, there are various cyclical fluctuations in the advanced nations, as well as in the other underdeveloped nations, and, of course, numerous similar factors.

As one can see from the above, the main point is that even if the planning board is able to enact a comprehensive plan and collect an unlimited amount of reliable statistics and thereby make its goals on a highly objective and rationalistic basis, there are still too many uncontrollable, extraneous factors involved in the general development process to make long-range planning targets much more than "a vague indications of aspirations".[1] Considering the conditions which currently exist in the world, particularly in the underdeveloped nations, it is not practical, except in the case of capital intensive industries such as power and communications, to plan in the precise and technical sense very far in advance. Long-term goals can be nothing more than a rough guide to indicate the general path of progress and should be expressed as such. The really vital budgets for planning are those which are

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[1]Ibid., p. 129.

framed within the constraints of usable knowledge by the planning board and which spell out the procedures of the economy in day-by-day, month-by-month, year-by-year, terms.

Directive vs. Non-Directive Planning

There have been several references in this paper to the controversy concerning the proper roles of government and the market in relation to the job of producing the proper reactions within the economy, or, in other words, to the problem of whether the government or the market is to dictate the allocation of the nation's resources. To bring this problem into proper focus and to point out the precise relation between the two institutions, it seems to be appropriate to devote a section to a quick summary of the problem and a statement of this author's conclusions on the subject.

As was pointed out in the first chapter, it seems that the primary issue in the underdeveloped nations is not that of "plan" or "no plan", but that of the form which the plan should take. Essentially the question involved is whether the planning authorities should attempt to operate through the market-price system or whether it should, instead, strive to work around or suppress the operation of the system, arbitrarily dictating the critical resource allocations determined by the use of its own data and calculations.

The arguments against the total neglect of the price system and placing complete reliance upon directive planning are quite formidable, to say the least. Yet, it is virtually inherent in the term "economic plan" that a certain real, positive directive action be forthcoming from the planning authorities.

The first argument which might be presented in favor of the utilization of the market system is that while the government is in a position to know better than the general public how some of the national product should be allocated, and while the magnitude of this area of authority varies from nation to nation, there is still a wide area of spending over which the consumer seems to demand control.[1] To a certain degree, all citizens of any nation demand freedom of choice, detest the use of wide-spread rationing, and resist attempts to seriously impair their economic freedom. It is in the consumer's market where the planners' predictions as to the reactions of the consumers concerning the demand for certain products is tested.

Secondly, there is also considerable demand, on the part of the public, to have a certain degree of freedom in the choice of occupations, location, and working conditions, and, after a certain point, there is no way in which direction can adequately replace properly planned inducements, financial and otherwise, in getting the right kind of labor in the right place at the right time.[2] It is, therefore, essential that some type of labor market exist alongside the consumer's market.

Thirdly, it is impossible, with all consideration being given to the quality of statistics, administrative personnel, and implementive organs, for the planners, individually or collectively, to foresee all of the results of their action. Therefore, the market can serve a useful role in determining the answers to certain questions which cannot be properly answered by a mass of collected and processed data and, thereby, substitutes for the partially blind guesswork which would be made necessary by its absence.[3]

Fourthly, it can be properly charged that planning by direction tends to

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[1]Lewis, p. 14.

[2]Ibid., p. 15.

[3]Ibid., p. 17.

be too inflexible. It has been pointed out that after the administrators have made the thousands of calculations and have published their conclusions based upon these calculations, there is a tendency to strongly resist any attempt on the part of the public, or of other government officials, to make changes in the plan, even when these are clearly necessitated by the occurrence of some unforeseen event.[1]

Fifthly, there is a well-known and long-recognized tendency on the part of the planners to proceed in the direction of over-standardization of consumer goods. The fewer the variations in the products, the simpler are the allocation and production problems, and, it is to the advantage of the planners to eliminate many varieties of products from the planning schedules.[2] Elimination of the checks-and-balances of the market system tends to permit the growth of such a tendency at a far greater rate, and to greater extremes, than would other-wise occur.

Finally, a system of planning which attempts to supersede the market tends to foster the growth of an extremely large and complex administrative staff. Decisions not made in the market place have to be made by the administrative body and the growth of a large corps of researchers and "administrators" is an almost inevitable consequence.[3]

The basic premise of this discussion is that it is essential that a nation which is attempting economic planning work out a compromise between the market place and the planning board, relying upon the former as much as possible without having to violate the basic objectives of the plan. In this

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[1]*Ibid.*, p. 18.

[2]*Ibid.*

[3]*Ibid.*, p. 19.

way the essential weakness of both the market and the plan can be alleviated. The planning board should be utilized to coördinate the operations of the market and thereby eliminate its most basic imperfections. At the same time, the market should be utilized so as to establish the criteria which the government of a nation may be less capable in formulation. Such a formulation is difficult for the government to make of its own accord due to administrative inefficiency, caused by inadequate personnel and poor systems of communication, and by the lack of empirical data and methods of utilizing the data which does exist.

