Chapter V

Development Plans

No hay que hacer planes a corto plazo si
no hay que en corto plazo hacer planes.[1]

PLANNING WITHOUT PLANS

LESS DEVELOPED countries know that they have a better chance of attracting foreign financial assistance if they have development plans. In introducing Ghana's Second Development Plan, the Prime Minister frankly expressed the hope

> that international institutions and Governments which may be interested in our country will study this plan carefully and consider whether there are any individual projects with which they can help.

Indeed, Ghana's more recent Seven-Year Plan, as well as Nigeria's Six-Year National Development Plan and Tanganyika's Five-Year Plan, was prepared with the assumption that 50 per cent of the proposed investments in the Plan would be financed from abroad. More recently, Latin American countries have been preparing plans as a means of qualifying for aid under the Alliance for Progress. For example, Brazil's *Plano Trienal,* which was produced under forced draft in two and a half months, was created largely for the purpose of getting foreign aid.[3]

When a country has the capacity and the intention to carry out a development plan, the use of a realistic plan to obtain foreign resources to supplement domestic investment is generally both appropriate and desirable to help bring about a higher rate of economic growth. If

[1] "What is needed is not so much short-term plans as plans prepared in a short time." Statement by a Bolivian delegate to the Latin American Seminar on Planning in Mar del Plata, Argentina, May 1963.

[2] Ghana. *Second Development Plan, 1959–64,* pp. iii–iv.

[3] Daland, Robert T. "Chapter V. The Future and Brazilian Planning," pp. 32–33.

outside financial help can be obtained, it furnishes additional hope that the country will attain its planning objectives. Moreover, the availability of foreign loans and assistance for well-prepared projects and programs has had a beneficial effect in stimulating recipient countries to coordinate and otherwise improve their investment activities through better planning. For example, a study completed by the Columbia University School of Law correctly attributes Colombia's progress in sectoral programing for transportation and electric power largely to the availability of foreign financing for projects in these sectors:

> Probably the greatest impetus to such sectoral planning has come from the prospect of obtaining international financing to help carry out the programs. . . . The prospects for improvement in future Colombian economic planning may thus be very much brightened by the closer links that have recently been established with external financing agencies.[4]

But the rapid spread of planning and pressure from aid-giving countries and agencies in recent years have also converted some countries to planning almost solely because it is fashionable and because possession of a national development plan often makes it easier to obtain foreign grants or loans. There are countries where comprehensive plans have been prepared in a few weeks in an office in the capital without the planners having consulted with operating ministries and agencies. For instance, Brazil's *Plano Trienal* was prepared in this way in a period of ten weeks, while the first draft of Ghana's Seven-Year Plan, also prepared with minimal participation of operating organizations in the Government, took five weeks. In Somalia and Dahomey, among other countries, development plans were prepared by foreign advisers or consultants with little participation by those who would be responsible for their execution and with little relation to the fragile administrative structure in the country concerned.

In many countries,

> a development programme can be used as a means of window-dressing, and is often so used. The Government omits from the

[4] Columbia University School of Law. *Public International Development Financing in Colombia*, p. 144.

> plan things which it intends to do but prefers not to talk about, such as some prestige expenditures; and it puts into the plan things which will impress some readers, but which it does not intend to do.[5]

Some plans are formulated on a grandiose scale with little relation to economic reality. It is hard to take a plan seriously if, as in the case of a plan recently drafted in one African country, it is necessary to double the already high level of taxation in order to achieve the plan's targets or, as in the case of another, it involves a fivefold increase in past levels of expenditure. In several new countries, large sums have been spent on extravagant office buildings and schools or on lavishly appointed showpiece palaces instead of on productive projects.[6] In laying down precepts for assessing a development plan, Professor Arthur Lewis noted that even in the more sensible of the less developed countries there is a weakness for prestige manifest in their planning which

> shows itself not so much in the objects of expenditure, which are desirable in themselves, but in doing on a lavish and magnificent scale what could be done much more cheaply, and especially in lavish expenditure on airports, model towns, and improving public buildings. . . . I would give high marks [he said,] to a development programme in which only 10 per cent of the expenditure was in nonsense of this kind whereas a programme in which the figure reached 30 per cent would seem to be well below par.[7]

A plan is a means, not an end. Yet in many countries, planning and other officials behave as though completion of the plan's formulation is the end, not the beginning, of the planning process. The plan is then apt to be forgotten after its completion while ministries, departments and agencies continue to operate much as they did before. In some countries development plans have followed one another in rapid and unproductive succession. The literature on Philippine economic planning mentions many plans—some 20 in all—over a period of 35 years, including no less than 14 in the postwar period (see Appendix III). Almost all were little more than suggestions, proposals, opinions or platitudes designed to influence public policy. Some made use of

[5] Lewis, W. Arthur. "On Assessing a Development Plan," p. 10.
[6] One Presidential palace was reported to have been constructed with Italian marble brought in by air. See, Hapgood, David. "Africa's New Elite," p. 44.
[7] Lewis, W. Arthur. "On Assessing a Development Plan," pp. 9–10.

advanced planning techniques and refined criteria for determining investment priorities. None had much effect on the country's development. The 1961 ECAFE annual survey states that in the Philippines,

> economic planning has tended to be more an intellectual excercise or a call to action than a specific blueprint to be implemented.[8]

Beginning in 1942, Brazil had one plan after another, none of which was ever implemented. Other countries, like Burma, Indonesia and Madagascar, have also produced series of plans which have been largely ignored after their publication (see Appendix III). The existence of a development plan in any country therefore gives no assurance that its government has either the will or ability to carry it out.

Just as there is more to planning than the preparation of a plan, so planning does not necessarily require a formal development plan. As will be seen later, what constitutes a plan has been the subject of controversy. But the important question is not what is a plan and what is not. In any country, it is rather whether the planning process is firmly established as a matter of government policy. The document, whether a list of policies, a budget, a partial or a comprehensive plan, is far less important than the planning process.

Nepal furnishes an illuminating example of the distinction between plans and the planning process. Following the poor results obtained from its partial First Five-Year Plan, it became evident that the country did not have the financial, organizational and technical resources needed to proceed with the ambitious comprehensive Second Five-Year Plan which the planners had proposed. The Government therefore decided, instead, to devote one year to the consolidation and improvement of previously approved projects and to a close study of the problems of project implementation before proceeding with a three-year public investment plan. In announcing the Government's decision, the Vice-Chairman of the National Planning Council aptly described the fine difference between planning and a plan in this way:

> In the past we have had a Plan without much planning. . . . During this current year, in order to achieve effective planning in the future, we shall, as it were, be planning without a Plan. What we are going to attempt to do is to make our Development Program consistent with national priorities and objectives. We will ration-

[8] UN. ECAFE. *Economic Survey of Asia and the Far East 1961,* p. 80.

> alize our planning procedures by introducing interproject coordination so that planning may become more effective. And, finally, we will attempt to place development financing on a more stable and lasting basis, so that our excessive dependence on foreign aid may some day soon be brought to an end.[9]

If planning involves the formulation of a rational program of action for achieving development objectives, this is planning; and if vigorously pursued, this course could advance Nepal's development at least as much as the preparation of a more formal plan. As a matter of fact, reports from Nepal indicate that the course embarked upon has produced results.

Development planning, then, is not the same thing as a development plan. Those who confuse the two mistake a product of the planning process for the process itself.[10] Planning as a process is an indispensable precondition for the formulation of effective development policies and measures. Whether or not the bases and rationale for these policies and measures should be set forth in a paper plan is a separate matter.[11] The preparation of a document which embodies the results of development planning has advantages because it provides a systematic approach to attempts to co-ordinate development decisions and to improve on previously unco-ordinated decisions.[12] Moreover, plans have been found to be useful devices for initiating or stimulating the development process. But these advantages do not mean that a plan is a sufficient or even a necessary condition for insuring rapid development:

> It is a mistake to suppose that nothing ever gets decided or 'planned' until there is a programme. Just as it is nonsense to equate planning with the publication of a quinquennial programme, so it is nonsense to think that a programme settles everything and that no sensible decisions can be taken without one.[13]

[9] Nepal. National Planning Council, Ministry of National Guidance. *Policy Statement on Planning and Development,* p. 10.
[10] Gross, Bertram M. "When is a Plan not a Plan," p. 11.
[11] UN. ECA. *Problems Concerning Techniques of Development Programming in African Countries,* p. 18.
[12] Cairncross, A. K. "Programmes as Instruments of Coordination," p. 90.
[13] *Ibid.*

THE VARIETY OF PLANS

Uncertainty attends the question of what is, and what is not, a development plan. Is a general strategy, composed only of fiscal, monetary, wage, price, foreign trade or other policies, a development plan? Is an annual or multiannual capital or investment budget, whether separate from or combined with a current expenditure budget, a development plan? Is it proper to label a public investment program, whether integrated or not and whether or not accompanied by policies for promoting development of the private sector, a development plan?

The question need not be asked about a comprehensive development plan because everyone agrees that it is a development plan. But must all development programs be comprehensive before they can qualify as development plans? There is no complete agreement about this, although there is a more or less general consensus that mere comprehensiveness is not enough. Thus, a plan which only forecasts global economic trends and recommends the adoption of some government policies may be a plan, but it does not constitute a development plan. Such a plan, like the one in the Netherlands, is appropriate in planning for economic stability in a mature market economy with a dynamic private sector. It is unlikely to be an adequate instrument for promoting the economic advancement of a less developed country because it relies heavily on market forces which generally operate ineffectively in such countries. When such plans were discussed at the First Annual Meeting of the Inter-American Economic and Social Council in Mexico City, they were properly ruled out as development plans under the Alliance Program because

> economic theory and most recent practical experience have shown that the monetary, fiscal, and commercial policies, in themselves alone, do not supply a sufficient basis for determining the quantity, the distribution and the timing of public investments, or the incentives and restrictions needed to orient the private sector's contribution to the development effort. . . .[14]

[14] OAS. Inter-American Economic and Social Council, etc. *Report of the Panel of Experts to the Inter-American Economic and Social Council,* p. 23.

There is perhaps somewhat more doubt about the status of a capital or investment budget. There are those who feel that a capital budget is a plan. But this is a minority view and is generally held in advanced countries which do not have conventional development plans. After all, if a budget were a development plan, it would only be necessary to improve budgetary practices sufficiently in less developed countries to make them development plans. But this would not meet the need. For while, as will be seen later, it is impossible for a country to plan effectively without good budgetary practices and procedures, budgets have certain inherent deficiencies which greatly diminish their usefulness as instruments for promoting development. It would be possible to rid budgets of these defects, but in the course of doing so they would not remain budgets. This would be unfortunate since budgets are essential adjuncts to development plans.

Capital budgets cannot easily serve as development plans for a number of reasons. On the one hand, they include nondevelopment expenditures like those for the construction of prisons, and on the other, they frequently exclude "capital-like" outlays like disbursements for agricultural research and extension services, vocational training and health, which may make a great impact on development. Projects and programs incorporated in capital budgets are rarely selected on the basis of their relative costs and benefits, and the budget-making period is usually too short, as well as an inappropriate time, for making adequate appraisals of development projects and programs. Only limited attempts are generally made to relate projects and programs included in capital budgets; and the main requirement for internal consistency is simply that the sum of the parts should equal the total. Also, capital budgets are mainly financial documents and do not usually take into account real resources. Finally, capital budgets are almost exclusively concerned with the public part of an economy. They are not, by themselves, suitable instruments of co-ordination with the private sector. For example, they do not include the policies and measures required to get the private sector to behave in a manner consistent with a government's development objectives.

Multiannual capital budgets have advantages over annual capital budgets because they permit governments to take a longer, and hence more flexible, view of their development effort. It is therefore possible for government ministries and agencies to set priorities among projects and to revise them occasionally, instead of being pinned down to the rigidities inherent in annual budgets. Multiannual capital budgets also enable governments to consider financing problems against a wider background of possibilities and to improve the phasing of projects and programs to be completed over the period of years involved. Despite these advantages over annual capital budgets, multiannual capital budgets nevertheless suffer from most of the deficiencies characteristic of all capital budgets. It would therefore be stretching the concept too much to classify capital budgets like Puerto Rico's Six-Year or Four-Year Financial Programs or the Philippines' Five-Year Fiscal Plan as development plans.

The deficiencies of capital budgets have not prevented some countries from using them as substitutes for development plans. This can be done, but it is not the best way to stimulate growth, especially in later stages of development when the returns from alternative investment opportunities are not likely to be as apparent as they usually are at the beginning of the development process. However, a capital budget is most effective when it is used, not in lieu of a development plan, but in conjunction with one.

In contrast to capital budgets, public investment programs, although covering only a part of an economy, are generally considered to be development plans. But a program for a sector is generally considered to be less than a development plan. Public investment plans may range from enumerations of poorly co-ordinated government investment projects, with private investment largely ignored,[15] to integrated public investment plans which include forecasts of global economic activity, and policies and instruments for stimulating the private sector to act in accordance with a government's development objectives. Most national development plans are public investment plans. Where a public investment plan exists in addition to the budget, it should, if only as a practical matter, be accepted as a development plan, since it embodies professed national aspirations, such as they are, for promoting national development.

There are dissenters from this view. Some planners and experts consider only comprehensive plans with over-all growth targets to be development plans. Thus, the authors of Nigeria's comprehensive National Development Plan for 1962–1968 took the position that Nigeria's previous ten-year and five-year public investment plans

[15] The early plans prepared in 1950 and 1951 by the Colombo Plan countries and many of the British CD&W territorial ten-year plans were generally of this variety.

> were not 'plans' in the true sense of the word. More accurately they constituted a series of projects which had not been co-ordinated or related to any overall target.[16]

But most planners and experts, although perhaps favoring comprehensive plans, accept national or regional public investment programs as development plans. Thus, when confronted with the practical problem of setting a minimum standard for a national or regional development plan under the Alliance for Progress after it had become clear that most Latin American countries were not going to produce comprehensive plans soon, the Committee of Nine, the Alliance authority concerned, agreed that a general development strategy

> could be a sufficient basis for obtaining external cooperation under the Alliance, if it were complemented by a few specific investment projects that met the conditions of that strategy. . . .[17]

Degree of Detail. National development plans vary greatly in degree of comprehensiveness and detail. Among public investment plans, some encompass almost all government development outlays. Others include only a part of the investments made by a government. Iran's Second Seven-Year Plan covered only public investments under the control of the Plan Organization, the central development and planning body, which added up to only about one-half the total investments made in the public sector. The remainder was made by ministries and public agencies. Tanganyika's Three-Year Plan for 1961/62–1963/64 included only those public investments which were in the capital budget, thereby excluding about one-third of total public investments largely made in conjunction with private and British Government funds. In contrast to such "partial" public investment plans, other partial plans cover some public and some private investments. Thus, Portugal's Second Development Plan contained a list of high priority investments in both the public and private sectors for which the Government was prepared to help mobilize funds. The public investments in the Plan accounted for less than one-half of the Government's investments and the private investments in the Plan for a much smaller proportion of total private investments.

There are also wide variations in the comprehensiveness and detail

[16] Nigeria. Federal Ministry of Economic Development. *National Development Plan, 1962–1968,* p. 6.

