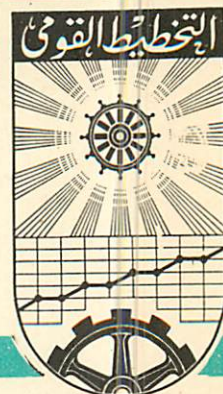


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ARE THERE LAWS OF PLANNING?
SOCIALIST PLANNING AND ITS
RELEVANCE TO MIXED ECONOMICS

by

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ARE THERE LAWS OF PLANNING?
SOCIALIST PLANNING AND ITS RELEVANCE
TO MIXED ECONOMICS¹

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Under this title which I borrowed from Prof. L. J. Zimmerman's article "Are there Laws of Progress?" (9), I want to examine the following problem: are there principles of efficient planning general enough to be valid in any country engaged in national economic planning, irrespective of the vast differences in socio-political settings and in level of economic development attained? My answer to this question is "yes". Moreover, it seems to me, that some of these principles should be spelled out in spite of their very general character because even these most general rules are frequently neglected or violated in planning practices of many countries. In the second part of my paper I want to examine briefly the applicability of socialist planning to underdeveloped countries.

1. THE GENERAL PRINCIPLES OF EFFICIENT PLANNING

First observation: There is a certain critical size and composition of the public sector, below which effective planning is impossible.

The "critical size" of the public sector necessary for effective planning is usually defined as a requirement of concentrating in the government's hands so-called "Commanding Heights" of the economy. In a recent article Prof. V. B. Singh, of India formulates this requirement as follows: "The history of planned economic development reveals that planning cannot be successful unless and until the "Commanding Heights" (that is, Basic

1 This article is based on an opening lecture at the Seminar on the Theory of Socialist Planning, delivered by the author at the Nigerian Institute of Social and Economic Research, University of Ibadan, Nigeria, in February-March 1965, an opportunity which is gratefully acknowledged.

Industries, Transport, Communications, Banking and Finance are in the public hands." (6, pp. 54-55)

He argues that an essential feature of the planned economies has been that the national plans have represented binding directives on the government: those who implement them are rewarded and those who violate them punished. Such legal enforcement becomes meaningful only when the scope of the public sector is wide and fully capable of exercising a decisive impact on the movement of the economy. In other words, without drawing the "Commanding Heights" into the public sector, it is not possible to shape the destiny of an economy. The author refers to the Indian experience and writes: "For the private entrepreneurs treat the state directives, as in India, as so many pious wishes of the national leaders and follow their own line - the maximization of profit"

The British economist and economic historian, Prof. A. H. Hanson, an expert on public enterprises and their role in economic development, expressed the same idea with admirable brevity: "Public enterprise without a plan can achieve something; a plan without public enterprise is likely to remain on paper". (1, p. 183.)

There is still need of stressing this functional relationship between the public sector and effective planning, because it is not as yet universally recognized. For example, Prof. Benjamin Higgins in his widely read textbook on economic development asserts: "The need for a plan has nothing to do with the relative importance of the public and private sectors; intervention to alter the decisions of private entrepreneurs is still a plan". (2, p. 454).

It took time before the thesis that planning is necessary for economic development of underdeveloped countries gained almost universal acceptance, even by the United States government. Until the same is true about the role of the public sector in planning, it is worth-while to stress the following:

Conclusion: If a developing country wants to engage in effective economic planning its public sector has to embrace certain strategic spheres of economic activity. Otherwise there