Partial vs. Total Planning and Centralized Decision-Making[1]

Economic planners have been, in recent years, paying some attention to the problem of the size and nature of the geographic area to be considered in the various stages of the plan and to the related problem of centralization and decentralization of the basic decision-making unit. The outgrowth of the first problem has been the development of the concept of "regional economic planning".

Regional planning has been used both in the developed and the underdeveloped nations, but for different purposes and with different results. In the advanced nations, particularly those such as the United States which are not engaged in a program of comprehensive national economic planning and centralized decision making, it has been employed to deal with chronic situations of disequilibrium. Two examples of this type of planning are the TVA

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[1]See William Keilhau, Principles of Private and Public Planning: A Study in Economic Sociology, (New York: Bert Franklin, 1951) p. for another usage of the terms "Partial Planning" and "Total Planning". He defines Partial Planning as "Planning for new enterprises" and Partial Planning as "planning for changes in old enterprises. Landauer's distinction, utilized in this section, is more widely acclaimed.

project, and the attempts by the various states to attract people and/or industry to particular locations in order to strengthen the economy of the area as a whole. In these situations, the regional plans are independent of one another and generally uncoordinated.[1]

In the underdeveloped nations, or in other nations which have instigated comprehensive planning programs, regional planning has taken on another aspect. In these cases, the regional plan is utilized to deal with specific problems peculiar to certain areas, to facilitate the activation of a unique program in one area with special problems, and to simultaneously utilize another program in a different area which has unrelated or even opposite problems. The major difference here is that all of the plans in the planned nation are an integral part of the national plan and have been formulated not solely in keeping with the self-interest of the individual region but, rather, in keeping with the broad objectives of the nation as a whole.[2]

The regional plan can also be utilized effectively when (1) the problems of one particular area are far more severe than those of any other area and a far more detailed and more forceful plan must be initiated in that region, or (2) when the governments, or other decision-making bodies of one or more given regions are either more efficiently organized or more adequately adapted to the social and institutional conditions of the area than is the national planning organ.[3] Considering, in broad perspective, the general conditions existing in the political structures of many underdeveloped nations, and the

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[1]Landaeur, p. 195.

[2]*Ibid.*, p. 192.

[3]*Ibid.*, p. 197-199.

generally poor systems of interregional communication caused by both social and technological obstructions, these aforementioned conditions might occasionally exist.

In short, then, it can be said that the partial planning method can be of positive value in developing the backward nation under certain given, and frequently present, conditions. It is well to keep in mind, however, that its value lies in its use as a supplement to, rather than a replacement for, the total or comprehensive central planning devices.

The Role of Statistics

The existence of an organ designed, such as is the planning board, to make basic economic decisions for a nation, naturally creates a considerable amount of attention as to the methods of gathering and utilizing a multitude of statistical data. A rough idea of the value of such data can be quickly discerned by examining the section of this chapter devoted to the various stages involved in the formulation of the plan. It will be remembered that data were called for to determine the supply and demand for labor of various skills, of numerous types of raw materials, of endless varieties of consumer items, etc., as well as the probable quantitative reactions of the various suppliers to the stimuli which the planning agent could employ.

Obviously, if a truly accurate plan is to be composed, there can be no substitute for precise and reliable statistics of both a contemporary and historical nature. It is here that the paradox of planning in the backward nation seems to come to the fore. It is these very nations which seem to be in the greatest need of the gains of economic planning that are, in reality, in the worst position, by the above criterion, to utilize such an instrument. Surely a nation which feels fortunate when it is able to take a reliable population census could not be expected to simultaneously have knowledge of its gross private investment in the steel industry in 1925.[1]

However, this seemingly inevitable lack or scantiness of usable statistics does not necessarily rule out the use of an economic plan. What cannot be exactly measured can often be judiciously estimated, and it would be reasonable to believe that a valuable plan could be formulated simply from a comprehensive knowledge of the social and economic structure of the nation as a whole. It does mean, however, that such a plan would logically be far more subject to errors in calculation and forecasting than it would be if the desired data were available.[2]

It also means that, as a general rule, the poorer the quality of primary statistics the greater must be the reliance upon the checks imposed by the market system and the virtues of less-centralized or regional planning (since the local or provincial officials would be more likely to have the requisite knowledge of the conditions of a particular region than are the members of the central planning office). Less emphasis can be laid on long-term and inflexible planning.

In essence, then, it can be said that precise and definite statistics have a vital role to play in the formulation of the economic plan, and the governments of nations interested in planning should make every possible effort to improve and expand the techniques of collecting data. At the same time it should not be forgotten that this data is only an aid, not the foundation, for planning. Valuable results can be obtained from plans which have been formulated

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[1]Unless, of course, the 1925 figure happened to be zero.

[2]Walter Krause, Economic Development: The Underdeveloped World and the American Interest, (San Francisco: Wadsworth Publishing Company Inc., 1960), pp. 208-209.

from estimated, rather than detailed, accurate economic statistics.

Implementing the Plan

As was pointed out in the first section of this chapter, planning must proceed in two phases; first, the plan must be formulated, and, secondly, it must be implemented. The formulation has been covered, but that is only part of the story and, it might be added, the easy part.

