

ARAB REPUBLIC OF EGYPT

THE INSTITUTE OF NATIONAL PLANNING



Memo No (1032)

Planning and Necessary changes

By

DrEl-Sayed Abdel-Mawla

March 1973

جمهورية مصر العربية – طريق صلاح سالم – مدينة نصر – القاهرة – مكتب ريد رقم ١١٧٦٥

A.R.E Salah Salem St. Nasr City , Cairo P.O.Box : 11765

PLANNING AND NECESSARY CHANGES

Report by

Dr. ELSAYED ABDEL-MAWLA

Faculty of Law

University of Cairo

INTRODUCTION

The Spread of the Planning System

1. Planning of national development has become widespread in all the Third World countries since the Second World War and since the achievement of independence.

All the Third World countries, whatever their economic and social systems or the level of their development, claim to use national planning as an instrument capable of speeding up their economic and social development. The general spread of this system leads us to ask, along with MYRDAL (1), whether we are not dealing with a certain ideology of economic planning. The major reason for this spread lies in the fact that in these countries the State must and wants to take an active part in the process of economic development.

Given the widespread rigidity to which these societies are subject and the incapacity of the market forces to bring about change, the State has realized that if change is to take place, it must itself intervene.

A plan thus becomes a complex of economic measures expressed in the form of quantitative goals and clearly-defined tasks (2).

This plan comes to be considered not only as the main instrument for coordinating the various political means, but also, and above all, as the main instrument for achieving a certain degree of rationality.

Reasons Explaining the Spread of Planning

Other reasons have played a role in the spread of planning as the main instrument for ensuring a high and rapid rate of economic growth. Among these reasons, we must list, first of all, the demographic factor. It is well recognized that the demographic trends in the Third World countries, in both their quantitative and qualitative aspects, represent a serious stumbling block along the road to economic and social development.

The demographic conditions of a quantitative nature, relative to birth-rate, death-rate and age structure, together with those of a qualitative nature, represented by the overall accumulation of human skills, have attracted the attention of some authors, who tend to see in this demographic aspect a basic obstacle to all efforts at development. They hold that the particular characteristics of demographic

evolution in the Third World countries constitute a sort of block, to the extent that every increase in income is immediately translated into a decrease in mortality and an increase in the birth-rate. This situation has led certain economists, H. LEINENSTEIN in particular, to see in it the origin of a vicious circle (3).

3. Another reason lies in the changes that have taken place in international capital movements, which require the governments to resort to planning, to a greater or lesser extent. At one time, during the colonial era, the capital requirements of the underdeveloped countries were ensured by the international capital market; this influx took the form of direct private investment. Now, instead, the greater part of capital influx depends on inter-government agreements and takes the form of public, intergovernmental loans. Therefore, before supplying the capital, the government making the loan and the I.B.R.D. want to see some well-defined investment project, fitted into a plan of economic and social development (4).
4. A fourth reason lies in the trends of international trade, which can be summed up as follows: on the one side, the trend towards stagnation in the volume of exports from the developing countries, made up essentially of raw materials, and the century-old deterioration of their terms of trade, both of which have led to a decline in earnings; and, on the other, the trend towards a constant increase in imports as a result of industrialization. The result is a chronic deficit in the balance of payments in almost all the developing countries and, as a consequence, their limited capacity to import the indispensable to continue industrialization. To remedy this state of affairs, most of the developing countries have practiced a policy of substituting imports, a policy which in turn requires a certain planning in the use of their foreign currency holdings (5).
5. The fifth reason for the spread of the planning system lies in the fact that it constitutes one of the principal means of achieving a higher level of that national unity which had suffered so long during the colonial period: in the first place because it creates a new institutional structure for channeling government policy and, in the second, because when planning is crowned with success, it becomes a symbol of national success (6).
6. Aside from the above reasons, connected with the international situation of the Third World countries, there are others that

we can consider as exogeneous, since they are connected with ideological influences coming from the outside, and particularly from the Eastern countries.

In fact, the planning practices systematically used by the Socialist countries, which have permitted them to reach social and economic development in a short time, have fascinated the Third World intellectuals, making them ardent advocates of planning.