[17] OAS. Inter-American Economic and Social Council, etc. *Report of the Panel of Experts to the Inter-American Economic and Social Council,* p. 23.

of "comprehensive" plans. In the socialized economies of Eastern Europe, plans have had to be prepared in great detail in order to provide a basis for the mandatory quotas and instructions issued to each socialized enterprise and collective farm for implementing the plan. Through the system of "financial and material balances" based on the production potential of the economy, the plan has endeavored to balance inputs and outputs of raw materials, supplies and manpower and to take account of money incomes, labor productivity, costs, prices, etc.[18] The balances have been used to reconcile the planned output in each sector with available resources and the global plan. The global plan in a socialized country has been typically divided into sectoral and regional plans which not only had to dovetail into, but also add up to, the totals in the global plan. The plans of ministries, enterprises and other socialized economic units have had, in turn, to tie into the sectoral, regional and global plans. The complexity of this task often has led to serious errors and dislocations. It also helps account for the great interest in electronic computers for planning purposes in the USSR.

In most of the socialized countries, subordinate plans in the socialized sectors of the economy have had to conform to the targets, quotas, norms, rules and regulations laid down in the global plan. In Yugoslavia, however, republic, district, communal and enterprise plans are not under any legal requirement to fulfill any target in the global plan. Republics, districts, communes and enterprises tend to be guided by the global plan. But they may, and frequently do, choose not to follow the global plan when they have enough investment resources of their own to carry out projects not provided for in the global plan.

Because Yugoslav plans set aggregative targets which are carried out by means of generalized credit, banking, investment and similar instruments of economic policy instead of by instructions to regional and other economic units, their plans have tended to be much less detailed than those of other Eastern European countries. In fact, in terms of bulk, current Yugoslav national plans are among the smallest in the world, their pages generally numbering less than fifty. As the list of plans in Appendix III indicates, many national plans are voluminous. Pakistan's First Five Year Plan was a work of over 650 large

[18] Cuba also now plans on the Soviet model with hundreds of balances to equate supply and demand for about 100 basic articles.

pages with about 500,000 words; Chile's Ten-Year Plan consisted of 6 volumes divided into 20 books, totaling several thousand pages; and *Indonesia's Eight-Year Plan* is a monumental product composed of 4,638 pages, divided into 8 parts, 17 volumes and 1,945 paragraphs to commemorate August 17, 1945, the date Indonesia proclaimed its independence. (Unfortunately, there are indications that an inverse correlation exists between the bulk of a development plan and the success achieved in attaining its targets.)

In general, comprehensive plans in mixed economies rely, to a greater extent than comprehensive plans in socialized economies, on broad aggregates, conceived as indicators rather than binding targets, for such variables as income, output, savings, investment and foreign trade. This makes it possible to base the plan on a simple growth model composed of as few as two sectors, e.g., consumer goods and capital goods or agricultural and nonagricultural production. It is also possible to have a plan with a much more elaborate model of 20 or more sectors, prepared with the aid of high speed computers. A plan may vary greatly in complexity; it may be based on static or dynamic assumptions; it may utilize pragmatic techniques, input-output analysis or more advanced methods like linear or curvilinear programing. Some countries, like Ecuador, Turkey, the UAR and Venezuela, have used mathematical models in the course of preparing their plans. But most mixed-economy countries with comprehensive plans employ less complex methods in formulating their plans than econometricians would like. Nor does the preparation of an econometric model as a part of a procedure for formulating a plan necessarily signify that the plan will be based on the model. Thus, the draft plan-frame for India's Second Five-Year Plan, mostly prepared in the Indian Statistical Institute, proposed an advanced mathematical model for the Plan. The model had little to do with Indian realities and the Second Plan was in fact prepared by largely pragmatic methods. An econometric model was also prepared by Gerhard Tintner and Oswaldo Dávila in connection with the formulation of Ecuador's ten-year plan for 1964–73.[19] But the plan as it emerged gave little evidence that it had been influenced by the model. Even the relatively advanced French planners have found that they must modify their econometric models to take account of

[19] Tintner, Gerhard and Dávila, Oswaldo. "Un Modelo Econométrico para el Ecuador."

> the contrast between the elaborate and accurate algebra of the programming methods and the blurred picture of what remains uncertain. . . .[20]

The absence of reliable data, as well as other deficiencies, accounts for the fact that econometric models based on input-output matrices are rarely used in national planning[21] in less developed countries. In Africa,

> the bulk of the region's plans are inventories of urgent measures to be approached by the private and public sectors, particularly the latter. . . . They rarely attempt to build an input-output model that would permit testing the coherence and viability of the plan.[22]

In Jan Tinbergen's *Central Planning,* which summarizes responses received to a questionnaire sent to central planning agencies, Professor Tinbergen reported that trial and error methods were much more common in national planning than the use of models. In its review of the book, the *Economist* found it noteworthy that

> even such a simple method of establishing economic relationships as multiple correlation analysis is apparently used very rarely. Thus despite the proliferation of literature on high-powered planning techniques, . . . planning in practice is fairly humdrum in most countries.
>
> A major cause of this, duly mentioned, is the shortage of detailed statistics. This is so even in the United Kingdom, where the latest official input-output table is a decade out of date and is in terms of an obsolete classification of industries. Yet in most respects this country is statistically better off than the average.[23]

[20] Massé, Pierre. "French Methods of Planning," p. 13.

[21] Besides the shortage of dependable statistics and other information, important limitations of these models include the lack of interdependency of economic sectors and other parts of a less-developed economy and the rapidity with which technical coefficients used in models change in a developing economy. It is theoretically possible to compensate for the last deficiency by forecasting the shape of future technical coefficients. Apart from the problem of the margin of error which such forecasts may produce, the time and effort involved in making the forecasts points up what is probably the greatest deficiency of using such models in less developed countries, to wit, the lack of adequately trained technicians to deal competently with the concepts and procedures involved (UN. ECA. *Report of the Meeting of the Expert Group on Comprehensive Development Planning,* pp. 22–23).

[22] UN. ECA. *Outlines and Selected Indicators of African Development Plans,* pp. vi–vii.

[23] *Economist,* January 9, 1965, p. 126.

The degree to which comprehensive development plans of countries with mixed economies are divided into detailed sectoral programs varies greatly among countries and among sectors in a country. It may also vary in the same country over time, depending on the stage of development. Generally, the sectors of the plan in which public investment predominates are worked out in greater detail than those in which private investment prevails. In the plans of most mixed economies, this means that the sectors concerned with the provision of basic facilities receive the greatest attention. But where a government considers a branch of agriculture or industry to be of prime importance, it may also be planned in detail. In India, for example, basic and heavy industry, especially iron and steel and machine building, receives considerable attention in that country's plans because the Government believes heavy industry to be critically important to the country's development. But even in the public investment part, sectoral programing in the plans of countries with mixed economies is almost always less detailed than in the plans of countries with socialized economies.

The preparation of sectoral programs may take place concurrently with the preparation of an aggregative plan, in which case initial sectoral targets of output and resource requirements are adjusted to the aggregate targets through a process of successive approximations. But in many countries, the preparation of sectoral programs has preceded the formulation of comprehensive plans. Some sector programs have been prepared with the expectation that they would eventually be incorporated in an aggregative plan. But others have been formulated because the sectors involved were lagging or were considered to be important for development in countries which have had no immediate intention of planning comprehensively. Thus, the Netherlands has prepared sectoral programs for housing, education and roads without any intention of incorporating them in an over-all development plan. Even without over-all plans, well-prepared sectoral programs which project demand and resource requirements for a period of years have been found to be very useful in allocating investment resources in countries without development plans. In Colombia, for example, sectoral plans for transportation and electric power made it possible for that country to budget investment expenditures in these sectors on a rational basis without a plan and made it easier, later, to prepare a development plan. Mexico has been able to maintain a high rate of growth over an extended period of years without a national development plan partly because of the generally good quality of its sectoral programing, especially in the important fields of electric power, petroleum, transportation, irrigation and education,[24] as well as in such industrial branches as chemicals and automobiles. However, when sectoral programs are prepared outside the framework of a comprehensive plan they need to be tested by qualitative and such quantitative means as are available to determine that they are not inconsistent with a country's priority needs and resources.

Unlike comprehensive plans in socialized countries, the plans of mixed economies are almost never divided into a series of regional plans, co-ordinated with each other and with the aggregate plan. Federal governments like Nigeria's or those with separated regions, like Pakistan's, are generally the only exceptions. Some over-all plans provide for one or two regional plans. But in most over-all plans such mention as is made of regional plans is usually little more than lip service to a widely held, but apparently postponable, ideal.

Like sectoral programs, regional plans are often formulated with a view to being incorporated eventually in a national plan, as in the case of the plan for the Magdalena Valley and the North of Colombia. But regional plans for backward regions have also been prepared in countries which, at the time, had no immediate intention of planning nationally. Like national plans, regional plans may be divided into sectoral plans. And like them also, the sectors in which public investment is concentrated are likely to be programed in greater detail than those in which private entrepreneurs account for most investment.

As a rule, the plans in mixed economies are binding on the public sector where the government has direct control, but not on the private sector where persuasion is mainly relied upon to influence the size and composition of private investment. But there are many variants in this general pattern. The French plan is the prototype of such development plans for the more advanced countries, as well as for some of the less advanced, which have adopted its system of planning. In France, the Government proposes, discusses and selects a rate of growth for the plan period. The planners work out the implications of the growth target on the future development of the economy. The Government states what actions it proposes to take with respect to public investment and the policies it will follow to help achieve the proposed rate of

[24] Mexico's Eleven-Year Plan (1959–70) for education is an unusually well-conceived and well-organized sectoral program which is being carried out as scheduled.

growth. In preparing the plan, government officials, acting in concert with representatives of industry and labor, set sectoral and other targets which "indicate" the planned course of investment and the main actions needed to achieve the targets. While each enterprise is free to act as it chooses, it is influenced in its actions not only by government investment decisions for nationalized industries and infrastructure, which account for more than half of total investment, and by extensive official credit and financial controls over industry, but also by a tradition which approves and encourages group action by business firms. The French plans have been called mandatory in the public sector and "indicative" in the private sector. But this is not quite accurate since the Government has considerable means at its disposal, which it uses when necessary to influence the private sector. But a more precise definition is difficult to come by. The best that the Director General of the French *Commissariat Général du Plan* has been able to offer is that

> French planning can be said to be less than mandatory and more than indicative. It can reasonably be defined as active planning . . . ,[25]

which presumably implies that the Government will take whatever action is required to implement the plan.

Japan's plan, even more than France's, relies on suasion to attain development targets. The main purpose of the plan is to provide guidance to the Government and the private sector. There is no control over the private sector and little control over the public sector. The plan provides only forecasts of the economy on which private enterprises may base their plans. For the public sector, the plan describes in some detail the measures to be adopted to achieve targets. But actual public investments are determined in annual budgets which are likely to be influenced as much by the prevailing economic situation as by the plan. Because of loose controls and the wide fluctuations in public investments, some Japanese economists have contended that Japan does not have a planned economy.[26] However, Japanese planners reply

[25] Massé, Pierre. "Planning in France," p. 17.

[26] For example, Tsuru, Shigeto. "Formal Planning Divorced from Action: Japan," p. 146, stated, ". . . the Plan for Doubling National Income (1) is not a *plan* for doubling national income, but limits itself to set out certain policy objectives, within the capabilities of the central government, on the assumption that the private sector has its own dynamism of income-doubling in ten years; and (2) *appears* to have a co-ordinated plan so far as the public sector is concerned, but, in fact, is being administered largely by respective Ministries as if no overall plan had existed."

that the plan was devised to be flexible and that it assumes fluctuations in the course of fulfilling targets.

India's plans lay down broad targets, the achievement of which depends, in the public sector, on the various departments and public enterprises of the central and state governments and on local authorities, and in the private sector, on private enterprises and farms. Because of the autonomy enjoyed by state governments, local authorities and, to some extent, by public enterprises, India's plans are not binding on either the private or public sector, except for programs sponsored by the central Government. Indeed, Indian economists have complained that the Government's power to regulate economic activity is even less than it is in some Western European countries with unplanned economies.[27] In Pakistan, the plans are generally obligatory, in fact if not in theory, on the provincial governments as well as on the central Government, but not on the private sector.

THE FORMAL STATUS OF PLANS

The national development plans of all socialized countries, including Cuba, are approved, either by their legislatures or other authorities, and have the force of law.[28] The plan targets are legally binding on all executing agencies and the laws generally provide sanctions for nonperformance. Yugoslav plans constitute an exception. Although the plans and the regulations promulgated under them are supposed to be mandatory, no person, enterprise or other entity is legally accountable for not fulfilling any plan target. The practical significance of the Yugoslav contention that the country's plans are mandatory is therefore unclear. It may be only a carry-over from the time when Yugoslav plans, like those in other socialized countries, were really obligatory; or it may be that the Government wishes to show that it looks upon its plans as serious expressions of intent.

Many countries with mixed economies also provide for the enactment of their plans as laws even though they are generally binding only on the administrative units under direct control of the central government authorities. Chile, Indonesia, Portugal, the Sudan, Taiwan and the UAR are examples of countries where development plans are

[27] Gadgil, D. R. *Planning and Economic Policy in India,* p. xii.

[28] In some countries, e.g., Poland, long-term plans are required by the Constitution to be enacted by Parliament, but annual plans are adopted by the Council of Ministers.

statutes. Cambodia, Ceylon, France, India, Iran, Italy, Korea, and Turkey are also examples of countries where plans have been submitted for legislative approval prior to their becoming effective. In Eire and Norway, the Government approves the plan before sending it to Parliament, and legislative approval of the plan is considered unnecessary. In Ethiopia, plans have the same standing as government administrative orders. But Greece, Jamaica and Pakistan are examples of countries which do not submit their plans to their legislatures. The plans in these countries are considered to be an expression of the government's economic policy.

There has been some debate in countries with mixed economies about the desirability of enacting a national development plan into law. It is contended that enacting a plan into law raises its status in the eyes of political leaders, civil servants and the public, thereby enhancing its chances for fulfillment. It has also been suggested that where governments change frequently, later governments are more likely to implement the plan if it has been enacted into law than if it has only been approved by a previous government as its economic policy. In Jordan, for example, where the legislature lasts four years and the executive branch has changed four or five times during the same period, some staff members of Jordan's Development Board wanted the Five-Year Plan made into the law of the land in order to help bring about a measure of continuity in the country's development policy. Their advice was not followed because it was feared that the plan as a law would be difficult to change. There was ground for fear. A plan may lose needed flexibility in return for gaining status as a statute. In Indonesia, for example, when the Provincial Peoples Congress approved the Eight-Year Plan, it decreed that the pattern of development laid down in the plan could not be altered. There is also the possibility that a legislature which is asked to approve a plan may disrupt its internal consistency with amendments. This happened in Senegal.

The system used in France provides for parliamentary approval but avoids rigid restraints on the plan or amendments. The plan itself is not enacted into law, but is attached as an annex to a brief, one-page parliamentary act which approves the appended plan as the framework for investment during the period of the plan and as the instrument for guiding economic development and social progress. The same effect is obtained in Portugal, where the legislature only approves the broad outlines of the plan. The Government is then free to make such changes as it considers necessary, and even to revise it without further legislative approval.