Proper implementation is, generally speaking, dependent upon two factors. First, it is dependent upon a powerful and realistic plan of action outlined in the second phase of the plan. Second, it is dependent upon a strong administrative team, dedicated to see that the prescribed action is effectively carried out. It is, of course, in the second part that planning is most likely to bog down.

Failure at the implementing level is caused by (1) a lack, in either relative or absolute terms, of a sufficient supply of trained personnel, (2) by an inherently weak, because of constitutional provisions, etc., governmental structure, or (3) by a historic and ingrained unwillingness on the part of the inhabitants of the nation to follow governmental suggestions or directives.[1] In short, effective implementation of the plan depends upon a high degree of morale on the part of the government or planning body as well as on the part of the public.

If the problems stem from a weak and ineffective governmental body, means must be taken to strengthen this organization. If possible, such reinforcement should be done within the present governmental framework, so as to take advantage of the existing political machinery. Such corrections might be

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[1]Landauer, p. 15.

made by bringing in personnel to operate the plan from outside the present heirarchy of political elite, and by making substantial reforms in the civil service or other selection mechanisms so as to enforce higher standards on future employees, to weed out the existing incompetent officials, and to break down any existing problems of political patronage, etc.[1] If the governmental structure itself is particularly inhibiting towards the entire planning program, it might be necessary to institute a sweeping series of comprehensive constitutional reforms as a necessary condition to effective implementation. Under certain conditions when such reforms might be politically infeasible, economic planning might, for all practical purposes, be rendered helpless.

There is, however, at least one alternative method of working with an economic plan in spite of these barriers. This is the possibility of creating a separate and independent planning agency which has no connection with the regular governmental body. Lenin, for example, was forced to use this technique in Russia in order to negate the turmoil and frustrations of the then present political institutions.[2]

The above method is, of course, a method of last resort since the social and economic cost of building such a comprehensive agency from the ground up is inevitably high. It means building an administrative body of high caliber men, instituting a separate means of selecting and training a vast army of administrators and "economists", and asserting sufficient assumed authority to counteract attempts by the existing political heirarchy to sabotage the efforts of the new planning board to supersede its jurisdiction. All this must be done within a very short period of time. Such a technique can hardly be called a

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[1] Ibid., p. 21.

[2] Myrdal, p. 127.

panacea, then, simply because its effective organization requires a caliber of leadership not normally found in sufficient quantity in the underdeveloped nation, and because it runs the risk of expanding its power to the control of factors other than the economic plan, that is, the risk of creating a dictatorship to take the place of, rather than to supplement, the existing government of the nation.

The moral to this discussion is simply that a plan cannot be any stronger than the institutions assigned to administer it, and, if these institutions are inherently weak for one reason or another, it is essential that steps be taken to strengthen them or else it will simply be necessary to accept a poorly implemented plan. Even if the administrative system of the nation in question should be of an ideal nature, a low level of public morale or an inherent unwillingness to engage in national cooperation at the expense of individual self-interest is capable of frustrating the objectives of the plan.

For example, even if the government has designed an "ideal" tax system, it may be impossible to effectively finance development if the public feels no obligation to pay the assessed duties. Again, it is impossible for the government to increase the supply of vital productive factors if the producers are predisposed to restrict output in order to collect monopoly profits. There are, of course, tools which an effective planning board can utilize to overcome apathy such as this, assuming that the society has not evolved to a state of total anarchy.

The first tool at the command of the planning board is that of discretionary monetary and fiscal policy.[1] Even if there is a high propensity on the part of the public to evade taxes, there is in most nations a considerable

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[1]Lewis, p. 20.

range of taxable income on which the tax is not easily evaded, except, of course, through lax administration. Again, even if the public does not feel a moral obligation to stop buying excessive amounts of unnecessary consumer items, they can be forcefully restrained by a discretionary credit policy instituted through a strong banking system.

Secondly, if the entrepreneurs continually refuse to expand output and lower prices as requested by the planners, the government can force expansion by opening its own plants in competition with the existing enterprises and force a favorable reaction from the private entrepreneurs. In many cases, simply the threat of such action is sufficient to cause the producers to fall into line.[1]

Thirdly, if the laboring classes place their selfish desires above the success of the plan, and if the producers are just as determined to hold the line, the deadlock can be broken effectively through powerful labor arbitration procedures.[2]

All in all, the general rule can be established that the lower the level of public morale the more powerful must be the institutions and the more definite must be the guidelines of the planning mechanism. With such a low morale seeming to predominate many of the underdeveloped areas, it is almost mandatory that a planning system which is to be firmly and effectively implemented combine a powerful group of leaders and administrators with strong economic institutions, such as a well-organized banking system, a strong set of labor laws, well-defined import-export agreements, a stiff, yet simplified, tax structure, etc.

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[1] _Ibid_., p. 21.

[2] Landauer, pp. 109-111.

Some nations, when confronted with too many social and institutional obstacles to the construction of such a mechanism, have often resorted to a course of attempting to talk their way to development. They seem to feel that through the utilization of numerous speeches, articles, etc., the people can be given a nationalistic spirit and an intrinsic "desire for development".