It should be remembered that some Western capitalist countries, particularly France and Italy, also adopted planning to solve the problems of economic reconstruction after the Second World War.

7. However, although we encounter planning in almost all the developing countries, its extent and subject matter vary greatly according to the economic and social systems. In those countries with planned economies where the principal means of production are owned and exploited by the State or cooperatives, planning is generalized and imperative in nature; in those developing countries with market economies, instead, where the means of production belong largely to the private sector, planning is essentially reduced to consultation between this sector and the public sector; it is indicative, and real planning in execution is limited to the public sector (7).

The Disappointing Results of Planning in Most of the Developing Countries

8. Although planning has been adopted in almost all the Third World countries, the results obtained during the past decade have not been up to expectations. In fact, despite the disparity among growth rates registered in the various developing countries or regions, and the basic variety of economic and social conditions, the overall growth rate of gross national product achieved by these countries during the period 1960-67 was about 4.6% per year, but the gross national growth rate per capita was only 2%.

In many countries, the average overall growth rate per capita of gross national product actually decreased with respect to the average rate achieved during the 1950's. Few countries have made really rapid progress, if we exclude those that have benefited from exceptionally favorable external conditions (particularly the oil-producing countries).

In many countries, instead, the growth rate has been very modest; in particular, the result obtained in many

countries with large populations and low per capita incomes has proven to be clearly insufficient.

During that same period, the developed countries maintained a high economic growth rate. Between 1960 and 1967, the developed countries with market economies achieved an overall growth rate of gross national product equal to 5.1% per year and a growth rate per capita of 3.8%.

In the countries with planned economies, such as the Soviet Union and the Eastern European countries, the overall growth rate of gross national product was 6.7% and the rate per capita was 5.4%.

The developed countries have made new progress in science and technology and have intensified their trade and cooperation (8).

If we take the growth rate of national product as the main index of development, the results are disappointing; but they become even more disappointing if we consider the extension of economic and social structural transformations necessary for development. As is known, the economies of developing countries are characterized by a duality, because of which economic and technical progress leads to an accentuation of the contrasts between the modern sector and the slower sectors and points up the social and economic disparities. Their social structure presents various inequities and an element of rigidity which can be ascribed to the basic regime, the political structures, education systems, external forces and various traditional practices and modes of behavior. Under these conditions, an increase in production or income represents only one of the indexes of development. Such an increase must be examined together with other indexes revealing the other aspects of development.

Many authors ask, and not without reason, whether there is not a certain impossibility for development in the Third World countries.

Poverty and underdevelopment continue to exist as a dynamic process that widens the gap between rich countries and poor countries (9).

9. There are those who have gone so far as to question the utility of planning for economic development in these countries. The main cause of this pessimism is the slow-down in economic growth in the developing African countries. In fact, Africa is much less favored than the other underdeveloped continents. Only seven African States have achieved an annual

per capita income of 200 dollars, while in 15 out of the 39 independent countries this figure is less than 70 dollars. Such a low income level is accompanied by all the classic symptoms of a poor economy: a short life-span, low education levels, a backward agriculture due to the low productivity of the subsistence sector, insufficient integration of the economies, etc.... (10).

Some of the Big Problems Encountered by Planning

10. The political instability of almost all the Third World countries prevents the creation of a political power capable of carrying out a minimum of social transformations; moreover, so as to avoid attacking certain vested interests head on, some governments simply do not take social measures or restrict themselves to very limited ones. (11) Many of them waste most of their energy in political power games, rather than devoting it to economic and social progress.
11. The demographic factor contributes to worsening the conditions of development and planning, since in most of the Third World countries energetic measures for family planning to improve the unfavorable demographic conditions have not been taken. Heavy demographic growth, higher than 2.5% per year, has eaten up the narrow profit obtained through increase in gross national product. (11-a) Heavy migration from the rural areas towards the cities has upset the balance between urban and village life, creating serious problems in housing, transportation and jobs. The high-birth-rate and low death-rate have produced a bottom-heavy age structure, which has raised the level of national consumption and forced the governments to channel a considerable part of their resources into investment projects whose returns are indirect and long-term, such as education, health and clothing. The slow-down in the growth of agricultural production has often endangered the economic and political equilibrium, and consequently, also the development process.
12. A certain number of Third World countries, among which Egypt, which at one time thought their internal food supply to be sufficient, have been forced to realize a deficit in cereal production. They must therefore sacrifice increasing sums of foreign currency to import food to make up for the insufficient quantity available. To reestablish the balance in food production would require action for the transformation of agriculture and the connected sectors. But this transformation is not possible without political structures capable of