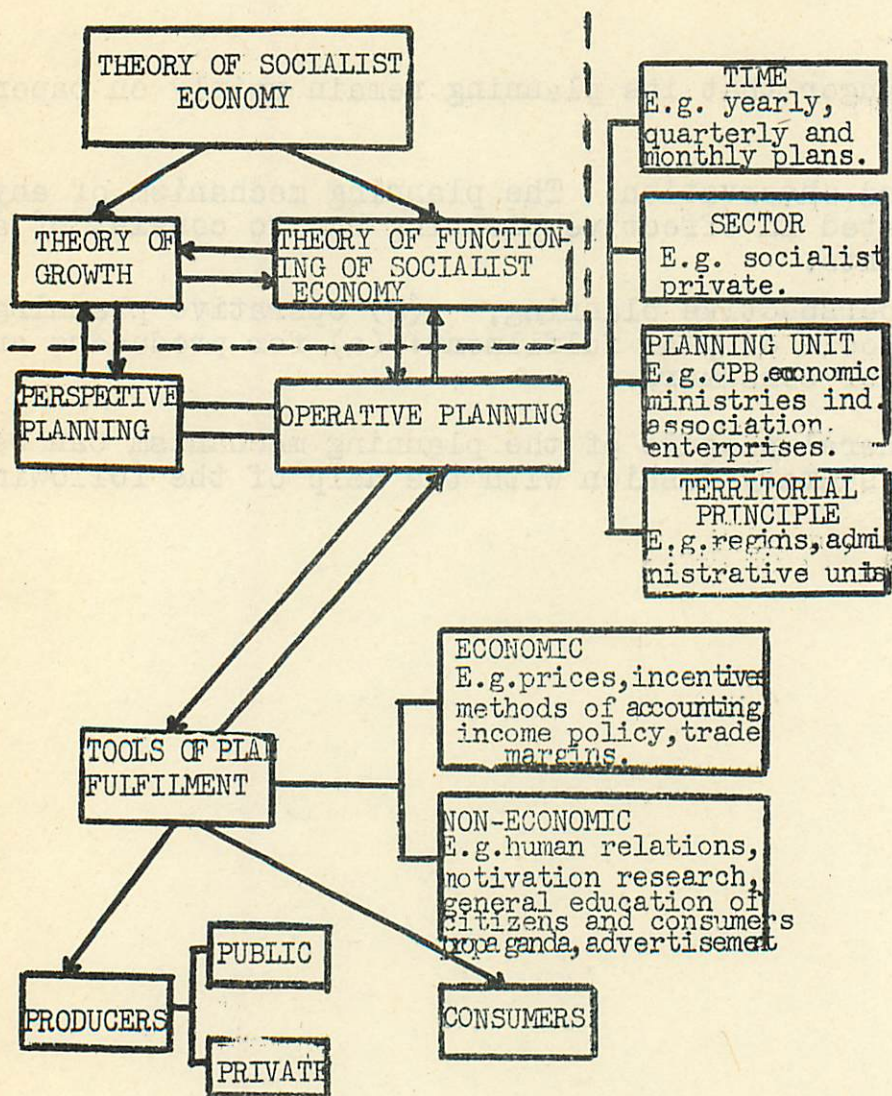
is a serious danger that its planning remain mainly on paper.^{1/}

Second observation: The planning mechanism of any country interested in effective planning has to consist of all following elements:

- (1) perspective planning; (2) operative planning;
- (3) tools of plan fulfilment: (a) for producers and (b) for consumers.

A general picture of the planning mechanism can be presented in a summary fashion with the help of the following diagram:

^{1/} The needs for an extensive public sector in developing countries go much beyond that of being a requirement for effective planning. In addition, the public sector can be used (1) to increase the over-all saving ratio in the national economy, (2) to enter fields which, however important for economic growth, are neglected by private investors, and (3) to accomplish certain economic and social reforms, from breaking the monopoly power of foreign or domestic capital groups to providing cheap housing for low-income strata. (For a fuller discussion of this problem see 5, Ch. 5).



Differences in the planning mechanism in various countries must exist by virtue of the character of plans (especially short-term plans) and the character of the tools of plan fulfilment, but any planning mechanism which does not consist of the above-mentioned elements is doomed to be ineffective.

Even a cursory look at the planning mechanism in developing countries reveals that there is a serious imbalance between the level of development of perspective planning and other elements of the planning mechanism.

Most developing countries have some sort of long- or medium-range plan, of better or worse quality, but at the same time both operative plans and tools of plan fulfilment are either in a completely embryonic stage or nonexistent. Both current government budgets and economic policies pursued are usually very loosely - if at all - linked with the plan targets, and gross inadequacy exists between planned goals (usually ambitious) and the means of their implementation (usually mild).

It must be obvious that the construction of a perspective plan can in itself have only a very limited beneficial effect on national economy. The possible benefits are :

- making the country eligible for receiving foreign aid,
- improving the knowledge about the economy, as the plan construction is usually accompanied by a more or less intensive "fact finding" campaign which includes a demographic census, industrial census, geological surveys, etc., 1/
- spelling out a number of investment opportunities,

1/ Even this benefit is frequently short-lived, however, as in most cases this "fact finding" campaign is organized on the ad hoc, rather than permanent basis, and economic tends to become obsolete quite quickly. Moreover, because plan construction cannot take ten years, the information gathered is usually very partial and subject to a great margin of error. In very few developing countries has the process of plan construction given rise to a permanent improvement of information flow, partly because in most cases the plan construction was not followed by the establishment of planning as a continuous process and of an appropriate planning mechanism.

- systematizing the most pressing economic and social needs,
- making publicly known the government's intentions in the sphere of economic and social services, and
- encouraging private investment (to the extent that previously mentioned aspects have bearing on private investment decisions).