Speech-making certainly has a place in the over-all aspect of interpersonal communications, and there are possibly valid grounds for assuming that a well-timed oration on the part of a respected national leader can give a backward nation a significant amount of badly needed nationalistic pride. Such activities however should be in addition to effective steps on the part of the same officials to gain the desired goals. Speech-making without action quickly becomes exhortation, and planning by exhortation is virtually tantamount to not planning at all.[1]

The number one rule in implementing economic plans, then, is that there are no shortcuts. Weak institutions must be made stronger, and incompetent personnel must be replaced with stronger individuals if planning is going to be worth the time and effort which must necessarily go into its formulation.

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[1]Lewis, p. 112.

CHAPTER III

OBSTACLES TO PLANNING

Social, Cultural, and Institutional Obstacles

It can be easily seen by the preceding discussion of the economic plan, how, under ideal conditions, the problems surrounding its implementation, stemming just from the complexity of the plan, could easily be of a grave and significant nature. This paper is concerned specifically with planning as it can be utilized in the underdeveloped or developing nation, nations in which the basic conditions, social, political, economic, and institutional, are far from ideal. It is, therefore, essential that any discussion of planning in these nations summarize, at least briefly, the basic obstacles to the plan.

First, the economic planner is faced with the rigidities of the social structure.[1] Most of the backward nations are characterized by an entrenched caste or class system through which the social status and occupation, and even liberties and privileges, of the individual are determined. Although relatively free movement within a certain level of the system may or may not be possible, the inability to move vertically on the social scale is virtually a foregone conclusion. The result is the existence of barriers to labor mobility based upon birth rather than on initiative, ability, or general social utility.

It is inevitable that under such a situation the attainment of an optimum resource allocation is virtually impossible. Many highly capable individuals will be overlooked for important jobs in the economy because their social status says that they are either not good enough to qualify for training, or

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[1]Krause, p. 52.

else too good to engage in such enterprises. At the same time highly incompetent individuals will remain in policy-making positions because they were able to utilize their hereditary prestige to insure their appointment and tenure in the post.

Closely related to this regimented social structure is the distribution of the land holdings and of the general wealth of the society as well as the large income disparities which predominate in the backward nations.[1] The planner will have a difficult time in designing a positive program to solve the most important problem of these nations (agriculture) so long as a quasi-feudalistic land-ownership arrangement exists. The breaking up of huge estates is difficult because often the aristocracy has a significant financial role in the political parties and a substantial role in determining who shall be at the head of the government.

The great concentration of money wealth poses a similar problem.[2] The need is for the prying of the hoarded or poorly utilized funds from the wealthy and the transfer of them into the channels of productive investment. This can be done only through an agressive system of taxation which is, of course, difficult to institute and which is almost impossible to administer because of the ability of those very individuals to "buy off" or "avoid" payment because of their social position.

Precisely the same situation exists for the great disparities in annual personal income. As will be pointed out in the next chapter, the economic aristocracy is not interested in reform other than that which is forced upon them by the threat of revolt. When any necessary concessions are made, they are usually loaded with provisions which provide substantial subsidies for

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[1]Lewis, p. 122.

[2]Myrdal, p. 130.

the rich as well as the poor. Until the caste system and other forms of social rigidities are broken down, it is unlikely that the economic planner will receive totally sympathetic assistance from the social institutions of the nations.

An equally great and far less tangible obstacle which faces the dedicated planner is that of the general morale of the people both in their private and political life.

Probably the most devastating problem related to this situation is the feeling among many of the upper classes that they are above working with their hands or engaging in many kinds of mercantile operations. Many of the nations are faced with a large group of individuals who feel that they are suited only for administrative positions with the government. Some of these are, of course, highly competent and should, therefore, be welcomed into such a post. However, those who are there because of political manipulations are more of an obstruction than an aid.

If these classes are too large, the placement of all of these individuals can easily result in a cumbersome bureaucratic heirarchy which only serves to create a muck in which the planning programs are permitted to bog down. Some nations, such as India, have trained so many such bureaucrats that they are faced with a group of unemployed intellectuals. Here again, this problem cannot be overcome until the social barriers and prejudices are substantially broken.[1]

Another problem of public attitude stems from the historic role which the central political institutions have played in some of these nations. Most of these nations have experienced near-anarchy for literally thousands

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[1]Morris E. Opler, "The Problem of Selective Culture Change", The Progress of Underdeveloped Areas, ed. B. F. Hoselitz (Chicago: The University of Chicago Press, 1952), p. 130.

of years. The people have been used to obeying the commands of the leaders of their own social groups and have not been accustomed to following the directives of a national authority, particularly when they have been opposed to their own class interests or to the policies of the tribe, village, or province.[1]

Time is needed for these people to become acclimated to the new political structure and to revise their thinking so as to see the problems of development in national as well as in personal terms and to appreciate the need for occasional submission when the majority of the people favor policies other than those which they favor or when the progress of development means a short-term sacrifice on their part in order to receive long-run national gain.