adopting a radical agrarian reform (12). In those countries where an imbalance in the structures of the food sector already exists, we can expect to see the application of planning periodically jeopardized by crises in supply and currencies constantly threatened by galloping inflation, unless the development rates projected for the other sectors are reduced or long-term aid in food supply is obtained from abroad.

13. Another big difficulty encountered by planning lies in the fluctuations of export income and the uncertain variations in international aid. As is known, foreign currency resources represent a decisive element in determining the real evolution of total production, investments and consumption during any given year. Most of the Third World economies are not autonomous, in the sense that a large part of their total production is destined to foreign trade or comes from foreign trade. Furthermore the production capacities of these economies adapt but poorly to the present structures of demand, and particularly to the structures of the new demands that progressively emerge as the economy expands. The supply of intermediate goods and equipment goods is negligible when compared with the growing need for those goods required for new projects, whereas the country's capacity to import is increasingly unstable. In fact, the stagnation in the volume of exports and the deterioration of the terms of trade for basic agricultural products (13), on the one hand, and the fluctuations in the flow of foreign capital towards the developing countries, on the other, are the underlying cause of an insufficient capacity for importation. In the face of this situation, many countries have been forced to reduce their rates of economic development. To remedy the lack of foreign currency and permit the implementation of their plans, most of the Third World countries have been forced to ask for financial aid and technical assistance. Unfortunately, the volume, distribution and continuity of this aid depend on many political factors and are, consequently, subject to the vicissitudes of international politics. We must point out here that as concerns international aid, we are still far from the goal auspicated by the U.N. General Assembly when it invited the rich countries to devote 1% of their gross national product to international aid. L. PEARSON, called to preside over a U.N. commission for cooperation and development, expressed the same goal and invited the rich countries to grant their aid through the international organizations (14). But the rich countries devote only 5% of the gross national product to aid, in the form of credit, aid and capital

investments. Furthermore, we hold that the capital imported by the underdeveloped countries more or less equals what they lose through the expatriation of profits, interest on loans and credit and inequitable trade terms. The prospects in this area are by no means good, since the developing countries' capacity to pay back loans will necessarily limit their borrowing abroad (15).

We must therefore conclude that international aid must be extended, improved and, above, all, coordinated with the internal economic situations of the developing countries.

14. Another difficulty arises from the shortage of skilled manpower and personnel required for the elaboration and implementation of the plans and projects, as well as in the management of enterprises. For many countries, the lack of skilled personnel represents one of the main obstacles to planning and the execution of the work required for development.

15. The narrowness of markets poses another problem. This narrowness is particularly marked in many African and Middle Eastern countries, small States whose population is too limited (16) to build up a demand sufficient to support basic industries, such as metalworking and mechanics. This problem raises another: the problem of regional integration among these countries.

We cannot conclude this list of difficulties without recalling the weight of armament, which absorbs a large part of the resources of certain developing countries. At times, military spending exceeds the total of all investments and obviously constitutes a serious loss for these countries and the most serious reason for their economic and social backwardness.

16. In the face of these problems, we do not share the hopes expressed by the U.N. experts with regard to development predictions for the 1970's (17), unless some serious rethinking takes place on the planning system as practiced so far.

In this report, we shall attempt to make some suggestions aimed at improving the planning system, as the main instrument for economic development. These suggestions refer: a) to the scarce importance given by the authors of plans to the role played by non-economic factors in development processes; b) to the growth models currently resorted to in the elaboration of plans; c) to the need to transform the agrarian structures; d) to the importance of action to change the demographic structures; e) to the realization of democracy through planning.