All this is, of course useful but still grossly inadequate. Properly speaking, the perspective plan is only a supplementary means for reaching proper current decisions, but is not itself a set of decisions. If not followed by series of operative plans supported by an appropriate mechanism of their fulfilment, it is bound to remain on paper. 1/

Conclusion: Effective economic planning requires construction of a planning mechanism consisting of a perspective plan, operative plans and the mechanism for their implementation. Perspective planning itself is a necessary, but only preliminary step in constructing such a planning mechanism.

Third observation: There is a functional relationship between the required rate of growth and the mechanism necessary to implement it. This relationship can be formulated as follows: the higher the rate of growth, the more centralized management of the national economy is required. In other words, the higher the rate of growth, the bigger the role of physical planning and direct, specific government intervention and the smaller the role of general, monetary and fiscal policies.

It would be rather difficult to supply the full arguments behind this third observation, but if one accepts my notion of centralization (the use of administrative orders, physical allocation, and direct, specific government interventions as opposed to general, monetary and fiscal measures), then both historical experience and theoretical arguments seem to support my thesis.

1/ Usually the construction of a perspective plan has also a very limited impact on creating local planning skills, as the plan is drawn mainly by foreign experts, who depart after the planning document is ready.

When one thinks in terms of historical experience, the case of socialist countries and wartime planning of capitalist countries immediately springs to mind. In both cases the rapid acceleration of the growth rate with accompanying structural changes was achieved by centralized methods. I am also inclined to think that the recentralization which occurred in Poland about two to three years after the changes introduced in 1956 can also be traced - significantly if not exclusively - to stepping up sharply the rate of growth. The little I know of Japanese economic history - another celebrated case of rapid growth - seems also to support this observation. During the so-called Meiji Restoration the Japanese government was engaged on a significant scale in industrial ventures - only later on handing them over to private capital - and other direct measures.

Theoretical arguments seem to point in the same direction. The reasons why one cannot direct a war economy through the price mechanism also apply to a developmental policy aiming at rapid acceleration of the growth rate. The difficulties (including time lags) and the social and economic consequence of drastically increasing private savings and the channelling them into socially desirable directions through the price mechanism are too well known to deserve discussion here. Isolated examples of high growth rates and relative laissez faire (e. g. West Germany) can quite easily be traced to a number of favourable circumstances (no military expenditures, huge influx of American economic aid, etc.) and as a rule refer to already developed countries. We have also to remember that economic development of industrial countries since 1850, spectacular as it is when expressed in terms of annual rate of growth, appears very modest by recent standards. It amounted to 2.8% for total income and 1.8% for per capita income (3, p. 125). But probably even the most determined critics of my third observation will agree that in developing countries there is a striking discrepancy between the high rate of growth postulated and the means envisaged to achieve it.

Conclusion: It is unrealistic to accept certain growth rates without at the same time accepting the policies necessary to achieve them. Unfortunately, this seems to be the fault of many developing countries. They postulate rates of growth which are very high in the light of previous achievements, and yet shy away from the drastic measures which would have been necessary for their implementation.

Fourth observation: Successful economic development requires not only drastic changes in the structure of production but also equally drastic changes in the structure of consumption. As a result, tools for inducing consumers to change existing consumption patterns are a necessary part of any effective developmental planning.

The disposable income of the population constitutes between 60 to 80 per cent of gross national product (the latter figure being more appropriate for developing countries). In spite of this fact, the problems of moulding the consumption structure according to developmental requirements are usually only very partially taken into account in economic planning of underdeveloped countries.

Two problems have to be distinguished here:

First of all, there are the possibilities of substitution in consumption. Usually, measures in this direction hardly go beyond some effort at import substitution. But the problem of achieving the same consumption effect measured by consumption standard (e. g., calorie intake, protein consumption, protection against climatic conditions, and the like) and consumers' satisfaction with minimum cost (or maximizing the consumption effects out of a given consumption fund). Consumption habits are usually both uneconomical (from the social as well as the individual point of view) and rigid, but when alternative means of satisfying a given need are provided and supported by proper inducement (e. g., in form of lower prices) and promotional effort, substantial desirable changes in consumption patterns can be accomplished. These changes will then lead to higher consumption standards and/or less inputs for given consumption standard, measured both by consumers' satisfaction and appropriate consumption norms. 1/

The second problem is that in contrast to external economies in production, external economies in consumption are usually neglected in discussion of developmental policy. In spite of much talk about the need of changing social habits and values as a necessary part of successful developmental policy, the simple truth that the character of the society depends to

1/ We may note that in contrast to producers consumers have much more limited knowledge of possible substitute means of satisfying their needs. Moreover, individual efforts in this direction cannot go beyond goods readily available in the market. Otherwise these are uneconomical, because they cannot benefit from economies of mass production.