In addition to poor social morale from the public, a similar situation can often be observed within the ranks of the government. Just as the individuals in their personal lives are not used to thinking in terms of efficiency and cooperation, many government employees are also not sufficiently appreciative of many of the problems facing the economic planner. The tenuous methods of making government appointments combined with a peculiar lack of a tradition of thinking in terms of action and efficient implementation of policies often causes a planning agency to tend to fall over its own feet and to provide its own obstacles to its success.[2]

Compounding these social and cultural problems are governmental and other institutional structures and organizations which are incompatible with

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[1]Myrdal, p. 131.

[2]Lewis, p. 123.

an effective planning body. First of all, most backward nations have been characterized by a notorious decentralization of political power. Decision making has too long been concentrated at the local, or, at best, the provincial level.[1]

An effective economic plan must be, as earlier mentioned, both national and comprehensive, and, while the adverse implications of over-centralization are possibly even more severe than those of the present system, there is, hopefully, a happy medium which tends to negate the disadvantages of both extremes. Local governments, however, are strong so as to protect local interests and will not give ground easily. Only through the technique of the often alluded-to public educative process can this obstacle be eliminated. The result of the existence of this inimical organization is that many of the policies suggested by the plan are rendered sterile.

Primary examples of such policies are the progressive income tax and the confiscatory land tax which the local governments, especially in the areas at which they are primarily aimed, just seem to be unable to collect. The essential point is that in many cases, virtually the entire institutional structure below the level of the national government is unsympathetic, and, sometimes, down right hostile to economic planning or, for that matter, economic development in general.

These problems of misdirected authority on the local level are often compounded and even encouraged by the presence of great political instability in the national administration.[2] Constant threats of revolution and counter-revolution, such as have predominated much of Africa and Asia, makes a successful governmental program in any field nothing more than a frivolous dream.

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[1]Myrdal, p. 133.

[2]Krause, p. 49.

When instability exists, economic planning, one of the more complex governmental undertakings, becomes quickly ineffective, if instituted at all, and the "in" power becomes too concerned with the day-to-day tenure problems to be sufficiently interested in making large-scale economic reform or in creating a workable economic plan.

Outside the governmental sphere, equally formidable obstructions exist in abundance. Most important, in light of creating a more unified national state and a revitalized esprit de corps, is the weak, if not non-existent, communications network. In the broadest sense, communications includes everything from radio and telegraph to roads and highways, and, in many nations, all of these facets are in need of substantial improvement. The governments in most nations involved in economic planning have been making large portions of their funds available for social overhead capital to improve the communications system. Even now a backward nation which possesses thorough and efficient network of roads, airlines, and similar items is non-existent.[1]

The crux of the problem is that there is a high correlation between the degree of efficiency of the communications system of a nation and the degree of centralization of decision making which is possible. This conjecture can easily be confirmed by examining the history of frontier America and observing the impact which the vast improvements in communications during the last of the nineteenth and the start of the twentieth century had upon the decline in the importance of the county seat as a policy-making and administrative body, and the concurrent increase in the political potency of the state governments.

The growth of the communications industries is limited, however, by

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[1]Myrdal, p. 134.

another institutional obstacle to planning, that of the poorly organized and weakly administered educational system. The entire problem of public morale cannot be overcome significantly until the masses are educated. Such education cannot be secured so long as the public educational facilities are not widely extended on both an intensive and an extensive basis.[1] This problem can be, and needless to say has been, somewhat alleviated in key positions by the utilization of foreign educational institutions. This is, however, only a stop-gap measure, because the number which can be trained in this manner is necessarily limited, and a national point of view through education is virtually impossible to attain without a major internal realignment of the educational system.

An additional problem which faces the economic planner is the lack of a sufficient degree of organization within the labor market. The industrialized sectors of many backward nations have been unionized to prevent the continued exploitation of the workers by the foreign and domestic producers who are anxious to capitalize and to continue to capitalize on the cheap native labor.

The government has, however, generally proven too weak to provide a firm legal basis from which the labor organizations could take-off, such as has been done in the Western nations, or to even give them any great degree of encouragement or backing in disputes.[2] The result is that collective bargaining is weak and unable to help correct the wealth and income disparities or to aid in the more efficient allocation of, and training of, the labor force, or to institute any significant form of fringe benefits.[3]

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[1]<u>Ibid</u>., p. 132

[2]<u>Ibid</u>., p. 131

[3]<u>Ibid</u>.

In addition to the weak labor movement, the organization of the banking and finance systems in most of these nations has also been particularly in-effective. A strong economic plan requires stringent credit control in order to prevent run-away inflation or frivolous consumption, and the banking system is not sufficiently organized in most backward nations to allow such re-straints. The obvious result of this situation is that the planning author-ity is continually in danger of having many of its programs sabotaged by easy money enthusiasts and black-market operators.[1]

The last institutional obstacle to be discussed is the over-dependence upon rather rigid tie-in through foreign agreements with the economies of the other nations of the world.[2] The importation of foreign capital is obviously vital in the stage of economic development which the backward nations are now progressing through, but the result of too heavy a dependence upon a few large nations is that fluctuations in the economy of the advanced nations can have disastrous effects upon that of the backward nations who spend a rela-tively large percentage of their national income on foreign goods and do a significant amount of their investment with foreign funds. A recession in an advanced nation is sometimes capable of wiping out several years of progress in the backward country brought about by even the most efficient and potent economic plan. Foreign dependence must, therefore be as diversified as pos-sible and looked upon as a short-term stop-gap measure only, if economic planning is to become secure in its foundation and dependably productive.[3]

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[1]Lewis, p. 126.