I

Neglect of non-Economic Factors in Planning for Development

17. Many Third World countries seem to have been surprised to discover all of a sudden that national development, and particularly a planned development aimed at maximal growth and deep structural change, is a slow process indeed. But they were even more surprised to discover that, despite their efforts, they could not succeed in creating an environment capable of guaranteeing the continuity of a development process. They discovered that the greatest obstacle to overcome lay in institutions, habits and traditions that prevented the creation of a new man. In a large part of these countries not enough has been done to increase the possibilities for successful implementation of their development plans through a minimum of essential institutional reform. It is for this reason that in most of these countries planning has been experimented in a relatively unfavorable social and institutional context.

To this difficulty we must add the widespread practice, on the part of the organs in charge of planning, of considering only the economic factors (capital, savings, investment, etc.), to the neglect of the non-economic factors (traditions and institutions).

The Complexity of the Social System

18. Today everyone admits that a social system is made up of economic and non-economic conditions (or factors), linked together in a cause and effect relationship to the extent that a change in one conditions brings about changes in the others.

In Marxist terminology, the economic factors constitute, in a way, the infrastructure, and the non-economic factors, the super-structure.

The main economic factors are connected with income, production and living standards. The main non-economic factors concern attitudes towards life and work, institutions and political behavior (18).

From an economic point of view, the most important general characteristic of the underdeveloped countries lies in the fact that the average productivity of labor is very low and, consequently, national production is also low. The result

is a low national income per worker and per capita. The low level of productivity and income can almost be taken as a rough index of the level of underdevelopment of a country (19).

The industrial sector, and particularly the big industrial sector, is minimal. In all the other sectors, and particularly in agriculture and the crafts, production techniques are primitive and capital intensity is low. The relationship between savings and income is very low; consequently there are no long-term productive investments. Economic and social infrastructures, particularly in the transportation and energy sectors, are inadequate. The utilization of manpower is low as concerns participation, duration and effectiveness, and this, in the last analysis, determines the low productivity of labor.

These conditions are directly interrelated; thus, the low rate of savings tends to limit the formation of capital; the primitive production techniques are partly the result of low capital intensity, since more advanced techniques would require more capital per man. The same holds true for the distribution of the labor force among the various sectors of the economy; thus, while many workers are employed in activities requiring little or no capital, only a few are employed in activities requiring a large amount of capital, but also capable of increasing production. The low productivity of labor and its inefficiency are, to a large extent, the result of primitive techniques and insufficient capital.

In the underdeveloped countries, living standards tend to be low for the great mass of the population and to present specific quantitative and qualitative deficiencies: inadequate nutrition, poor housing conditions, inadequate medical and pharmaceutical care, inadequate facilities for education and culture at all levels, etc...

The low living standards are primarily due to the low levels of productivity and income; reciprocally, they are the cause of the low productivity and inefficiency of labor, which figure among the causes of the low income levels.

This triangular causal relationship between productivity and income, standard of living and productivity and inefficiency of labor is one of the crucial determinants of development.

Attitudes towards life and work are deficient from various stand-points: a low level of discipline and punctuality in work; superstitions, lack of enthusiasm, adaptability, ambition

and interest in general in change and experimentation; disdain for manual labor; passive submission to authority and exploitation; a poor attitude towards cooperation; little notion of personal hygiene, etc. ...

All these attitudes together indirectly, but negatively affect the conditions of production and the utilization of income to obtain the highest possible living standards. In the opposite direction, however, these undesirable attitudes are all to a large extent functions of the low living standards and therefore, indirectly, of the low levels of productivity and income, of which they are, at the very same time, one of the causes.

This causal relationship is also among the crucial factors underlying underdevelopment.

The national community is also characterized by a certain number of institutional conditions unfavorable to economic development: archaic agrarian structures; inadequate institutions for enterprise, employment and credit; inadequate national consolidation; inadequate authority of government organs; instability and inefficiency in national politics; low standards of efficiency and integrity in the public administration; inefficient provincial and local government bodies, etc....

Underlying all these institutional weaknesses is an insufficient level of popular participation.

On the basis of this list, we can recognize the complexity of the social system, since the causal relationships are not limited to within each group of factors, but also exist among the different groups.