a great extent on what it consumes, is, as a rule, not properly taken into account in economic planning. In fact, however, successful economic development is impossible without "cultural revolution". Given a limited consumption fund, the cultural revolution requires substantial departures from market-determined price ratios of consumer goods and services in favour of consumption with high external economies (benefits). In the field of health and education this is usually taken into account in the form of free or subsidized services. In all but socialist countries, however, it rarely spreads into other spheres of consumption (e. g., subsidized newspaper and books, cinema, radio and TV, passenger transport, basic foodstuffs, etc.) as it should. At the same time, keeping within the limit of a given consumption fund will necessitate heavy excise taxes (or turnover-tax) on other goods. Thus, the whole market structure of consumer good prices has to be changed and adapted to the requirements of "cultural revolution" and developmental needs .

Conclusion: Effective economic planning has to take fully into account the developmental potential of different consumption structures, including external effects. This also means that policies for plan implementation cannot ignore the tools designed to bring about desired changes in existing consumption patterns.

II. SOCIALIST PLANNING AND DEVELOPING COUNTRIES

To what extent can the techniques of planning and management used in socialist countries be of help in economic planning of developing countries? First of all we have to realize that this is a much more narrow question than that referring to the socialist methods of development. The latter include the theory of social change as a necessary prerequisite for successful economic development and the theory of an effective developmental path to be followed for the sake of rapid economic growth. In this section, however, we shall be concerned only with the relevance of socialist planning techniques to economic planning of developing countries.

Before we turn to a brief examination of this problem, we have to define what we mean by developing countries, from the point of view of applicability and efficiency of planning.

The main differences in the planning mechanism, and consequently in the efficiency of planning, between the socialist countries and the developing countries, are due to the fact that the developing countries are so-called "mixed" economies.

By a mixed economy I mean, in the economic sense, a multi-sectoral economy which consists of: (1) a public sector, (2) a subsistence sector (pre-capitalist sector), and (3) a capitalist sector which has (a) indigenous and (b) foreign components.

By a mixed economy I mean, in the social and political sense: (1) a compromise between different social forces, and as a consequence (2) "a mixture of institutional motive forces" (7, p. 59) and "government interventions ... (which) are essentially pluralistic and are not organized into a monistic hierarchy of value" (ibidem, p. 53).

In addition, by a developing country I mean, organizationally a country which has (1) a highly inadequate statistical and informational basis for planning and (2) a highly inadequate skilled-manpower base for planning.

If, for the sake of simplifying our discussion we disregard the social and political aspects of a mixed economy and assume throughout the presence of statistical and skilled manpower constraints, how does the multi-sectoral character of mixed economies affect the relevance of socialist planning to problems of developing countries? The following general observation can be offered.

The theory and methodology of perspective planning have the most direct relevance and applicability to the developing countries. This is due to the very character of perspective planning. The task of perspective planning is to work out a desired and feasible developmental path for the economy in the long run. Because the goals formulated in the perspective plan neither represent concrete tasks (they are not detailed enough to be a basis for immediate action) nor are addressed to any specific unit of the national economy, the theory and methodology of perspective planning only very loosely depends on the institutional and organizational character of the economy in question. Due to this fact the theoretical, methodological, and practical experience of socialist countries accumulated in

the course of constructing their long-term development plans is of direct relevance to developing countries, subject mainly to statistical and skilled manpower constraints. This is especially true in regard to planning the activities of the public sector in underdeveloped countries, which is in any case the major part of most of their plans.

In the field of operative planning and the tools of plan fulfilment the picture is much more varied and complicated. Here, both planning and the mechanism of its implementation are most intimately connected with the institutional and organizational structure of the economy. I believe, however, that in this field, a number of conclusions useful for developing countries can also be drawn from the experience of socialist countries:

Firstly, the experience of planning and management of socialist enterprises and industrial associations can be useful in directing the public sector in developing countries.

Secondly, some socialist countries (e.g. Poland) have accumulated a wealth of experience in indirect planning and stimulating a private agricultural sector consisting of small peasant farms (which in Poland in 1962 still produced 88.7% of gross agricultural output).

Finally, in spite of vast institutional differences, there is also much to be learned from general methodology of operative plan building, including the significance of material balances and experience gained in the effort to apply input-output technique to national economic planning.

It is obvious, however, that due to the mixed character of their economy, developing countries need a number of tools of plan fulfilment specific to themselves. Some of these tools may show more resemblance to the tools of monetary and fiscal policies of industrial capitalist countries than to those of socialist countries. An extra word of caution is here required, however, which is now almost generally recognised by the profession, namely, that underdeveloped countries " .. might be well advised to ignore most of the Keynesian apparatus..." (8, p. 110, and 4, p. 206 - 218, passim).

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