[2]Krause, pp. 73-74.

[3]Lewis, p. 126.

The economic outlook is not entirely bleak, however, because there are several steps which the underdeveloped nations have been and can continue to take to alleviate these cultural and institutional obstacles. These methods center around building what Myrdal calls a new social infrastructure. Such an infrastructure has been built up in the Soviet Union by utilizing a strong, totalitarian, monolithic state which thoroughly integrates all of the segments of the economy under one central authority.[1]

Most of the underdeveloped nations have expressed a desire to follow a more flexible, less autocratic technique than that used by the Soviet Union. They have been attempting to build a new type of decentralized, but coordinated, political and economic organization below the national level which places heavy emphasis upon local initiative and extensive public participation on a flexible basis, but one which is simultaneously guided and directed by national legislation which is more sympathetic to the goals of economic planning and development.[2]

The more advanced of the developing nations have made tangible progress in reconstructing the local and provisional governments out of the material salvaged from the former institutions along patterns set up by the development of the nations of the Western world. Considerable interest has been shown in creating numerous coordinated councils which are each assigned specific social interests for which they are responsible. These are not only designed to coordinate inter-industry operations, but also to act as aggressive machinery for the promotion of increased levels of public morale.

In agriculture, these nations have responded by the activation of the

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[1]Myrdal, p. 132.

[2]*Ibid.*, p. 133.

cooperatives designed to raise the general level of productivity through the promotion of new technology and larger-scale operations. Similar cooperative efforts are being instituted in the financial system to bring the credit policies under greater dominance of the planning board and to eliminate the black-market operators which have traditionally sabotaged the efforts of the central authorities.[1] These nations are also beginning to put more emphasis on labor organizations and upon providing the necessary social legislation to insure their continued growth and increased effectiveness.[2]

These tendencies toward social reorganization by some of the planning and development leaders gives rise to the general feeling, and, seemingly valid assumption, that the nations which are just beginning to think in terms of economic progress can and will remove their social obstacles to planning by similar means. But for all of the nations, these obstacles exist, still, to a greater or lesser degree. As long as they exist they will serve only to sabotage the economic plan and impede the general development process. It is essential to remember, however, that the backward nations face the immediate problem of building new institutions. This can only be done through public policy. And a coordinated public policy, almost by nature implies the existence of an economic plan.

Factor and Technical Limitations

As large and important as the social and institutional obstacles are, economic planning is also limited by obstructions of another type; the lack of certain essential factors of production and of some basic technical know-how. One problem related to factor limitations is that of the shortage of raw

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[1] Ibid.

[2] Ibid., p. 134.

materials. No nation in the world is exactly like any other in its natural endowment. Some nations have an abundance of many factors, needing to import only a few from the outside world. Others may have a noteworthy stock of a very few rare resources while simultaneously experiencing a total absence of many other equally vital factors. A few nations simply have a shortage or absence of virtually everything.[1]

Most of the underdeveloped nations tend to fall more or less in the second category. Probably none of them have the factor endowment which exists in the United States and equally few are totally devoid of any kind of exploitable resource. In any case, the important thing is that none are in a position to develop by themselves. No matter how well the economic plan is formulated, and no matter how many bridges it calls for, there will be very few bridges built if there exists an acute shortage of cement and steel. This means that the planners will have to devise permanent sources of raw materials outside the nation. This is no stop-gap measure, since the shortage is chronic and natural, and one which cannot be solved by a mere institutional reorientation.

Another type of factor difficulty is that of capital accumulation. This differs from the scarcity of raw materials in that, to a great extent, in a developing country this will be only a short-term problem.[2] The necessary capital funds are usually present, but because of the traditionally uncertain marginal efficiency of capital and because of the wide disparities in the holdings of wealth, large sums of investment funds which can be used to further the cause of capital accumulation, are never induced into use as productive investment.

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[1]Krause, p. 47.

[2]Krause, p. 48.

It has already been pointed out that this situation can be alleviated by an effective system of taxation combined with an active program of government investment. But as we have seen, the problems of effective implementation are very great and the capital is needed at the present time. This makes the effectiveness of the economic plan dependent upon the funds which can be received through foreign grants, loans, and investments. The problems involved here, the tied loans, the hesitation on the part of the private foreign investors, and the political contest between the Communist and the Non-Communist sectors of the world, are too well-known to need elaboration here. Nevertheless, the failure to secure such foreign financing will, in the short-run, prove to be a devastating blow to the implementation of the economic plan.