But experience shows that the formal status of a plan is not a critical factor in its execution. It is noteworthy, for example, that the first three French plans were never presented to Parliament for approval. Yet the French governments of the time were not dissuaded by the lack of parliamentary approval from vigorously pursuing the development objectives in the plans. Nor is there good ground for believing that governments which have made their plans into statutes are more devoted to their fulfillment than those which have not. Ultimately, it is not the plan's legal status but the commitment of a country's government and people to a plan that determines the way it is implemented.

THE DURATION OF PLANS

Development plans are almost always prepared for a fixed period, but they vary as much in duration as they do in type. For example, Laos and Rumania had development plans for only half a year. Czechoslovakia, Turkey and Yugoslavia have or have had a one-year development plan. Zambia has had one of 18 months, while Albania, Bulgaria, Burma, Costa Rica, Honduras and Morocco have or have had two-year plans. The Congo (Brazzaville), Gabon, Guinea, Hungary, Korea, Mali, Poland, Tanganyika and both North and South Viet Nam have or have had three-year plans, and Kenya had a three-and-a-half-year development plan in 1954–57. Many countries have four-year plans, although the most typical plan is one for five years. But Iran has one for five-and-one-half years. Nigeria has, while Poland had, six-year plans. Eire, Panama and the USSR, Iran, the UAR and Syria have or have had seven-year development plans. Burma used to have an eight-year plan and Indonesia has one. Liberia is unique with a nine-year plan, but the list of countries with ten-year plans is long. Finally, most of the socialized countries and an increasing number of countries with mixed economies employ longer-term plans of 15, 20, 25 years or more. The reader who is interested in national development plans issued by countries and dependent territories will find an extended list of these in Appendix III.

Short-Term Plans

Several factors account for differences in the duration of national development plans. Some arise from internal administrative or political requirements; others largely represent the result of outside influences.

Thus, Laos' Emergency Plan for the first semester of 1963 was an attempt at a more modest effort when it became apparent that even the country's one-year development plan would not be carried out. Sometimes, in periods of transition or uncertainty, conditions do not permit a country to look ahead for more than six months or a year. The choice in such instances is either to plan in the short run or not at all. For example, after Yugoslavia had broken with the Soviet bloc in 1948, the Government felt that the domestic and foreign situation did not permit planning for more than a year at a time. Between 1952 and 1956, therefore, Yugoslavia relied, with considerable success, on one-year development plans. In the early postwar years, Rumania prepared a plan for six months, followed by three one-year plans up to 1950.[29] Between 1954 and 1956, Hungary also drew up annual plans. More recently, with the collapse of Czechoslovakia's Third Five-Year Plan, that country introduced a one-year plan for 1963, while laying the groundwork for the preparation of a longer-term plan. Through the interim use of one-year plans, planners have found that they can gain experience as well as time to prepare longer-term plans. These reasons prompted Turkey to employ a one-year plan in 1962 while preparing its five-year plan. Immediately after independence, Algeria found it most convenient to have two annual "equipment" plans for 1963 and 1964. Zambia has made use of an interim plan for 18 months from January 1965 to June 1966, when a five-year plan is scheduled to begin.

Some countries, which have found it premature or otherwise inconvenient to plan for more than a short period, have chosen a two-year instead of a one-year planning period. Czechoslovakia's first comprehensive planning effort covered only 1947 and 1948 because it was felt that the planners lacked experience and that the country was not ready to plan for a longer period. East Germany also employed a two-year plan for 1949–50 because it needed time to prepare for a longer-term plan. Similarly, Burma's first attempt at comprehensive planning was for a two-year period. In spite of many shortcomings, this plan shaped the country's basic agricultural and industrial policy for a number of years.[30] France made use of a two-year interim plan in 1960–61 when dislocations following its currency devaluation greatly reduced the rate of growth and made it difficult to plan ahead for the usual four-year period. Various African countries, frequently upon be-

[29] Spulber, Nicolas. "Planning and Development," p. 88.
[30] Walinsky, Louis J. *Economic Development in Burma, 1951–1960*, p. 64.

coming independent, resorted to two-year interim plans to permit their emergent governments to carry out priority projects and to lay the groundwork for more detailed and sounder development plans.[31] Thus, a two-year period was chosen for Morocco's Biennial Investment Plan for 1958–59 to give its planners time to gather data and prepare a five-year plan. Nigeria had an interim two-year plan in 1954–55 between five-year plans. Other African countries which have found two-year interim plans useful include Chad, Gabon, Ghana, Ivory Coast, Tanzania, Tunisia and Upper Volta. Because of poor experience and uncertainties with its plans in recent years, Czechoslovakia set targets only for 1964 and 1965 as a first step toward preparing a five-year plan for 1966–70. Honduras' Biennial Plan for Public Investment was the first of what is expected to be a series of two-year plans to be prepared by Latin American countries under the Alliance for Progress Program. It is hoped that these plans will be the beginning of longer-term national planning efforts to be carried forward during the period of the biennial plans.[32]

Annual and biennial plans provide some countries at the beginning of their planning experience, or in periods of emergency or other uncertainty, with an opportunity to plan they might not otherwise have had. But such short-term plans can only play a limited part in influencing development since they do not provide adequate opportunity for examining alternatives or mobilizing resources and cannot be used effectively to bring about basic structural changes. Their chief value lies in the possibilities they present for rationalizing existing programs and production and for establishing favorable conditions for further development. Because of the limitations of short-term plans, most countries prefer and use medium-term plans.[33]

Medium-Term Plans

Political requirements frequently dictate the length of the period of medium-term plans. A five-year plan period is convenient in India

[31] UN. ECA. *Outlines and Selected Indicators of African Development Plans*, p. iv.

[32] OAS. PAU. *Alliance for Progress, A Weekly Report on Activities and Public Opinion*, p. 51.

[33] Most authorities classify plans with periods ranging from three to seven years as medium-term plans. In practice, however, such plans frequently extend up to ten years. But a ten-year plan may be a medium-term plan in one country (e.g., the Sudan) and a long-term plan in another (e.g., Tunisia).

because it coincides with the term of office in central and state governments. In Mexico, the termination date of plans is fixed by the date when the President leaves office. Since the presidential term is six years, plans cannot be for a longer period, but they may be for a shorter time, depending on when, in the presidential term, they were prepared. Thus, the Three-Year Immediate Plan was prepared midway in the presidential term and, in the Mexican situation, must end when the President turns over his office to his successor.[34] Planners' attempts to extend it for a year, as a guide to the next government, did not succeed. Since 1954, Norway's plan period has covered its parliamentary four-year period. In Burma, also, a three-year plan was converted into a four-year plan to coincide with the term of Parliament, and when Syria joined the UAR, its seven-year plan was changed and extended to ten years to make it coincide with Egypt's plan.

When nations plan in accordance with international regional agreements, the duration of the plans may be governed by regional rather than national considerations. During the era of the Marshall Plan, for example, the four-year period became standard among the Western European countries which participated in the program. The first plans prepared by the Colombo Plan countries were all for the six-year period, 1951–57. The United Nations' (UN) and the Organization for Economic Co-operation and Development's (OECD) Decade of Development for the 1960's has prompted some countries to terminate their current plans at the end of 1969. In Eastern Europe a five-year period, to start in 1970, has been chosen for the plans in the region to facilitate economic collaboration among member countries of the Council for Mutual Economic Assistance (COMECON). Under the Alliance for Progress, Latin American countries are expected to prepare ten-year and two-year plans.

As is evident from the foregoing, the question of what constitutes the ideal planning period is undecided. It is likely to remain so. The situation in each country must govern the selection of an appropriate planning period. Since conditions differ among countries, the periods of national plans differ. Furthermore, changing circumstances in a country may bring changes in the duration of plans. For every country like India, which has not altered its plan period (except for the abortive Six-Year Plan prepared for the Colombo Plan), many have

[34] A similar reason accounted for the duration of Brazil's Three-Year Plan. This Plan was produced after two years of the President's five-year term had elapsed.

shifted from one period to another. Burma, for example, has had in succession a two-year, an eight-year, a three-year and a four-year plan; Colombia has ten-year and four-year plans; Yugoslavia started with a five-year plan, shifted to one-year plans, then to five-year plans and is now preparing a seven-year plan (see Appendix III).

Despite the seeming lack of uniformity among and within nations about the duration of their plans, some useful generalizations emerge from their experience. That experience indicates that, as a practical matter, it is desirable to fix a period for a development plan which is short enough to permit reasonably accurate projections and estimates to be made and long enough to cover the lead time or gestation period of a sufficient number of major projects [35] to give a reasonably adequate indication of their effect in carrying out plan objectives. If a plan is for too short a period, it not only does not provide enough time to prepare and carry out major projects, but is likely to be little more than a statement of investment commitments already made. If the plan is for too long a period, it will be of little value because targets in later years obviously depend on unforeseeable domestic and international events as well as on accomplishments in the earlier years of the plan period. Countries which depend on export earnings of commodities whose prices are set in world markets find it particularly difficult to plan ahead for long periods. This point was made in a meeting of African planners where

> many of the participants mentioned the difficulty of maintaining development programmes—especially long-term programmes—in the face of fluctuating export proceeds and export prices for major commodities; it was [therefore] agreed that such fluctuations made necessary shorter terms of planning and more frequent revision of programmes.[36]

Consequently, the longer the term of a plan, the more uncertain and questionable the projections and the less the degree of precision possible. There is also a danger that technological innovations will upset forecasts which extend too far into the future. A long-term plan has the psychological advantage of targets often impressively higher than those for shorter-term plans. This advantage can be overrated,

[35] I.e., the time needed to prepare and construct the projects and put them into operation.

[36] UN. ECA. *Meeting of Experts on Techniques of Development Programming in Africa, 30 November to 5 December 1959, Executive Secretary's Report,* p. 7.

however, since the further away the target date, the easier it is for governments to postpone facing the unpleasant tasks which must be performed to convert the targets into realities. It is also harder to mobilize public interest and support for plan targets for a year which is far in the future.

The five-year plan period originally adopted in the Soviet Union, which has been widely and sometimes unthinkingly copied by other countries, was appropriate to the Soviet Union in its early stages of development. In what was a predominantly agricultural country, it was short enough to estimate output and other targets and long enough to permit annual crop fluctuations to be evened out. But as industry became more important, the five-year period became too short to cover the gestation period for basic investment projects in power, transportation, mining and industry. This led to the eventual adoption of a seven-year plan, as well as one for 20 years.

Few countries adopt plans at the start of their planning experience which turn out to have been too short; on the contrary, most tend to choose planning periods which are too long. This becomes clear from the historical record because (1) many plans with periods of six years or more are generally so vague for the last years of the period that they are little more than aspirations, (2) many turn out to have been so inaccurate for the later years of the plan period that they cannot easily be revised and must be replaced by other plans before the end of the planning period, and (3) there is a general tendency for countries in early stages of development to replace plans with others of shorter duration. As an illustration of the first of these three points, there is so little detail supporting the aggregates for the last five years of Chile's ten-year plan that they hardly qualify as targets. Further, the UAR and Syrian ten-year plans were so vague in the last half of the plan period that they were divided into two five-year plans. In Thailand, even a six-year plan was found to cover too long a planning period and it had to be divided into two three-year subplans.

With regard to the second point, that many plans turn out to be too inaccurate in later years to be revised, many of the CD&W ten-year plans were replaced by other plans before they expired. This was true, for example, in Ghana, Jamaica, Kenya, Nigeria and the Sudan. It is even true for the more developed countries. For example, Japan moved from a five-year to a ten-year planning period for 1961–70. Although the planned rate of growth was attained in each of the first three years of the plan period, the ten-year plan was replaced by a five-year plan for 1964–68 because the high rate of growth introduced serious problems which could not be handled by a revision of the ten-year plan. Because of these problems, it was also considered undesirable to try to plan ahead for more than five years.[37] Italy also had a ten-year plan, but divided it into two five-year subplans.

Finally, there are many examples of the general tendency among countries in early stages of development to reduce their planning periods. While Jamaica was one of the few countries in formerly British territories which retained the ten-year period, Ghana, Kenya, Nigeria and Sierra Leone reduced their planning period: Ghana, Nigeria and Sierra Leone to five years and Kenya to three and one-half years.[38] Among former French territories, Dahomey replaced a proposed ten-year plan with a four-year plan for 1962–65 and Gabon abandoned its five-year plan for 1959–64 for a three-year plan for 1963–65. The Belgian Congo's ten-year plan for 1949–59 was divided into three periods, each of approximately three years, for implementing the plan. By 1959, most development plans being implemented in Africa were for a period of three to five years.[39] In explaining why the ten-year plan had been replaced with one for three and one-half years, Kenya's Government stated:

> The number of amendments that had to be made in the old ten-year plan . . . demonstrates that a planning period of more than five years is unrealistic. In the rapidly changing circumstances at present facing the Colony an even shorter period for the present plan was indicated.[40]

Malaya reduced its plan period from ten to six years to meet the requirements of the Colombo Plan. Many other countries have shortened their planning periods as a result of experience. Bolivia reduced the period of its plan from ten to two years; Burma, from eight to four; Ceylon, from ten to three; Chile, from ten to five; Colombia, from ten to

[37] The problems included an unforeseen deterioration in the balance of payments, increases in prices of consumer goods and increased disparity in the incomes of rural as against urban populations, individuals in high and low income levels and large and small business enterprises.

[38] When Kenya's ten-year plan was replaced, it was estimated that it would require two and one-half years to complete the plan. Another year was added to make a three and one-half year plan.

[39] UN. Department of Economic and Social Affairs. *Economic Survey of Africa Since 1950,* p. 239.

[40] Colony and Protectorate of Kenya. *Development Programme, 1954–57,* p. 52.

four; Iran, from seven to five and one-half; [41] Morocco and Nepal, from five to three years. And Portugal, which has had two six-year plans, has followed them with a three-year plan. At the First Annual Conference of the OAS Inter-American Economic and Social Council in Mexico City, delegates from Latin American countries which had formerly accepted the obligation of drawing up ten-year development plans voiced strong opposition to long-term planning and advocated the adoption of plans limited to three years.[42] As a result of decisions taken at this Conference, the Alliance for Progress Committee of Nine decided to concentrate on short-term plans. "It seems advisable to emphasize," explained the Committee,

> that in view of the technical resources existing in the Latin American countries, of the statistical and economic information available, of the uncertainty of foreign markets, and of the lack of a sufficient number of projects, there is no practical value in formulating programs of eight to ten years or more. . . .[43]

A few countries have extended their planning period. Yugoslavia increased the length of its planning period from five to seven years for 1964–70, partly to add the last two years of its discarded five-year plan to the new plan and partly because it was felt that a five-year period was not long enough to cover the gestation periods of its hydroelectrical and metallurgical programs.[44] The USSR increased its planning period from five to seven years after it scrapped its sixth five-year plan. But because of an alarming retardation in the growth rate, the seven-year plan had to be superseded in its sixth year by a new two-year plan. Malawi felt three years was too short a period for effective planning and increased it to five years,[45] while Eire increased

[41] The half-year was added to shift the start of the plan period from September to March when both the Iranian calendar and fiscal year begin.

[42] *Washington Post,* October 11, 1962.

[43] OAS. Inter-American Economic and Social Council, etc. *Report of the Panel of Experts to the Inter-American Economic and Social Council,* p. 24.

[44] However, the actual planning period will be much shorter. Because of controversy over its provisions, the plan had not yet been adopted in January 1965 nor were there indications when it would be adopted. There were reports instead that the authorities would use a one-year plan for 1965, pending resolutions of differences concerning the Seven-Year Plan.