The interdependence among factors is neither simple nor clear. If we could list the individual factors and evaluate all their causal relationships, then perhaps we could give a complete explanation of the cause and effect relationships underlying the present state of these factors, their changes or total lack of change.

21. A very common idea in the literature of underdevelopment tends to explain that social progress in the poor countries is dominated by vicious circles (20), of which the best-known is R. NURKSE's vicious circle of poverty. According to this idea, a situation of equilibrium of self-perpetuating underdeveloping leads to economic stagnation. The poor man is poor because he is poor; and indeed he tends to get poorer because he is poor.

The greatest criticism that can be addressed to this concept lies in the fact that it does not explain the ties of causality existing between the economic and social factors. It gives no indications on the threshold (21) beyond which we can be sure that a cumulative upward movement will begin; nor does it explain why in reality, even though this threshold is reached, this upward movement does not take place. The ties of causality in this case would constitute an advantage, since the process would be self-sustaining.

Separation of Economic and non-Economic Factors

2. Despite this evidence, many economic models and most of the works on planning separate the economic factors from the non-economic factors, concentrating their analysis on the former. This tendency is based implicitly on the following premises:
- 1) that the chain of causality goes from the economic conditions to the non-economic conditions; in other words, the infrastructure dominates the superstructure. This first hypothesis, as G. MYRDAL (22) reminds us, is often tantamount to accepting the Marxist hypothesis according to which culture is a superstructure built on the mode of production and thus simply a function of economic conditions and, specifically, of production (23).
 - 2) that efforts to directly change the non-economic conditions are difficult, if not impossible.
 - 3) that economic factors are considered more accessible to observation and analysis than are social factors.
 - 4) that economic quantities are objective, since they can be reduced to a common denominator and expressed in monetary terms, which is to say that they are quantifiable, whereas social factors are not and therefore cannot be the objects of value judgements. But these ideas are false (24).

One of the consequences of this separation has been the concentration of planning efforts on the economic factors. The governments' efforts at implementing development planning by means of investments in infrastructures and new industries have produced a certain increase in production and income in some sectors of the economy. But the extension of these results to the other sectors has been weak or absent. The reason is that this extension has been prevented by attitudes and institutions. The "take-off" can be abortive and not have as a result a self-sustaining growth. In effect, in the under-developed countries, attitudes and institutions are generally

less favorable to the extension of development stimuli than in the highly developed countries. In the latter, a long process of adaptation to rationality has already taken place, giving rise to a collective mentality, attitudes and ideas, spread by education and generally penetrating social relations. In the underdeveloped countries, instead, efforts at convincing people to accept innovation encounter greater resistance, and the development stimuli may be hindered or brought to nothing by the existing attitudes and institutions.

In writings on the problem of development in the underdeveloped countries, it is always admitted that a close relationship exists between the effectiveness of development policies in the economic sphere and the prevailing attitudes and institutions. Indeed, it has become almost a cliché to say that the political revolution will have to be followed by a social revolution in order to permit an economic revolution. But despite these stereotyped statements, the tendency in practice seems to be to hope that social change will follow in the wake of economic change, since an economic development is what is in fact attempted.

The exclusion of the non-economic factors from the models normally used in economic analysis and planning has produced a serious distortion (25) in our understanding of the development process.

It seems evident that the practice of separating the economic factors from the non-economic factors and the importance given to the former, to the detriment of the latter, is a result of the fact that economic policies are easier to implement than social policies, which challenge vested interests, violate deeply-rooted inhibitions, offend traditions and beliefs and work against the dead weight of social interest.

The socialist countries, particularly the Soviet Union and China, have used State force to change attitudes and institutions. But the almost totality of the governments in the underdeveloped countries do not want to follow this example. They barricade themselves behind the term "democratic planning", but this is only a way of hiding their lack of resolution and ability in using force to enforce existing laws and regulations and to make new ones.

The "soft" State (26) is one of the main characteristics of underdevelopment and the principal reason for the failure of planning. In fact, it helps to raise almost insurmountable obstacles and inhibitions in the way of development. By protecting all the factors outside the economic sphere, from preventive and vigorous attack, it seriously hinders economic