In addition to these acute factor shortages, planning is also limited by the problem of securing modern technology and usable skills in a short period of time. Technology and technical knowhow always plays the role of a parameter of economic progress, but in the backward nations it often is stifling to an inexcusable degree. The solution of many technical problems is unknown to all men, but much of the technical knowledge which exists in the advanced nations of the world has not been effectively transmitted to the underdeveloped areas. This is particularly true in the sector in most immediate need of economic development, namely, agriculture. While improvements have been brought about in agriculture through the introduction of the cooperative movement, most of the food obtained in the backward nations is produced by techniques which are primitive by any standard, and the situation does not show great promise of changing drastically in the immediate future.[1]

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[1]Myrdal, p. 133.

The general lack of technology comes, in some industries, from a lack of capital, in others, from a lack of public education, in others, from a combination of these two elements. Once again, then, we have a problem whose adequate solution depends upon a unique combination of public education and structural changes.

The presence of this general problem only serves to point out a basic difference, in fundamental terms, between the successes of the advanced nations and the failures of the others. Most of the advanced nations, particularly England and Germany, do not have an abundance of all the necessary factors of production, or, at least in the early stages of their development, all of the available technical knowhow.[1]

Nations such as these have from time to time throughout their history gone out of their way to make sure that the essential foreign supply of these resources would be forthcoming. The underdeveloped nations, on the other hand, have gone out of their way for so few things involving national action that historians commonly refer to many of these nations, particularly those of Africa, as having no true national history. The advanced nations saw their shortages and did something about it; fighting, colonizing, negotiating, and confiscating. The backward nations also saw their shortcomings, or at least some of them, but, until recently, they simply sat on their hands and accepted these inadequacies just as they would a bolt of lightning or a drop of rain.[2]

The successful elimination of these obstacles depends, then, upon the intensity of the desire of these nations to change their attitudes towards these problems. Since the world is not so openly uncivilized as it was during the building of the British Empire and the rise of mercantilism, much hope lies

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[1]*Ibid.*, p. 119.

[2]*Ibid.*, p. 121.

in willingness of other nations to give their support. It is due to these obstacles that no presently underdeveloped nation of the world has been able to fully engage itself in the construction of an economic plan even as potent as those existing in the Western world.

Planning is more of an idea and a form than a reality. For example, even India, the most effectively planned nation of the backward world, is referred to by Myrdal and others as little more than a "functioning anarchy".[1] If planning is to be more than this, the aforementioned obstacles, as well as others peculiar to the individual nations, must be removed. The West has shown that they can be, but it is up to the developing nations themselves to convincingly prove that they will be.

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[1] *Ibid.*, p. 123.

SUMMARY

Economic planning, while far from a new concept, has won its place in economic thinking during the past few years in many of the underdeveloped and advanced nations alike. The greatest apparent need for planning has been in the underdeveloped nations and it is in these countries that planning has been most widely utilized. The dominant school of thought in economic planning is the rationalist school. This type of planning attempts to guide a rationalistic man through a process which will produce a more efficient allocation of the factors of production. It is possible, by synthesizing the definitions referred to in this report, to define economic planning as a rationalistic program for future action based upon the successes and failures of past performances and the ever-changing goals and yardsticks of the contemporary social and economic values.

The need for such planning is believed to come from the inability of the underdeveloped nations to provide 1) economic stability and 2) rising levels of national income. In order to alleviate this situation, the planners, through their efforts, hope to 1) provide a stable economic foundation upon which the desired economic superstructure can be built, 2) direct the fiscal and monetary policies of the nation in such a way that a favorable climate for capital accumulation can be created, 3) control the foreign trade of the nation so as to minimize balance-of-payments difficulties, 4) utilize progressive taxation, etc., to provide a means by which ax-ante savings can be efficiently transmitted into productive investment, and 5) control and direct the supply of labor and remove the basic imperfections from the labor market through the medium of public education.

Economic planning consists of two basic stages: formulation and imple-

mentation. While both of these are involved and complicated processes, many economists feel that the implementive stage is the crucial and more difficult stage. The formulation can be divided into four stages. In the first stage, the potential national income figures are estimated and a broad budget is formulated for the economy as a whole. From this budget, the national budgets for consumption, investment and governmental expenditures are derived, based upon both economic data and an appraisal of the social and institutional factors which form the parameters of the various budgets. From these budgets, four more can be set forth, namely: 1) the budget for each industry in serious disequilibrium, 2) the budget for each raw material likely to be in disequilibrium, 3) the manpower budget, and 4) the foreign trade budget.

The second stage of planning is involved with the determination of the specific action which is to be undertaken to overcome the basic deficiencies within the economy. This action is designed to 1) increase the sources of supply of the necessary factors, or, that failing, 2) limit the demand for the scarce factors. The third stage is that of setting the targets. This involves the quantitative estimation of the degree to which the action taken in the second stage will relieve the disequilibrating conditions. Targets, however, should be set rationally and in terms of economic capacity, not from political considerations. The final stage of planning is that of publishing and discussing the targets set in the third stage. This is essential so that the public can analyze and criticize the planning operation. This appears to be a vital step if the nation is not to run the risk of having planning substituted for, rather being utilized as a supplement to, democracy.