[45] Nevertheless, Malawi's planners have been quoted as stating that ". . . the detailed phasing of projects cannot be planned with any accuracy for any long period in advance." (UN. ECA. *Outlines and Selected Indicators of African Development Plans,* p. 74.)

its planning period from five to seven years in 1964–70 to have the last year of its own planning period coincide with the end of the UN's and OECD's "Decade of Development." Partly for the same reason, France also increased its planning period from four to five years for the Fifth Plan (1966–70). In part, however, the change was made because it has taken almost four years to prepare the four-year plans, and a longer interval between periods of plan preparation seemed desirable.

In most less developed countries, there are usually special reasons for their moving against the general trend. Thus, Indonesia went from a five- to an eight-year period because the planners felt that administrative, organizational and other inadequacies would prevent execution of their ambitious plan in a shorter period. But to facilitate execution, the plan period was divided into a first stage of three years for carrying out basic projects, and a second stage of five years for implementing the remaining programs in the plan. In the Sudan, the current plan was originally scheduled to cover five years. It was extended, first to seven and then to ten years, because the plan could not be carried out in less time.[46] It was politically easier to increase the period of the plan than to eliminate projects. In the UAR, the original five-year period of the Second Plan was extended to seven years when it became obvious that the desired income target could not be achieved in the original period. In Jordan, the period of the plan was extended from five to eight years after the Government announced that this was the time needed to make Jordan independent of foreign assistance. Ghana not only has moved against the general trend in lengthening its plan period from five to seven years by increasing it with the remaining two years of the last Five-Year Plan which was scrapped in the third year; it has also gone against the logic of its demonstrated need for a shorter planning period as revealed in its inability to carry out a five-year plan. It remains to be seen whether physical and administrative limitations, as well as uncertainties involved in some of the long-term projections, will permit the Indonesian, Sudanese, Jordanian and Ghanian plans to run their course without major overhaul. The period of Ecuador's first comprehensive plan was also originally five years, but it was increased to ten because of Alliance for Progress requirements. As in Chile's case, however, the second half of the plan period was prepared in lesser detail than the

[46] It was found impossible to carry out the large Roseires Dam project as well as other projects considered essential in a five-year period.

first half. All of these exceptions tend to underscore the general trend to shorter plan periods.

Long-Term Plans

When a country is in an early stage of development, it usually finds it possible and preferable to start planning with a short-term plan of one or two years or, more commonly, a medium-term plan of three to ten years. Immediate development objectives in such a country are clear and urgent and there is generally no feasible alternative to concentrating on their realization. In most countries, political leaders prefer to concentrate on immediate problems and solutions and it is difficult to get them to look ahead for more than a few years. The possibility of preparing a long-term plan, in addition to one for a shorter period, is therefore not given serious consideration. Moreover, planners usually have all they can do to turn out a short- or medium-term plan.

But as development proceeds, it is invariably found that an increasing number of projects and programs cannot be fitted into short or medium-term plans. This is especially true of plans for five years or less, but it can also be true of plans for six to ten years. Some countries try to get around this problem by preparing projections for critical sectors which extend beyond their plan periods. Thus, when Yugoslavia had one-year plans it prepared a ten-year agricultural program which it used as a basis for programing the agricultural component in its annual plans. More recently, ten-year sectoral projections have been prepared for electric power to link projects and programs which extended beyond Yugoslavia's five-year plan period. Mexico also employs longer-term sectoral programs, such as its eleven-year program for education, in addition to its three-year plan.

Other countries which can plan in detail for only three, four or five years, double their planning periods and fill in the last half of their plans in outline. This permits them to take account of programs which extend beyond the three- to five-year period which is adequate for most projects and programs in the plan. The UAR's first comprehensive plan for ten years is such a plan. As we have seen, Chile's and Ecuador's ten-year plans are also worked out in detail only in the first five years of their plan periods. And Thailand's six-year plan, as originally prepared, was really a three-year detailed plan with a sketchy outline for the second three years of the plan period. Tunisia's Ten-Year Perspective Plan for

1962–71 is somewhat different. It was first worked out in detail only for the first three years, 1962–64, and then for a second phase for the four years, 1965–68, divided into two two-year periods. The plan for the last three years of the ten-year period remains in outline.

While sectoral projections can be useful to supplement medium-term plans in early stages of development, they are too limited to give effect to most basic planning objectives like achieving self-sustaining growth, making substantial improvements in the standard of living, evening out regional inequalities or making fundamental changes in the relationship between the contribution of agriculture and industry to national output. These objectives involve basic structural modifications to the economy which cannot be encompassed in a sectoral projection or, for that matter, in a medium-term planning period. To realize basic planning objectives generally requires a broad perspective of the general direction in which the economy is likely to move over a long time. Moreover, as a country develops, the number of possible courses of action increases. It is then no longer possible to make rational medium-term decisions without first deciding on a longer-term strategy.

Consider, for example, the situation which might confront a largely agricultural country with a rapidly rising population. Before committing investment resources to short- and medium-term objectives, it would be useful for such a country to know the extent to which agriculture could be expected to absorb the foreseeable rise in the labor force in 15 or 20 years. In the light of this appraisal, it would be possible to estimate the scale of expansion required in nonagricultural sectors to absorb any excess in the estimated labor force. Where industrialization was required for this purpose, it would be necessary to determine the type of industrial complex suitable to the country. If the domestic market is likely to remain too small to support the industries chosen, or if imported industrial raw materials were needed, it would be desirable to determine what export industries were most likely to furnish the most employment and provide the foreign exchange required to pay for needed imports. It would also be helpful to compare relative foreign exchange and employment advantages of import-saving industries over export industries. And so on. Once a set of long-term goals was chosen, it would be necessary to determine the amounts of savings and investment capital and the number of skilled workers, technicians and engineers which would be required to achieve the long-term objectives and targets. The time needed to provide necessary resources and facilities would have to be estimated. It may take only a year or two to establish plants for producing consumer goods, but 10 or 15 years to get capital goods plants into operation. To train needed engineers and other technicians may take 20 or 25 years; and to build up a supply of scientists for basic and applied research may take a generation or more.[47]

Appraisals which attempt to look far into the future have advantages as prognoses. Since they are, in effect, long-term growth models in outline with only a few general targets based on only rough approximations of the likely supply of, and the demand for, physical resources, there is no need for detailed or elaborate calculations. Yet they can give a good enough idea of priorities to enable planners to concentrate on the most promising sectors in preparing medium-term plans. They can also indicate long enough in advance in what areas preinvestment and other surveys will be required before specific projects and programs can be formulated. In Yugoslavia, for instance, such projections indicated that a shortage of technicians would constitute a serious bottleneck to long-term development. If the problem was to be avoided, new training facilities would have to be created. This led the authorities to make substantially heavier increases for additional education facilities immediately.

What constitutes a desirable period for such appraisals varies with countries and their stage of development. It must be much longer than that of the current medium-term plan since the primary purpose of the appraisal is to give perspective to the medium-term plan. In some fields, like population, labor or education, it may be necessary to look ahead for 25 to 30 years to provide useful information. But for most other sectors, projections so far into the future become too imprecise to be of much value. The longer the term of these "perspective" appraisals or plans, the more difficult it becomes to forecast the effects of technological change on production, price variations on consumption or income distribution on savings.[48] India, for instance, found that its first perspective plan for 30 years, drawn up in connection with its First Five-Year Plan, was much too long. For its Second Plan, it prepared a perspective plan of 15 years, with projections for 20 years for some sectors. For its Third Plan it relied on 15-year projections and for its Fourth Plan it has again used a 15-year perspective, but with more

[47] Mahalanobis, P. C. *Perspective Planning in India,* p. 10.
[48] UN. ECAFE. *Problems of Long-Term Economic Projections with Special Reference to Economic Planning in Asia and the Far East,* p. 3.

concrete projections extending for only 10 years. Pakistan also has reduced the span of its perspective plan from 30 years for its Second Five-Year Plan to 20 years for its Third Plan period. In contrast, France is increasing its perspective from 15 years for its Fourth Plan to 20 years for its Fifth Plan. In a study made for the ECAFE, a group of experts advised countries in the ECAFE region to prepare perspective plans for a period covering two or three of their medium-term plans, in effect, for 15 to 20 years.

Most of the socialized countries employ perspective plans. The USSR has a 20-year perspective plan for 1961–80 which assumes a considerable increase in automated production. It lays down a series of targets, including an increase of 520 to 540 per cent in industrial output, 120 to 140 per cent in grain production and 250 to 279 per cent in meat production, "to give the USSR world leadership in *per capita* output."[49] Perspective plans are also being used increasingly in conjunction with medium-term plans in countries with mixed economies. Pakistan has prepared a Twenty-Year Perspective Plan for 1965–85, providing for the trebling of the 1962 level of per capita income, as well as full employment. In connection with the formulation of its Third Five-Year Plan for 1965–70, Ghana developed a perspective plan for 21 years within which to fit the next three seven-year development plans for the country. Ghana's perspective plan assumed that with the present and prospective size of its home market, and the rate of increase of the labor force, the possibility of a continued expansion of industrial employment is conditional upon Ghana's early integration into some sort of Inter-African trading arrangement which would permit Ghana to become an exporter of relatively sophisticated industrial products. The first seven-year development plan is considered as a first step in achieving this objective. Cameroun has a Twenty-Year Perspective Plan for 1960–80 which it used for drafting its First Five-Year Plan; Senegal prepared its Four-Year Development Plan for 1961–64 within a 16-year perspective which estimates a doubling of the standard of living in the fourth four-year plan; Turkey used a 15-year perspective, within which it hopes to prepare three five-year plans, the first of which is for the 1963–67 period; and Venezuela's 1963–66 Plan was part of an over-all 15-year perspective plan.

In contrast to the fixed perspective periods used by such countries as

[49] Bor, Mikhail Zakharovich. "The Organization and Practice of National Economic Planning in the Union of Soviet Socialist Republics," p. 102.

Senegal and Turkey, some countries prefer a "moving" perspective which moves forward and may vary in length with each medium-term plan. Thus, India set up perspective periods from 1951 to 1981 for its First Plan and from 1956 to 1971 (to 1976 for some sectors) for its Second Plan. It fitted its Third Plan into a perspective period from 1961 to 1976 and is using two periods, one from 1966 to 1976 and another from 1966 to 1981, for its Fourth Plan. France has also changed the 1961–75 perspective period used for formulating the Fourth Plan to 1966–85 for its Fifth Plan. Since the whole point of a perspective plan is to look as far ahead as possible beyond the termination date of a current medium-term plan, it is of course preferable to have the period of the perspective plan move forward with each medium-term plan. Otherwise, the perspective plan period progressively diminishes in length, and, hence, in its ability to shed light on longer-term trends.

Plan Continuity and Flexibility

Where both perspective and shorter-term plans are employed, real or apparent conflicts may arise between long- and shorter-run objectives. For example, when objectives are to industrialize in accordance with advanced technological standards and to increase employment opportunities, it may be possible to attain both objectives in the long run, but not in the short run. The investment program followed in the short run may therefore seem to favor the first objective at the expense of the second. Similarly, policy measures conducive to attaining a high growth rate may, in the short term, seem incompatible with those needed to reduce income or regional inequalities. In such cases, practical questions arise concerning the precedence of long- and short-term objectives. In the socialized countries, the objectives in the perspective plan determine medium-term objectives. In the scheme of a planned economy, therefore, it is the perspective plan which plays the leading part. If any conflict arises between the objectives of the two, the longer-term objectives take precedence. But in countries with mixed economies, the medium-term plan is the mainstay of development planning. While the medium-term plan is often formally binding to some extent, the perspective plan almost never is. It is often considered to be only a forecast based on a series of assumptions concerning domestic and international development. In theory, each medium-term plan is expected to be so formulated as to reach the goals in the long-term plan. But in practice, concessions are made to shorter-run objectives. In fact, in India, the perspective plan was revised on at least one occasion to make it consistent with the five-year plan instead of the reverse.[50]

Yet, the concept of a long-range perspective for planning is valuable, if for no other reason than that it points up the fact that development is inherently a long-time task requiring persistent application. Even though it may be convenient to divide that task into one-, three-, five-, seven-year or other periods, none of these can be considered a discrete period in a nation's life separated from the past and future. It is, in fact, organically a part of, and joined to, what has preceded and what will succeed it.[51] Planning, like the time needed for development, must be seen to be a continuous long-range process. It should not end, as in fact it frequently ends, with the formulation and promulgation of a plan. Every medium-term plan inherits unfinished work from the past and turns over work to be completed in the next period. A second plan takes up where a first plan left off. Projects begun in the first plan continue to be executed in the second. One plan glides into the other and the dividing line is not easily discernible.[52]

Nevertheless, the problem of linking one medium-term plan with another has not yet been solved in most countries. The transition between plans is often inefficient. As one reason, the time allowed for drafting medium-term plans is frequently too short. Consequently, new plans may not be ready in time to allow a smooth continuance of development activity from the old to the new plan. As another reason, new projects are not spaced to avoid bunching. In most countries new projects are prepared at the beginning of the plan period, which results in concentrating their completion in the latter part of the plan period. There may therefore be a rush at the end of the old plan period to fulfill targets, followed by a slowing down after the introduction of the new plan. India's experience, typical of that in other countries, has been that

> in the earlier years of a plan there was a slackening, and effort was made to make up the lag in the last year. Thus there was a gap between one plan and another.[53]

[50] Lewis, John P. "India," p. 96.

[51] Hussain, Z. "Organisation and Responsibilities of the Pakistan Planning Board," p. 28.

[52] *Economic Weekly*, Vol. XIII, No. 14, April 8, 1961, p. 564.

[53] Bhagat, B. R. (Minister of State for Planning). *Economic Times*, November 10, 1963.

The problem of achieving planning continuity is also exacerbated as a plan loses perspective with the passage of time and it becomes progressively more difficult to include projects and programs whose time of execution exceeds the remaining years of the plan period. Indeed, toward the end of a plan period most of the decisions which have to be made relate more to the next than to the current plan.

The failure to preserve planning continuity has had serious consequences for the socialized economies since enterprises in these countries must plan their activities on instructions from the appropriate authorities. But frequent delays in the completion of national and republican plans have repeatedly prevented enterprises from preparing their own plans in time. In a report to the Seventh Session of the Supreme Soviet of the USSR, the Premier referred to this problem:

> It is a grave shortcoming of our planning that we start planning anew, as it were, when passing from one year to the next and from one five-year period to another. When a year ends some of our enterprises and building projects do not have the plan for the coming year until the very last moment, even at the very end of the year. There is an uninterrupted process of action in life, while the plans break off, as it were, on a definite date. Planning must be so organized as to have the basic provisions of the coming year's plan available during the current year and the basic provisions of the coming five-year plan, or at least of its opening years, available in the current five-year period.[54]

The need for plan continuity is unavoidable in every kind of economy because it never happens that every project and program in a plan is carried out exactly as foreseen. Deviations are virtually certain, if not because of altered circumstances having nothing to do with the plan then because of the forces released through the plan's implementation. Thus, every target in a plan, however realistic it may have been when established, must be subject to change during a plan period. When unforeseen events jeopardize the implementation of a plan, new measures may be adopted in an attempt to maintain plan targets. But if the price of retaining the targets becomes too high, they must be adjusted. Or, what amounts to the same thing, the period of the plan may have to be extended in order to allow more time in which to achieve the original targets. In this way, the second development plan for the French territories, originally scheduled to end in 1957, was extended for two years to 1959.