The plan should be primarily of a short-run nature. Long-run plans are not feasible, except in some capital-intensive industries such as power, due to the fact that exogenous factors, such as fluctuations in the international market, are too unpredictable, and because the political and economic conditions in these nations are often far from stable. (Long-run planning tends to lead to discarding short-run in favor of long-run targets.) Planning should also be as non-directive in nature as is possible. The market system, while having certain imperfections, does have useful functions to serve, particularly in regards to measuring consumer tastes and setting the prices of the commodities. Failure to use the market for these purposes will mean that a vast administrative staff will have to be used to make these calculations. Most of the underdeveloped nations have a shortage of such personnel and also lack sufficient statistics to make such calculations sufficiently accurate. Precise and definite statistics can perform valuable functions in planning, but they are far from being the prerequisite for its success. In many cases when statistics are usually meaningless, they had best be discarded completely.

Regional planning can also serve an important place in the planning process. Many problems are confined to a single area, and many other are more acute in one particular area than in the nation as a whole. These regional plans need to be thoroughly coordinated so that they will complement the national plan as a whole. As was earlier pointed out, many economists feel that the more difficult phase of planning is its implementation. If planning fails, it usually bogs down in this stage. Failure at this stage may be caused 1) by a lack of a sufficient supply of trained personnel, 2) by an inherently weak governmental structure, or 3) by a historical and ingrained unwillingness on the part of the public to follow the directives of the government. Successful implementation usually necessitates the reorganization of certain parts of the governmental framework, possibly in the form of constitutional reforms, or in reforms within the selection systems for the administrative personnel. In some cases, it may be necessary to build an entire infrastructure independent of the governmental framework. This method, however, runs the risk that the new structure will attempt to control both the economic and political sphere of public life. If the public refuses to cooperate with the suggestions of the planning agency, it is often possible to influence their actions by nationalizing or by threatening to nationalize, certain industries. The important observation, however, is that action cannot be substituted for by speech-making. Speech-making, if not accompanied by action tends to become planning by exhortation which is tantamount to not planning at all.

Implementation, if successful, in essence requires the removal of the various obstacles which have previously inhibited economic development in the underdeveloped nations. These obstacles are both cultural and institutional. They can also be in the form of factor and technical limitations. Examples of the cultural and institutional obstacles are 1) the caste and class systems which tend to predominate many underdeveloped nations and which serve to limit labor mobility, 2) the large income disparities which make capital accumulation difficult, 3) the great concentrations of wealth which prevents the proper allocation of land and capital, 4) the economic aristocracy which tends to have more than its share of the political prestige and which tends to attempt to preserve the status quo and thereby injure the development process, 5) the lack of public morale or of an intrinsic "desire for development", 6) political instability which prevents effective planning from taking place, 7) the lack of communications systems which makes inter-regional coordination more difficult, 8) poor governmental protection of labor organizations which tends to inhibit their growth, and 9) the rigidity of economic tie-ins which makes the underdeveloped nations too dependent upon the economies of the advanced countries.

The factor and technical limitations are due to 1) the lack of sufficient natural endowment of basic raw materials, and 2) the lack of a sufficiently potent educational system to promote the extensive expansion of technical knowledge. The former problem can be overcome only with the increased use of foreign trade, and the second, only with the advent of the necessary structural changes which will permit the efficient communication of technological advances to the public.

The entire development process is dependent upon the removal of these obstacles. This paper would tend to indicate that economic planning is one method of doing the job. But the plan alone is not enough. It must be combined with a rising morale on the part of the public. To date, however, planning has not had the aid of this general cooperation, and therefore, tends to fall down in the vital process of transforming the basic ideas into reality.

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ECONOMIC PLANNING AND THE UNDERDEVELOPED NATION

by

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ABSTRACT

The purpose of this report is to examine the role of economic planning in the future development of the underdeveloped nations of the world. It is primarily concerned with the tools of planning and the ways in which they can be best utilized in the formulation and implementation of such a plan.

While the earliest ideas on planning can be traced to the writings of Plato, this concept did not truly carve its niche in economic thought until after World War I. The earlier writings were primarily steeped in socialist tradition. Not until the last few decades has the Socialistic approach shown signs of succumbing to the less egalitarian rationalist approach. It is this latter approach, however, which serves as the foundation for this report.

Economic planning is defined by this author as a rationalistic program for future action based upon the successes and failures of past performances and upon the ever-changing goals and yardsticks of the contemporary social and economic values.

The prime objective of planning is the mobilization of the resources needed to secure rising standards of living and greater economic stability. It is necessitated because of the unique inability of the underdeveloped nations to secure these objectives by less stringent means. This desired progress has been impossible in these nations due to social and institutional obstacles which are particularly inimical to efficient resource allocation and to the developmental process as a whole.

This report stresses the importance of inducing cooperation between the various heretofore poorly integrated segments of the economy through the explicit assertion of governmental policy. The importance of granting the planning agency the means to implement as well as formulate is also emphasized.

Such an approach brings out the futility of formulating a plan without having at the planner's disposal the proper tools for the implementation of such a plan.