[54] Khiliuk, F. "Some Questions on Improving the Organization of Planning," p. 25.

Changes in plans can be made necessary by a variety of causes. The statistics of most countries being what they are, planners are frequently forced to plan on the basis of inadequate and erroneous information, the effects of which may show up later. For instance, Pakistan's Second Five Year Plan was originally drafted on the assumption that the country's population would increase during the plan period at the rate of 1.6 to 1.8 per cent annually. When a census revealed that the population was likely to grow at a much higher rate, it became necessary to raise investment targets substantially if the planned annual increase of 2 per cent in per capita incomes was to be maintained. In many countries, revisions in investment targets have also had to be made during the course of plan implementation because, when the plan was drafted, it was not possible to incorporate accurate cost estimates for projects and programs. A plan may also have to be revised because implementation lags behind schedule.

Sometimes, unforeseen domestic or foreign developments outdate the assumptions on which plan targets were set. These developments may take many forms. Thus, a plan may have to be revised because of a natural disaster, as with Chile's plan after the earthquakes of May 1960; the need to increase defense expenditures because of the danger of external military intervention, as with India's Second Five-Year Plan after the border clash with China in 1962; a change in government, as with Tanganyika's plan after independence; the introduction of a stabilization program, as with France's Third Plan; the effect of vagaries of weather on agricultural output, as with the USSR's Seven-Year Plan; changes in the flow of foreign aid or other resources, as with Afghanistan's and North Borneo's First Five-Year Plans; [55] a decline in the price of an important export, as with Burma's Eight-Year Plan when the export price of rice declined after the Korean War; [56] a change in international association, as with Greece's Five-Year Plan after Greece joined the European Economic Community; [57] a plan having been so successful that it produced too many pressures on an economy, as with Japan's Ten-Year Plan.

Since it is impossible to foresee all eventualities, it is impossible to

[55] The change in the size of resources may be an increase instead of a decrease. In both Afghanistan and North Borneo, plans had to be revised because of enlarged resources.

[56] The plans of countries which depend heavily on primary exports are especially likely to require revision because of unforeseen changes in export prices.

[57] The first French Plan was revised by extending the last year of the Plan from 1951 to 1953 to have it coincide with the end of the Marshall Plan in France.

plan so as to eliminate the necessity for revising plans. And since it is virtually certain that targets or other parts of a plan will have to be modified during implementation if it is to remain realistic, the plan must be sufficiently flexible to allow such revisions to be made. This implies that a development plan can only be a framework of programs and policies and never an inviolable blueprint for the future. It must be sufficiently detailed to provide guidance for action, but it cannot be so detailed that it loses the flexibility needed to adjust to changing conditions. An inflexible plan is based on the assumption that no new facts will emerge during the plan period,

> no exceptional successes or failures in administration will occur, no extraordinary natural events will upset calculations, no other nations will act in unpredictable or unpredicted ways. Intelligent planning must make allowance for the possibility, indeed the probability, that things of this nature will happen and therefore plans must be made subject to revision in the light of experience.[58]

Revisions, then, are normal; failure to revise a plan during the entire course of its execution is frequently an indication of a government's lack of understanding of, if not lack of interest in, the planning process. It follows, therefore, that repeated revisions of a plan are not necessarily an indication of poor planning. They may be, but they may also be a sign of good planning if they are attempts to adjust targets to changing circumstances which the planners could not have been expected to foresee. A plan must always be subject to amendment if it is to be kept up to date.

> The idea that you need only prepare a plan once every five years is complete nonsense. A fixed plan is not only worthless but dangerous: all planning that makes contact with the real world is re-planning. . . . This cannot be achieved by treating programmes like the phoenix, as if they should take wing every five years or so from their own ashes; it can be achieved only if they are kept continuously alive by amendment. . . .[59]

However, appropriate controls should be set up to assure that adjustments to a plan take place only after careful and systematic

[58] Pakistan. Planning Commission. *Outline of the Second Five-Year Plan (1960–65)*, p. iii.
[59] Cairncross, A. K. "Programmes as Instruments of Coordination," p. 89.

evaluation; if this is not done, the door is opened to haphazard changes based on transient whim or a vacillating approach toward realizing plan objectives. Nor should it be necessary, except in a major emergency, to make wholesale revisions in a plan. It is pointless to have a plan if it is modified so frequently without good reason that the results at the end of the plan period bear little relationship to the original plan. As Nigeria's Minister of Economic Development pointed out in an address to the House of Representatives:

> It is very easy . . . to begin with a plan and end with confusion. If we allow projects to be taken out or inserted at will, without careful analysis of the relationships of changes in one part of the plan or program to other parts, we shall certainly end with a meaningless jumble of projects.[60]

In many countries, sponsors of projects and programs make frequent modifications or additions which reflect lack of foresight or understanding of plan objectives. For example, in Pakistan during the second plan period, almost every department sought approval for projects which had not been envisaged in the plan, or tried otherwise to amend its original proposals. These actions made it necessary for the planners to make repeated adjustments in sector programs to make room for new projects, thereby delaying execution of the plan. According to Iran's Plan Organization, during Iran's second plan period there were

> too many haphazard and ill-considered changes in the program [which] resulted in poor balance in many areas and in serious financial and administrative difficulties.[61]

Attempts have been made to build flexibility into a plan. In the case of Italy's Vanoni Plan, for instance, construction and forestation were established as "regulatory" sectors. If activity in other sectors accelerated or slowed down unduly, compensatory adjustments were to be made in the rate of investment in the construction and forestation sectors. In Yugoslav plans, reserves of money and commodities have been set aside and used to intervene in the market to counteract contingent or unforeseen events which might otherwise make it neces-

[60] Speech by the Nigerian Minister of Economic Development to the House of Representatives on the Nigerian Development Plan, 1962–68.

[61] Iran. Plan Organization. *Review of the Second Seven Year Plan Program of Iran*, p. 15.

sary to change targets. In countries with reasonably good market economies, the market itself may also help mitigate planning errors and delays by equalizing demand and supply through price changes.

Such methods, either singly or in combination, may be helpful, but they are rarely sufficient by themselves to eliminate the need for periodic revision of plans. Ideally, flexibility is assured if planners keep a plan under constant review and make modifications and improvements as and when events dictate. In Yugoslavia, for example, the plan is under continual surveillance and changes in instruments of economic policy have been made as frequently as every few months to adjust economic activity to requirements for achieving plan targets. The dependence of the Netherlands on the course of international trade makes it desirable for the Central Planning Bureau to review its annual plan at quarterly intervals to permit remedial action to be taken in time.

For most countries in early stages of development, however, ceaseless vigil over plans and events requires a greater effort than they are able or willing to expend. This is one reason why planning experts advise countries to adopt rolling plans, which at least provide for annual review of plans.

Rolling Plans

In a rolling plan, the plan is revised at the end of each year and, as the first year of the plan is dropped, estimates, targets and projects for another year are added to the last year. Thus, a four-year plan for the calendar years 1966–69 would be revised at the end of 1966 and a new plan issued for 1967–70. A similar procedure would be followed at the end of every year thereafter. In effect, therefore, the plan would be renewed at the end of each year and the number of years would remain the same as the plan "rolled" forward in time. Some advocates of the rolling plan advise rolling plans forward even more frequently than once a year, while others believe once every two or three years is sufficient. But the principle in either case is the same as in the annual roll-over.

The "rolling" system originated in budgeting procedures of business firms, and in municipal and other governments.[62] Puerto Rico has

[62] Thus, the Ford Motor Company in the United States and the Philips Company in the Netherlands have used such plans. The City of Amersfoort in the Netherlands has a five-year rolling plan.

pioneered in the use of the rolling technique in connection with its Six-Year Financial Programs and the Philippines includes a Five-Year Fiscal Program in its annual budgets (see Appendix III).

Several countries have tried, or announced their intention to try, to use rolling plans. The USSR has indicated that it expects to use a rolling plan in connection with its five-year plans. The Union of South Africa expects to roll its Six-Year Economic Development Programme forward annually. And the Netherlands proposes to use moving five-year periods for the industrial and economic forecasts it is preparing to begin in 1966. But use of the rolling technique for development plans has been discussed more than it has been acted upon. Venezuela has revised its Four-Year Plan twice at two-year intervals, but it is not yet clear whether these changes reflect adoption of the rolling plan principle or attempts to devise a viable plan. Burma considered making its Four-Year Plan a rolling plan but nothing came of it. The Philippines have a Five-Year Plan for the 1963–67 period which was intended to be a rolling plan, but nothing has been done to give effect to the intention. In connection with the Three-Year Plan recently prepared in Mexico, attempts were made to introduce a rolling plan to carry forward planning from one presidential administration to another, but the pressures against this proved to be too strong.

There are, of course, reasons why rolling plans have not been generally adopted by developing countries. Firstly, the concept of planning as a continuous process, while receiving lip service from many, is not fully understood or accepted by most planners. Secondly, even where planners comprehend and accept the importance of continuous planning, their planning offices are generally not up to the task of revising and extending their plans each year. Thirdly, the rolling plan is a technician's device. It does not have the same psychological appeal as a brand new plan for securing public interest and participation. Nor, from the point of view of political leaders, does it offer the same opportunities for making political capital as a new plan. In some countries, a new plan serves as the election manifesto of the ruling party which takes credit for what the new plan is expected to do.[63] Finally, when targets are changed every year, as they may be with a rolling plan, there is the risk that entrepreneurs and the general public will become uncertain about plan goals and purposes and fail to react as the planners wish.

The first and second difficulties can be overcome as planners develop

[63] "Dhanam" in *Economic Times,* November 19, 1963.

more experience and build up planning staffs and organizations. The third and final problem can be resolved, at least as far as maintaining planning continuity is concerned, with an unpublished rolling plan. As each year passes the planners add a year to maintain the planning period constant. When the old plan nears expiration, the rolling plan can be made public as a new medium-term plan. This procedure can be repeated indefinitely.

Adoption of a rolling plan involves much more than a mechanical extension of a plan. It requires a rethinking and an appropriate revision of the whole plan each year as an essential part of the process of setting targets for an additional year. The need for such review and revision applies to all plans. But the virtue of a rolling plan is that it has built into it a procedure for regular review and revision. However, rolling plans have proved to be too difficult for most less developed countries to manage. A simpler way of bringing a medium-term plan up to date is the annual plan when it is used as a device for making a medium-term plan operational.

Annual Plans

Earlier in this chapter, the use of annual plans as interim or emergency plans was discussed. But annual plans are used mostly as recurrent instruments for detailing exactly what must be done to convert existing medium-term plans into programs for action. Thus, an annual plan deals with current development activities without losing sight of longer-term goals. Most medium-term plans indicate total investment and investment by sectors for the entire plan period and the targets to be achieved at the end of the plan period. There is usually no indication of the amounts to be spent and the production to be attained in the intermediate years. Because of this, medium-term plans are not operational plans. In order for them to become effective guides to action, output and expenditures (both in domestic and foreign currencies) must be determined for each year of the plan period. This is accomplished most effectively by the formulation of annual plans. The size and composition of each annual plan is determined, on the one hand, by the financial and other resources available at the time and, on the other, by the readiness to proceed with new projects and the progress made with projects started in previous periods. Neither the resources which will become available nor the status of projects can be foreseen far in advance with the necessary accuracy for operational purposes because they depend on future actions and development. Attempts may, and should be, made to phase projects and programs over the period of a medium-term plan, but actual expenditures will depend on what has gone before.

Annual investment and production targets are sometimes included in a medium-term plan, with the prime purpose usually to give a general notion of the approximate rate at which investment and output are to develop during the plan period. Thus, the First Five-Year Plan for Upper Volta included annual investment targets because it was considered important to emphasize that there could be a very low level of investment at the beginning of the plan period and a progressive acceleration in later years. But even where medium-term plans give yearly breakdowns and targets, a practice which is more common in Soviet-type plans than in those of mixed economies, the plans need to be reviewed at least once a year since it is usually impracticable to program investments accurately in operational detail for more than a year ahead. Unless a medium-term plan shows precisely what needs to be done in the first year of the plan, it must be accompanied by an annual plan for that first year. This rarely happens, mostly because planning agencies are not adequately equipped to prepare a medium-term and annual plan simultaneously.

The regular preparation of annual operational plans is also exceptional among developing countries with medium-term plans. This is especially true in countries where the medium-term plan is prepared largely by foreign experts who, departing after the medium-term plan is drawn up, leave no one behind who is qualified to maintain the continuity of the planning process. For example, the First Five-Year Plan for Upper Volta was formulated by foreign experts who made no provision for the preparation of annual operational plans although it was probable that the plan could not be implemented without them. Moreover, the embryonic planning group in Upper Volta was unlikely to be able to prepare annual plans without outside assistance.

In most developing countries which employ annual operational plans, such plans are recent innovations, usually started two, three or more years after the introduction of a medium-term plan. The failure to introduce annual plans which "phase" or break down resources and targets into annual components from the start of a medium-term plan can have serious consequences. In India, for instance, during the Second Plan period,

> the whole five-year allocation of foreign exchange for private investment was made available at once. When, to everyone's

> dismay, private investors used up the bulk of this ration in the first two years of the plan period, the result was the foreign exchange crisis of 1957 and 1958 and a subsequent foreign exchange stringency that continued to impede not only further expansion but also current production in many industries during the balance of the plan period.[64]

In contrast with perspective plans, which are less detailed than medium-term plans, annual plans are more detailed. A typical annual operational plan starts with an account of the progress of the medium-term plan in the previous year. A comparison is made between planned and actual development to date and the reasons for deviations from targets are analyzed. The more important projects and programs to be carried out during the current year, along with estimates of costs and available resources, are described. Included in this description are investments and other preliminary actions to be undertaken in the current year whose benefits are expected to accrue in later years. Consideration is also given to the action to be taken in the current year to correct deficiencies and to make up for shortfalls in previous years in order to reach targets by the end of the medium-term period. The most important section of an annual plan, although the one usually most neglected, describes the specific monetary, credit, wage, fiscal and other measures to be adopted during the year to achieve the annual targets. In Yugoslav annual plans, in contrast with those of most other countries with annual plans, detailed descriptions of the instruments of economic policy consume a considerable portion of the annual plan document. Because many annual plans omit adequate treatment of the measures to be adopted to realize annual targets, they largely fail to provide the guidance required to implement medium-term plans.

Since an annual plan must try to adjust for previous shortfalls or overfulfillment of targets, it is likely to differ in some respects from original estimates in the medium-term plan. It may also deviate from the medium-term plan because of changed domestic or foreign circumstances. An annual plan is thus a convenient device for revising a medium-term plan.

The extent to which annual plans are used to modify and adjust a medium-term plan differs greatly as between socialized and mixed-economy countries. In the USSR and the Eastern European countries, annual plans, variously labeled "implementation," "practical," "current" or "working" plans, are viewed purely as instruments for carrying

[64] Lewis, John P. "India," p. 99.

out a medium-term plan. As such, they cannot alter the basic concepts or targets in the medium-term plan. In Soviet-type planning annual plans are considered to be particularly important because they provide a framework and lay down practical rules to be followed by republics, local authorities, ministries and enterprises in the preparation of their own annual plans and, in the case of enterprises, of quarterly and monthly plans. In the mixed economies, annual plans are not circumscribed by these requirements. Consequently, modifications and substitutions in the original list of projects and in their estimates of expenditure sometimes result in marked departures from the original estimates in the medium-term plan.

Where a medium-term development plan exists or is in course of preparation, the rationalization of current public investment through the application of general criteria to an inventory of projects and programs in process of execution, as described in the preceding chapter, offers what may well be the most effective method of preparing a first annual operational plan for the medium-term plan period. Since current public investment is frequently inconsistent with the objectives of a new medium-term plan, the rationalization of an inventory of current public investment provides a convenient way of bringing current investment into line with plan objectives. Rationalization of current public investment on the basis of an inventory not only requires that low priority investment be reduced, if not eliminated; it also requires that gaps in investment be filled with new projects and programs where these are necessary to get fuller benefits from projects and programs already in course of execution. The annual plan produced from this process must also include detailed descriptions of both the administrative measures to be employed in carrying out the public sector program and the instruments of economic policy to be used to stimulate private investment to conform with plan objectives. Planners intent on turning out a medium-term development plan usually miss the opportunity to get immediate benefits from their planning efforts through the preparation of a first annual operating plan obtained from a rationalized inventory of public investment projects.

PLAN OBJECTIVES

A precise definition of development objectives is at least as important for a country's economic advancement as its kind of planning, and even as important as the existence of a plan. A clear definition of national purposes is logically the first component of a development plan since it is a precondition for the establishment of a coherent strategy for allocating investment resources among competing demands. Without a definition of national development objectives which elucidates the relative emphasis to be given to each objective, plan targets and projects are likely to be chosen arbitrarily and policies and measures adopted to implement a plan are likely to be contradictory.

A country's basic development objectives are the prime determinants of the character and direction of the national planning effort. The nature of these objectives depends on national preferences grounded in the country's scale of political, social and economic values, as well as on its stage of development. Socialized countries will choose objectives unlike those in mixed economies, democratic nations will have objectives, as well as means for giving them effect, which differ from those of authoritarian lands, and the less developed countries will have different development objectives than the more developed.

Development objectives may be economic, like bringing about an increase in real incomes; they may be political, like the advancement of military security or the improvement of a country's national prestige and influence; or they may be social, like the achievement of increases in housing, education or health facilities. In many cases, objectives represent a combination of economic, political and social factors. Planners perform a useful function if they outline the different ways in which development can proceed with alternative priorities for various objectives. But the final choice of the objectives and their priorities cannot be left to the planners, whose technical training gives them no special competence for this task. Because national objectives involve political and social, as well as economic, considerations, they should be selected only by a country's political authorities, hopefully after consultation with all interested groups.

Although there may be a variety of other basic objectives, the ultimate objective of national development in most countries is to raise the level of living of all the people in the country through expanded output and use of consumer goods and services for education, health and cultural activities. For almost all less developed countries, this requires an acceleration in the rate of economic growth to provide higher per capita incomes. It is no surprise, therefore, to find this requirement emphasized as a prime objective in almost every national development plan. Iceland's Four-Year Plan for 1963–66 is an exception. It seeks to bring about a more rational rather than a faster expansion in the economy's growth rate. Malta's Five-Year Development Plan is another exception. Its major objective is merely to maintain full employment by establishing new industries to counterbalance the immediate decline in employment induced by lower British military expenditures in its area. Ceylon's Ten-Year Plan, Taiwan's three Four-Year Plans and Singapore's Four-Year Plan are also exceptions. They have or have had as their major objective the achievement of higher levels of employment. This objective, which reflects the pressure of population in these countries, represents a decision by their governments that, for the time being, the creation of jobs is more important than all other objectives, including an increase in per capita income.

Where a government defines its objectives clearly in the initial step of plan formulation, a sound foundation is laid for the planners to prepare a development plan which conforms to the country's purposes. A clear statement of objectives has also been found to be helpful in stimulating and directing development in countries without formal plans. But in most countries, governments are unable or unready to define clearly their development objectives. Sometimes this is due to a confusion of basic with secondary objectives or with what are essentially operational constraints on the orderly implementation of a development plan. Thus, one Thai plan listed nine objectives.[65] One was to raise the annual rate of growth of the national income from 4 to 5 per cent; some were to increase the output of particular crops and industries by fixed percentages; others set specific dates for the completion of individual projects like the Bhumipol Dam and the Chumporn-Nakorn Srithamaraj Highway; while still others referred to equilibrium of the trade balance and preservation of a stabilized currency, which were really not development objectives but conditions under which sound economic progress should proceed. It is also common to find in plans indiscriminate listing of qualitative and usually longer-range objectives, like the achievement of a reduction in inequalities of income distribution or a diversified economy, with quantitative and usually shorter-run objectives, like an increase in agricultural or industrial output by fixed percentages.

Incongruous mixing of primary and secondary, long- and short-term, and qualitative and quantitative objectives with aims which are

[65] *Royal Thai Government Gazette*, October 28, 1960.

not really objectives, but are essentially means for achieving the basic objectives of a development plan, is generally an indication that the authorities and the planners are uncertain about what they expect from their plan. This uncertainty in those who formulate the plan is bound to be reflected in those who must carry it out. In Surinam, for example, where objectives being considered for its revised plan ran the gamut from the provision of more precise planning information, a satisfactory infrastructure and a favorable balance of payments to increased incomes and full employment, difficulties were encountered because

> in some cases, Ministries are not yet sufficiently clear on the real objectives of the Plan and are thus not competent to undertake proper comparative evaluations of projects.[66]

During Iran's Second Plan period, the Planning Organization found that there was a need for

> much better understanding than currently exists of program objectives. This comes out most clearly, perhaps, in the agricultural sector. One of the country's major agricultural objectives should be to bring about rapid improvement of income and productivity of the peasant cultivator. However, while there are a number of projects that seek to serve this end, such as fertilizer, seed improvement, pest control, cooperatives, and agricultural credit, none of them is formulated in such clear terms as to provide a basis for agreed action by the agencies concerned. The result is a dispersion and fragmentation of responsibility in one of the key areas of economic development. . . . Without clear objectives and careful programming each agency pushes forward independently with its own favorite projects.[67]

The Economic Commission for Asia and the Far East reported in 1961 that

> a review of the development plans of countries of the region has revealed a rather long list of objectives often vaguely stated and sometimes mutually contradictory. . . . There is no doubt need for clarification.[68]

[66] Caribbean Organization. *Report of Joint Meeting of Planners and Planning Experts and Standing Advisory Committee of the Caribbean Plan,* p. 41.

[67] Iran. Plan Organization. *Review of the Second Seven Year Plan Program of Iran,* p. 16.

[68] UN. ECAFE. "Economic Development and Planning in Asia and the Far East," *Economic Bulletin for Asia and the Far East,* December 1961, pp. 2–3.

The same situation prevails in many African countries. In Morocco, for example, the planners had to settle for minor objectives for the First Five-Year Plan because the authorities were unprepared to make necessary decisions about major ones. The besetting problem in that country, as in some others, was the lack of basic agreement among political leaders about what the national interest required and the consequent absence of a consistent development policy.[69] In Latin America, also, there has been a

> reluctance observable at times on the part of the authorities to make a precise definition of the aims pursued by a development policy and to express them in terms of clear guidelines. . . .[70]

It is not hard to find the reasons for official hesitation to define development objectives with reasonable precision. In countries with low per capita income unevenly distributed among different regions and classes, with populations in dire need of jobs and social services, it is all too easy for the authorities to succumb to the temptation to list in a development plan objectives—as though they embodied occult curative powers—for overcoming all the economic ills of the country. It is common to find national development plans, like Pakistan's First Five Year Plan, which called for the achievement of the greatest possible increase in the national income and, at the same time, increased health, education, housing and other social welfare services, a higher standard of living, increased exports, a more rapid rate of progress in the less developed areas of the country than in other regions, as well as a more equitable distribution of income and property.

Although each of these objectives may have been desirable by itself, in combination they were contradictory. The objectives in India's First and Second Five-Year Plans were similarly incompatible. They included a large increase in national income in order to raise the level of living, rapid industrialization with emphasis on basic and heavy industries, a large increase in employment opportunities, as well as a reduction in inequalities in income and wealth. It was impossible to attain all these objectives simultaneously. A large increase in the level of living was bound to limit the increase in national income by shifting resources from investment to consumption; concentration on basic and heavy industries, which use less labor than light industry, was certain

[69] Waterston, Albert. *Planning in Morocco,* p. 49.
[70] UN. ECLA. *Report of the Latin American Seminar on Planning,* p. 5.

to restrict the number of new jobs; reduction in inequalities of income and wealth was possible only over the long run and, in any event, if realized might well have reduced the amount of funds available for investment in income producing programs.

Political authorities often hesitate to come to grips with the basic issues which must be decided if development objectives are clearly stated and appropriate measures are adopted to implement them. The Report of the Latin American Seminar previously mentioned noted that in Latin American countries, for example, a consistent set of basic objectives for development would require decisions on

> the structural reforms . . . needed if countries . . . [are] . . . to emerge from situations that . . . [are] . . . an anachronism, hampering development and preventing income from being more equitably distributed.[71]

In lieu of facing up to difficult decisions, political authorities frequently prefer to list objectives which, although mutually inconsistent, will include something for everybody. One may therefore find among the objectives of a plan conflicting economic objectives, e.g., development of capital-intensive industries and increased employment opportunities; conflicting economic and social objectives, e.g., a rapid rate of increase in national income and a high level of investment in social welfare; or incompatible long-term and short-term objectives, e.g., the achievement of a diversified economy and an increase in the output of the country's major export commodity. Conflicting objectives may be included in a plan if their priorities are indicated or understood. But if the authorities fail to indicate the order of priority, they in effect let the planners fare as best they can with the preparation of the plan. This was the planners' position in the case of Pakistan's First Five Year Plan, when the Government gave the Planning Commission no instructions on how to resolve the conflicts among the plan's objectives.[72] Indeed, in the absence of action by the Government itself, the plan's objectives were actually selected by the planners on the basis of general directives and were later approved by the Prime Minister without much consideration or consultation with others in the Government.[73]

The failure to reconcile incompatible objectives in a plan makes it difficult to formulate policies which are appropriate for the plan's

[71] *Ibid.*
[72] Bell, David E. "Planning for Development in Pakistan," p. 6.
[73] Waterston, Albert. *Planning in Pakistan*, pp. 43–44.

implementation. For example, Jamaica's National Plan for 1957–67 was prepared on the basis of two essentially conflicting objectives: the achievement of rapid growth through industrialization and the creation of the greatest number of jobs. Since apparently little effort was made to resolve the inconsistency between objectives, policies advocated to implement the Plan were also inconsistent:

> The question of using labour-intensive or capital-intensive methods of production is a case in point. It appears that as yet Jamaican planners have made no clear cut choice as to which of these forces shall predominate. Population pressures seem to be somewhat more influential at present, but the development goal has by no means been abandoned. One result of this indecision is that in many cases confusion prevails and contradictory actions are advocated.[74]

If the conflict between two objectives remains unresolved when the plan is being formulated, they may cancel each other out during the plan's implementation, in which case neither one is realized, or one may give way to the other.

In practice, the "real" objectives of planning and their priorities emerge during the period of plan implementation in the form of official actions. High-sounding phrases in the plan about rapid growth are then shown to be less important than high levels of public or private consumption. In Yugoslavia, Pakistan and elsewhere, objectives for equalizing disparities in the prosperity and growth of different regions have given way to the more compelling objective for achieving a higher national rate of growth. And in India, employment, welfare and improvement in income distribution objectives have received in practice a lower priority than they were accorded in the plans.[75] What matters for results is not the rhetoric embodying objectives, but the policies and measures adopted to achieve them.

PLAN TARGETS

A country's national development objectives are carried out through a variety of economic and social policies. In addition to fiscal and monetary policies, a government may have wage, price, industrial,

[74] Peck, H. Austin. "Economic Planning in Jamaica: A Critique," p. 154.
[75] Singh, Tarlok. *Planning Process*, p. 30.

agricultural, educational and other policies for promoting development. Thus, a government may pursue a fiscal policy of balancing its budget instead of one of deficit financing, or a "loose" instead of a "tight" money policy, set minimum wages, engage in and encourage or discourage private investment in certain industries, and so on. These policies may be implemented through economic and social instruments or measures formulated to achieve development objectives. Governments have access to a large number of instruments for giving effect to development policies. Some of those commonly employed include taxes, public expenditures, central bank discount rates, reserve requirements for banks, quantitative and qualitative credit controls, price controls, rationing, subsidies, currency regulations, licensing of imports and exports, customs duties and exchange controls. Some instruments, like credit and tax regulations, operate indirectly to induce people to act in accordance with a government's objectives; others, like price controls and licensing regulations, operate directly to prevent people from behaving in a manner which is inconsistent with development objectives. Both indirect and direct instruments are most effective if they are designed specifically to carry out a particular objective.

To the extent that objectives can be made concrete, they act as guideposts for the preparation of effective policy instruments. The most effective way of giving objectives concrete meaning is by quantifying them, whenever possible, thereby transforming them into targets. When an objective of a plan is not merely to increase per capita income, but to increase it at a definite rate, say 2 per cent annually, the objective has been transformed into a target. Besides making it possible to devise appropriate policy instruments for achieving plan objectives, targets perform other important functions. They may be used to set limits on output for some crops or industries, as well as to increase output for others. They provide planners with valuable guides for judging whether the measures adopted to achieve objectives are adequate for the purpose or whether they require adjustment or replacement. They are useful in helping to determine the amount of raw materials, manpower, training facilities, funds in national currency and foreign exchange and other resources which must be allocated to various sectors in order to obtain the desired results. Finally, by making an objective concrete, say by indicating precisely how much the national product is to be increased, a target makes it easier to enlist the effort of the public, the private sector and the legislative and other public officials for specific tasks calculated to reach target levels.

The formulation of a comprehensive plan involves the conversion of development objectives into a set of consistent targets. Even qualitative objectives, like the achievement of a more diversified economy or a more equal distribution of wealth and income, which are not directly susceptible to quantification, may be reflected indirectly in investment targets, targets for the production of new commodities, acreage targets for reforming the pattern of land tenure and so forth. Besides income targets, a plan may have production, investment, savings, employment, export, import and other targets. Targets may be set for regions, as well as for a country as a whole; they may be over-all, sectoral or may apply to individual industries, projects or commodities; they may be set in physical units of output or input, as well as in units of value.

Some plans limit themselves to a few aggregative targets, but many favor long lists of targets. Thus, Yugoslavia's First Five-Year Plan fixed extraordinarily detailed production targets for about 600 commodity groups for the nation, as well as for each of its six constituent republics. Perhaps reflecting the influence of the Yugoslav advisers who helped prepare Ethiopia's Second Five-Year Development Plan, that plan established targets for 23 categories of activities with a division of investment into relatively small sums. In addition, it gave targets for such things as the number of iron plows, harrows, rollers, carts and drills to be used by farmers and the output of a long list of articles which even included the number of pairs of leather shoes, canvas shoes and rubber shoes, and even the number of matches. Indonesia's Eight-Year Plan also laid down a large number of physical targets. The 1949 development plan for Sierra Leone included production targets for palm kernels, palm oil, kola nuts, piassava, ginger, cocoa, benniseed, coffee and groundnuts. Except for the one for coffee, none of the targets was reached.[76]

The inclusion of a large number of targets in a plan introduces rigidities into the planning process which may impede the growth of an economy.[77] Experience shows that the greater the number of targets in a plan, the greater the number of co-ordinated measures needed to achieve them, the more frequent the need for the plan's revision and the more difficult the realization of the targets. Less developed coun-

[76] UN. ECA. *Problems Concerning Techniques of Development Programming in African Countries*, pp. 48–49.

[77] *Ibid.* (quoting, Jack, D. T. "Economic Survey of Sierra Leone," p. 73).

tries would therefore do well to limit the number of targets in their plans to a few essential ones and concentrate their scarce resources on achieving them.

A target differs from a forecast or a projection. A forecast, say of an annual increase of 2 per cent in per capita income, is an estimate of what will happen on the basis of existing policies or policy changes which are expected to take place. A projection is a tool of analysis for clarifying the implication of certain assumptions or to check the consistency of the assumptions themselves. Thus, a projection of an annual increase of 2 per cent in per capita incomes for a specified period may be made to bring out the likely repercussions of such a growth rate. It may show, for example, the level of savings, investment, production and the additional number of skilled workers required to maintain the projected rate in growth.

Many countries prepare short- or long-term projections of one kind or another. Since 1958, for example, the Bank of Israel has prepared an annual National Budget consisting of a series of projections and forecasts for the forthcoming year. The British National Economic Development Council made five-year projections of the British economy and longer-term projections are being made in the U.S. Government. Such projections may be prepared with a view toward convincing others of the desirability of planning or they may provide guidance for establishing development policies, but there is no intention of implementing them. In contrast, a target implies that means will be adopted to achieve it.

> A target should not be a statement of what we should like to see achieved. . . . Neither is it the figure of what will be achieved if no action is taken. A target is the figure it is proposed to achieve as a result of the action that is contemplated.[78]

Without policies and instruments, a target becomes, at best, a forecast or a projection and, at worst, the product of a mathematical ritual of no practical importance.

> To draw up and publish a list of targets is not to plan; the real planning comes when the government takes action to realise these targets.[79]

[78] Lewis, W. Arthur. *Principles of Economic Planning,* pp. 108–109.
[79] *Ibid.,* p. 111.

Where a "plan" is prepared with targets but without accompanying instruments of policy to achieve the targets, it might be more appropriate to call the plan a forecast or a projection. Thus, the Economic Commission for Europe, in referring to the long-term "plan" for 1950–70 which the Netherlands Central Planning Bureau drew up in 1955, quite properly stated that

> since this document refrained from any discussion of or recommendations on policy measures, it is more appropriate to regard it as a forecast or an exploration of future possibilities of economic growth.[80]

In the case of the Netherlands, the planners did not specify the instruments of policy needed to implement their "plan" because they had not drawn it up with implementation in view.[81] But in some countries, plans which are prepared to be implemented turn out to be little more than projections since the planners do not specify the policies and the instruments needed to achieve the targets in their plans. A former member of the Philippines National Economic Council, the central planning agency, has called attention to this situation in his country:

> There is the general problem that targets are not always implemented. Just to give an example, the National Economic Council at the time of President Magsaysay had a five-year program. This program was approved by the President in a speech, but the targets were not implemented. Why was this so? Because, while there were many production targets, there were no economic policies adjusted to the targets.[82]

Another example among many was Brazil's Program of Targets for 1957–61. The Program set 30 specific targets in the power, transport, food, basic industries and education sectors. The Brazilian Development Council, which set the targets on the basis of sectoral estimates and projections prepared with the aid of a group of ECLA technicians, referred to the Program of Targets as a development program, although, in the almost complete absence of instruments of policy for

[80] UN. ECE. "Long-term Planning in Western Europe," p. 59.

[81] This is also true of the five-year forecasts for industry and the economy which the Netherlands Central Planning Bureau is preparing for the period 1966–70.

[82] Araneta, Salvador. "The Planning, Approval and Implementation of Economic Policy," p. 133.

achieving the targets, it was in fact little more than a forecast or projection.

Few developing countries have learned how to formulate appropriate policies and instruments and to coordinate them properly for carrying out their development targets. In summing up conditions in the Philippines, a high official of the National Economic Council made a statement in 1959 which is also applicable to many other countries:

> At this stage it is doubtful if we have both the technical skill and the political inclination to formulate economic policies that are comprehensive, sound, far-reaching in effect, consistent, realistic and free from unduly harmful effects. Evaluated on these basic requirements it is unlikely that many of the economic policies that we have approved would pass for satisfactory.[83]

A similar situation prevails in Latin America. The participants of the already mentioned Latin American Seminar on Planning

> expressed concern at the lack of co-ordination in economic policy and the makeshift fashion in which it was changed, often in response to purely adventitious problems.[84]

Few governments have understood that development targets and the policies and measures for bringing about their realization are inseparable. In Pakistan, for example, which has a longer history of planning than most countries, only within the last few years has the Government come to understand the integrality of planning with economic and financial policy. In that country, government entities have adopted policies without any consistent attempt to relate them to the objectives of the nation's development plans. Consequently, economic policy has often conflicted with plan objectives. Agricultural price policy has hampered the achievement of agricultural targets and administrative controls have often impeded the development of industry along lines laid down in development plans.

In contrast, Yugoslavia, more than most developing countries, has acquired considerable skill in adapting instruments of economic policy to the achievement of specific targets in its plans. Whereas in most plans, one rarely finds more than passing reference to the instruments of policy for achieving plan targets, large parts of Yugoslav annual

[83] Macaspac, Isidro (Acting Director, Office of National Planning). "A Rejoinder," p. 180.

[84] UN. ECLA. *Report of the Latin American Seminar on Planning*, p. 25.

operational plans are given over to detailed enumeration of specific instruments devised to give effect to plan targets. These instruments, which are essentially like those employed in most countries with mixed economies, have evolved through a process of purposeful experimentation to levels of effectiveness well above those in most developing countries. Through a generalized system of taxation, interest and other charges on socialized enterprises which rewards efficiency and profitability and stimulates initiative in a market-type economy by allocating public investment and foreign exchange funds in accordance with plan objectives, by influencing the supply and direction of credit through the banking system, and to a diminishing extent, by price controls and restrictions on foreign exchange and trade, the Government has achieved considerable success in realizing the targets in its development plans. Yugoslavia's success in utilizing taxation and other indirect means to channel the use of national resources has aroused the interest of other Eastern European countries in these instruments of economic policy. As already indicated, most of these countries have either adopted some of these devices or are considering their adoption.

The Size of a Plan. One of the first questions which confronts planners concerns the proper size of a plan. For a comprehensive plan, this necessarily involves setting a growth target for the plan period.[85] There is no simple formula for fixing the size of a country's development plan since it is a function of the community's willingness to accept current sacrifices for future benefits. Three main approaches have been used for determining the size of a plan. One is to have the country's requirements determine it; another is to have the country's resources fix it; the third is to set it somewhere between the two points where the requirements and resources approaches would have left it.

Since the needs of less developed nations are almost limitless, the requirements approach hardly presents a practical solution to the problem. The resources approach is both more feasible and more realistic. It involves estimating the amount of domestic and foreign financial resources which a country is willing and able to invest, and the distribution of these resources among the various sectors of the economy in such a way as to bring about the most desired results. In fixing a growth target on the basis of available resources, the size of the

[85] The size of a plan can also be stated in terms of proposed development investments.

plan is not only limited by the amount of domestic and foreign capital which can be obtained, but by the supply of technical and skilled personnel, the number and character of entrepreneurs and managers, and the government's administrative capacity. Consideration must also be given to the effects of contemplated capital investments on recurrent budgetary expenditures. New hospitals will need doctors, nurses and supplies, and new schools will need teachers and supplies. Such investments not only require assured current revenues to cover the cost of salaries and supplies; they require training programs established many years before the completion of welfare projects to educate and train doctors, teachers, nurses and other professional and skilled personnel in adequate numbers. A development plan is too large if the debt service on investment capital borrowed for the programs plus the cost of supporting completed projects add up to more than future current revenues will be able to support.

Sometimes, it is not the size of the plan which is at fault but excessive investments in social projects, like schools and hospitals. Such investments may eventually increase a country's development potentialities, but in the short run their support places a heavy charge on future revenues and reduces the amount of funds available for investment in projects which produce increased income more quickly. In such cases, the maintenance of future financial solvency may make it necessary to shift some social investments to more immediately productive projects. The failure to maintain a proper balance between savings and investment, to keep consumption within prescribed limits, or to give priority to productive investments carries penalties in the form of inflation or slow and misdirected growth of the economy.

Some countries, usually those with relatively adequate supplies of investment capital, have fixed the size and growth targets of their development plans solely on the basis of their available resources. For example, the targets in Malaya's Second Five-Year Plan were determined on the basis of the country's resources and capacities.[86] But the planned annual rate of increase in Malaya's per capita income during the Second Plan period was only 0.8 per cent. This illustrates the main drawback of the resources approach. It is likely to yield a rate of growth which is lower than most governments are now prepared to accept. Indeed, the ECAFE has cautioned that

[86] UN. ECAFE. "Economic Development and Planning in Asia and the Far East," *Economic Bulletin for Asia and the Far East,* December 1961, p. 3.

> a modest target, carefully tailored to probable resources, may result in a growth rate barely sufficient to meet the needs of an expanding population.[87]

In practice, therefore, planners in most less developed countries base the size and targets of their plans on something more than available resources. Typically, the planners who prepared Pakistan's First Five Year Plan eschewed the requirements approach as unrealistic and likely to lead to serious inflation or the imposition of stringent controls. But they were not willing to settle for the low growth targets to which the resources approach would have committed them. They reasoned instead that

> if targets are selected with some regard to the resources likely to be available, and if at the same time resource availability is estimated with the objective of stretching capabilities to their limit, these [i.e., the resources and the requirements] approaches are not inconsistent.[88]

In preparing the Plan, therefore, they based the size and targets of the Plan on an estimate of available resources which assumed that every effort would be made to increase them.

The difficulty with this approach is that it frequently results in the establishment of plan targets which are beyond a country's capacity to fulfill. It may be true, as Professor Arthur Lewis has said, that

> there are more under-developed countries whose plans are too small than there are countries whose plans are too large.[89]

But there are also far too many countries whose plans are too large in relation to available savings and other resources or their absorptive capacity. Thus, Morocco's Five-Year Plan called for annual increases averaging 6.2 per cent when they had increased by an average of only 1.5 per cent in the previous eight years. The targets in Guinea's three-year development plan for 1960–63 were even more extreme. That plan called for *annual* increases in Gross Domestic Product of no less than 16 per cent as well as increases of 70 per cent in industrial output and 60 per cent in capital formation.[90] It is perhaps unnecessary

[87] *Ibid.*

[88] Pakistan. National Planning Board. *First Five Year Plan, 1955–1960*, pp. 73–74.

[89] Lewis, W. Arthur. "On Assessing a Development Plan," p. 7.

[90] UN. ECA. *Outlines and Selected Indicators of African Development Plans*, p. 28.

to say that these targets were not achieved. It is one thing for Japan, a country with a high rate of savings and a disciplined economy, to fulfill its plan targets to double the national income in ten years; but it is quite another matter for the United Arab Republic, a poor country with an undeveloped economy, to achieve the same target. To double its national income in a decade, the UAR would require a threefold increase in the rate of savings to raise it to 20 per cent of Gross National Product, an increase which can hardly be attained without greater hardship than the country is probably ready to undergo. Nor are the prospects promising for achieving the targets in Ghana's First Seven-Year Plan when its financing depends on doubling the already high level of taxation. Ghana's planners themselves have doubts about the country's ability to carry out the Plan's primary investment targets, which total £476 million. They have accordingly prepared a lower set of investment targets, totaling £436 million, which can be substituted for the first if, as they expect, circumstances require the slowing down of investments, especially in the public sector. This approach has much merit and could be adopted with benefit by planners in other countries when there is reason to believe that sights have been set too high.

It is hard to see how the targets in Indonesia's Eight-Year National Development Plan can be reached. The Plan envisages investment amounting to about 12 per cent of the national income. This is not an unusually high rate, but it will not be easy to achieve with the current low level of taxation [91] and the quality of fiscal administration. Moreover, production targets in the Plan call for what appear to be unduly high increases in output in a number of fields, including a tripling of electric power, a quadrupling of cement and a quintupling of petroleum. Some competent authorities consider that Indian planners may also be overreaching themselves in proposing a doubling of past growth rates for the Fourth Plan period. Thus, Professor Edward S. Mason has pointed out that

> in India over the 13-year period beginning with the First Plan, the increase in G.N.P. at constant prices has averaged a little less than 3½ percent per annum. In preparation for the Fourth Plan beginning in 1965 the Perspective Planning Division of the Planning Commission worked out a consistent set of input-output estimates

[91] Van der Kroef, Justus M. "Indonesia's New Development Plan," pp. 28–30. Professor Robert Anspach estimated that in 1957 Indonesians paid 12 per cent of their per capita income in taxes, compared to 16 per cent in Thailand, 22 per cent in Ceylon and 24 per cent in Burma.

> based on the assumption of a 7 percent growth rate. . . . One can only admire the technical virtuosity of this enterprise. At the same time, it is difficult to suppress doubts concerning the usefulness of such an exercise. . . .[92]

In some countries, plan targets are so patently overambitious that the plan is never put into effect and is usually abandoned and replaced by another, more realistic one. This was true of Bolivia's Ten-Year Plan and Nepal's Second Five-Year Plan. It was also true of Upper Volta's Five-Year Plan for 1963–67, prepared with the aid of foreign advisers, which was replaced by a two-year public investment plan for 1963–64; and this was virtually what happened with Sierra Leone's Ten-Year Plan, which is to be replaced by a Five-Year Plan.

The plans of the socialized economies also frequently aim too high. The output targets in the USSR's Five-Year Plan for 1956–60 were so overambitious in relation to investment that the Plan had to be replaced in mid-term by another.[93] The Seven-Year Plan which ended in 1965 also encountered serious difficulties because of the inability of resources to meet all the demands being made upon them. Investment projects were cut back and new projects and programs were postponed. As an example of the new critical realism which prevails in Czechoslovakia since the decentralization reforms, the Central Committee of the Communist Party in that country denounced a draft of the Five-Year Plan for 1966–70 because the Committee felt it proposed investment in excess of available resources and ordered that a new plan be prepared which would be within the country's capacity.[94] In Yugoslavia, also, the abandonment of its overly ambitious Five-Year Plan for 1961–65 led to a reconsideration of the necessary relationship between plan targets and available resources. In explaining the approach to Yugoslavia's proposed Seven-Year Plan, a high Yugoslav planning official wrote that

> experience has shown that, in Yugoslav conditions, over-burdened plans are not advisable, and that the best solution is likely to be found in a realistic and a less ambitious plan, which would provide for the most rational utilization of the conditions of production, which would be well-balanced, and which would allow for comparatively large reserves.[95]

[92] Mason, Edward S. *On the Appropriate Size of a Development Program,* p. 6.
[93] Nove, Alec. "The Industrial Planning System: Reforms in Prospect," p. 114.
[94] *New York Times,* February 15, 1965.
[95] Sirotkovic, Jakov. "Drafting of the Seven-Year Plan," p. 20.

Attempts have been made to set minimum growth targets which would be generally applicable to less developed countries. Professor Arthur Lewis has suggested an annual rate of growth per head somewhat in excess of 2 per cent.[96] The Charter of the Alliance for Progress fixed as a goal for each Latin American country an average annual per capita rate of growth of not less than 2.5 per cent during the ten-year Alliance period. But such generalizations are of little value when setting growth targets for specific countries. Between 1950 and 1959 only about four Latin American countries were able to maintain or exceed the levels of growth proposed in the Alliance Charter. Most Latin American countries had much lower rates of growth and in two countries per capita income declined.

History does not offer much encouragement for the belief that growth rates can be increased abruptly without a dramatic change in technology, a great improvement in economic administration and, most important of all because it makes these and other changes likely, a considerable increase in governments' committment to the development of their countries. Where the growth rate has been declining, stagnating or increasing very slowly, an economy cannot be made viable except by slow and painful adjustments. In these circumstances, to establish substantially higher growth targets than a country has shown itself capable of achieving can do more harm than good. It may lead to inflation, balance of payments difficulties, political crises and disillusionment with planning. Korea furnishes a good example. The ambitious 7.1 per cent annual growth target in that country's Five-Year Plan for 1962–66, which the planners felt impelled to set for psychological reasons, led to an investment program of low and high priority projects which greatly exceeded the country's financial and administrative capacities and was largely responsible for the price inflation from 1961 to 1963. This put a heavy strain on the Government's financial and administrative apparatus. The country was exposed to strong inflationary pressures and the Government found it impossible to establish a consistent set of policies and measures to carry out all the programs.

In Bolivia, the improbability that the country could achieve the average annual per capita increase of about 5.7 per cent, proposed by foreign advisers after an average annual decline of about 1.7 per cent

[96] Lewis, W. Arthur. "Sponsored Growth: A Challenge to Democracy," pp. 107–108.

in 1950–59, led to considerable disillusionment and the discarding of the Bolivian Ten-Year Plan. The Government of Nepal also chose not to have any plan for awhile rather than proceed with a Second Five-Year Plan in which the planners proposed an unlikely increase in annual output four times above the level which had prevailed in the preceding five-year period. Morocco's Five-Year Plan, which provided for annual increases in investments of over 6 per cent when increases in the previous eight years had averaged only 1.5 per cent, was virtually abandoned after two years. And in Burma, much of the widespread cynicism about planning has been attributed to the overambitious plan targets recommended by Burma's foreign advisers.

Planners often manifest a predilection for ambitious targets. They tend to take to heart the dictum: "Make no little plans. They have no magic to stir men's blood." [97] Thus, Pakistan's planners justified the high targets they set in their First Five Year Plan on the ground that,

> unless the country aims at something which appears to be slightly outside its reach, it may end up by doing less than was possible.[98]

ECAFE also considers it desirable to fix targets at a higher level than resources allow because

> an ambitious target may enlist greater enthusiasm among the people and make it possible for the government to strive harder. . . .[99]

Although these appear to be worthy attitudes, they involve a fundamental misunderstanding about the roles which targets and planners play in the planning process. When planners set plan targets with a view to stimulating development efforts rather than on the basis of a realistic estimate of the prospects for achieving the targets, they greatly increase the difficulties of implementing the plan. If a target is a higher figure than resources allow, instruments of policy adopted for achieving the target are likely to have harmful side effects. As Professor Lewis has pointed out,

> it is very important that this figure be estimated without illusions as to what is possible. . . . If the targets are fanciful, the whole

[97] A statement attributed to Daniel Burnham, a noted American architect.

[98] Pakistan. National Planning Board. *First Five Year Plan, 1955–1960,* p. 74.

[99] UN. ECAFE. "Economic Development and Planning in Asia and the Far East," *Economic Bulletin for Asia and the Far East,* December 1961, p. 3.

> plan will be fanciful. . . . Planners who promise more than they can perform throw everything out of gear, so that the economy might just as well not be planned at all.[100]

Planners have no business determining the targets of a plan. This is the responsibility of the political authorities because the targets determine the scale of the development effort which a country must be prepared to mount. When planners usurp this prerogative or permit themselves to be placed in a position where they must fix the targets, it is safe to predict that nothing much will come of the plan. Unless the heads of government are prepared to accept full responsibility for setting the level of the development effort, they are unlikely to take the steps needed to achieve the plan's targets.

Alternatives for Decision-Makers. The proper function of planners is to help political leaders make informed decisions about targets. Ideally, planners should prepare a series of targets based on alternative assumptions of effort within the range of the possibilities. It then becomes the duty and responsibility of the political heads of government to indicate which target will become the measure of the development effort. The alternatives should specify explicitly what measures the government must adopt to achieve each target and the presentation should be formulated in terms calculated to stimulate intelligent public discussion of the major issues involved. As M. Pierre Massé, Director General of the Commissariat Général du Plan has stated:

> I believe it is the duty of the planner to present elements which shall be clear, which shall be precise and which shall be feasible and compatible with the plan. They must be clear, so that the man in the street can understand the choices put before him. They must be precise, so that there shall be no misunderstandings in taking the decisions. And they must be feasible and compatible, because once the Plan is formulated, it is naturally much too difficult to introduce fundamental changes.[101]

Planners can perform a useful service in many countries if they prepare targets which show the authorities the alternative levels of growth likely if the government (1) chooses to rely only on existing policies and measures, (2) is willing to take a moderate amount of additional action to reach higher levels of development (in most cases,

[100] Lewis, W. Arthur. *Principles of Economic Planning*, p. 109.
[101] Massé, Pierre. "Planning in France," p. 21.

this is all that can be reasonably expected!), or (3) is prepared to take drastic action required to realize more fully the potentialities for economic growth. Such a statement of the alternatives would provide the decision-makers with the information they need and place the onus of choice where it belongs.

In France, Yugoslavia and the Union of South Africa, as well as in some other countries, planners have presented policy-makers with alternative growth targets and their implications and asked them to choose among them.[102] In preparing the Fourth Plan, for example, the French Commissariat Général du Plan gave the French Social and Economic Council three alternatives for average annual growth rates of 3, 4.5 and 6 per cent, respectively. After discussion, the 6 per cent variable was discarded as too ambitious because it left no margin of safety for the balance of payments, while the 3 per cent target was considered too low. The remaining variable, at first increased to 5.0 per cent and later to 5.5 per cent, was eventually selected by the authorities as the growth target most suitable for the ensuing plan period.

As a preliminary to preparing the Seven-Year Plan for 1964–70, Yugoslav planners made two projections which the Yugoslav Federal Assembly was asked to consider. The first variant provided for an annual increase of 8.4 per cent in gross national income, 10.2 per cent in industry, 5.3 per cent in agriculture, 9.0 per cent in the standard of living and an annual average increase of 6.3 per cent in investments. The second variant provided for somewhat higher rates of growth than the first, with an annual global growth rate of 8.9 per cent, an industrial growth rate of 10.7 per cent and a rate of growth of 5.6 per cent for agriculture. However, the annual rise in the standard of living would be lower than in the first variant, 8.5 per cent, although investments would have to be increased greatly, to 9.5 per cent.[103]

In preparing South Africa's first development plan, which covers the 1964–69 period, the planners examined the implications of three different annual growth rates. The Government eventually decided that the lowest rate considered, 4.5 per cent, would be below what could be achieved, while 6 per cent, the highest rate, would put an intolerable strain on the balance of payments and the labor supply. It chose the intermediate rate of 5.5 per cent which it considered neither too easy nor too difficult to realize.[104]

[102] The United Arab Republic discussed four variant models for its Second Five-Year Plan.

[103] "Economic News," *Review of International Affairs*, p. 24.

[104] "Paths to Plenty," *Financial Mail*, p. 863.

In India, another approach was followed for the Fourth Plan. Instead of considering alternative targets, the Planning Commission prepared a paper outlining the implications involved in three different levels of investment outlays: Rs 21,000 crores, Rs 22,500 crores and Rs 24,000 crores.[105] The paper was considered by the Cabinet, which made a choice and the Planning Commission was instructed to prepare a memorandum for consideration by the Cabinet on the basis of the choice made.[106]

French planners have recently introduced a refinement in political decision-making affecting their plan which is well worth describing, if only because it is based on a clear understanding of the respective roles of planners and political decision-makers in the planning process, and the overriding importance of government policy in determining development targets. Their experience with the Fourth Plan led French planners to conclude that the system by which a growth target was chosen from among several alternatives did not go far enough in supplying policy-makers with an adequate understanding of the consequences of their choice. For the Fifth Plan, therefore, the Commissariat Général du Plan prepared only one growth projection for the plan period based on the trend in recent years. The only changes introduced were those necessary to avoid disequilibria. The effects of certain hazards over which the Government had little control were considered. These included a downturn in the level of world business activity, changes in France's terms of trade, inflation in Europe and a change in global productivity trends. The effects of varying government policies on a series of economic questions under current consideration were then estimated. These included the possibility of substantial changes in weekly working hours, a farm policy which could accelerate the flow of agricultural labor to other parts of the economy, stronger incentives for productive investment, differing patterns of growth in social security benefits, a more efficient "incomes" policy and varying levels of government revenues and expenditures. On the basis of government decisions on the alternative policies it proposed to follow in these and other fields, the planners endeavored to determine the combined impact of these policies on the rate of growth envisaged in their projections and to make the necessary adjustments in constructing the Fifth Plan.

The French approach has the advantage of greatly broadening the

[105] Rs. 1 crore = 10 million rupees.
[106] *Hindu Weekly Review*, October 5, 1964, p. 2.

range of intelligent decision-making for the authorities. It may well foreshadow a new trend which other countries may soon wish to follow. In the USSR, attempts are also being made to give the authorities more data from which to select the "optimal" plan. According to reports, Soviet planners submitted to policy-makers a "menu" of 20 broad alternatives to choose from for the next five-year plan for 1966–70.[107]

A set of targets may also be prepared to demonstrate the growth possibilities inherent in different assumptions about the level of foreign aid which a country might receive. This was done in Pakistan in 1958. A difference of opinion arose between the Ministry of Finance and the Planning Commission. When the Ministry of Finance proposed levels of foreign assistance and taxation which were lower than the Planning Commission considered adequate, the Commission prepared a memorandum showing the rates of growth implied in the Ministry's and its own proposals. On the basis of the evidence in the memorandum and the public discussions it aroused, the authorities chose the higher targets proposed by the Commission, but with a sober understanding of the greater domestic effort required to obtain increased foreign aid.

Where a country is largely dependent for its export earnings on prices set in international markets, planners would do well to prepare several development targets based on alternative levels of export earnings. Because of the uncertainties inherent in a primary export economy, it is important for the planners to prepare a plan which promises no more through its targets than available export earnings will permit. For the planners to do otherwise is to risk the possibility that they "will be haunted at some later date by a conclusive record of 'targets unattained.' "[108] This was well illustrated in Burma, where rice accounted for about 75 per cent of export earnings and over 20 per cent of Gross Domestic Product in the immediate postwar period. A major reason for the shortfalls in Burma's Eight-Year Plan for 1952–59, and the ensuing disillusionment with planners and foreign planning experts, was the overoptimistic forecast of proceeds from rice exports on which the Plan's targets were based. The price assumptions for rice had already been put in question by events at the time the Plan was presented to the Government. Had a "shelf" of alternative targets

[107] Zauberman, Alfred. "New Phase Opens in Soviet Planning," p. 13.
[108] Krause, Walter. "Observations on National Economic Planning," p. 175.

based on lower prices of rice been prepared, they could have been substituted for the plan targets which had been made unrealistic by the fall in rice export prices before the Government accepted the Plan.

SUMMARY AND CONCLUSIONS

In many countries, the preparation of a development plan appears to be viewed as the final instead of the initial step in the planning process. Just as there is more to the planning process than the preparation of a plan, so the planning process does not depend on the existence of a development plan. There are those who confuse the two. But history shows that it is possible for a country to have a plan without any real attempt at planning, and for another to have planning without the existence of a paper plan.

There is some difference of opinion about what constitutes a development plan. But the general consensus is that public investment plans are included in the definition. However, a forecast of global trends with a set of recommended policies or a capital budget is usually excluded. There are many varieties of partial and comprehensive development plans. Those in use in the socialized countries usually are worked out in much greater detail than those in mixed economies. The use of detailed sectoral and regional breakdowns is much more prevalent in the plans of socialized economies than in those of mixed economies. In the socialized economies, also, plans are generally considered obligatory on all socialized sectors, but in the mixed economies, plans are usually binding only on the public sector, if at all, but never on the private sector. As part of the process of formalizing their plans, socialized economies give their plans the force of law. Although the plans of some mixed economies have a similar status, this has little significance in practice, since no one is held responsible for nonperformance.

There are great variations in the duration of plans. In general, most countries have shown a preference for planning periods of shorter duration, generally ranging between three and five years. Where planning experience has accumulated, countries usually supplement such medium-term plans with perspective plans to provide an improved framework for medium-term planning.

For convenience, plans generally refer to a fixed time period. But because planning is a continuous process, there is a problem of linking one plan with another. Thus far, this problem has not been resolved in most countries and the transition between plans is often inefficient. Because of unforeseen and unpredictable events, it is also impossible to plan in such a way as to avoid the need for periodic revision of medium-term plans. Plans must therefore be reviewed regularly and revised when events make this desirable. The rolling plan advocated by many planning experts for preserving plan continuity and flexibility has many technical advantages. It also has several important drawbacks which explain why it has almost never been adopted by countries which plan.

One's view of the future determines current action. That is why a perspective plan is needed for effective medium-term planning, a medium-term plan is needed for appropriate annual operational planning, and an annual plan is required to decide on immediate measures for promoting development. Perspective plans have recently been coming into vogue to supplement medium-term plans. But annual plans, which also offer a simpler alternative to the rolling plan for providing continuity and flexibility for medium-term plans, are still the exception instead of the rule. Annual plans, which are more detailed than medium-term plans, have been found to be extremely useful, if not essential, instruments for carrying out long- and medium-term targets. Because they are drafted each year, they provide planners with an opportunity to review medium-term targets and modify original estimates to adjust for under- or over-fulfillment of targets.

A clear definition of national objectives is essential to planning. Without such a definition, plan targets are likely to be arbitrarily chosen. Where a government defines its objectives precisely, a sound basis exists for preparing a development plan. But most governments are unable or unwilling to define their development objectives. This leads to a confusion of objectives which generally indicates uncertainty about what authorities and planners expect from their plan. The failure to reconcile incompatible plan objectives makes it difficult to formulate policies and measures for implementing a plan.

Targets are quantified objectives. The fewer their number, the better. Experience shows that the greater the number of targets, the harder it is to achieve them. A target is only as good as the measures adopted to attain it. A target without instruments of economic policy suited to it is more appropriately called a projection or a forecast.

Few developing countries, however, have learned that a target and the policies and measures for realizing it are inseparable.

In determining the size of a plan, a country's requirements hardly represent a practical approach to the problem, since the needs of less developed countries are practically limitless. It is much more realistic to base the size of the plan on the availability of resources. But this approach often yields a rate of growth which most governments consider too low. In practice, therefore, most planners base the size of their plans on something more than available resources.

Attempts have been made to set minimum growth rates generally applicable to less developed countries. But such generalizations are likely to be too low for some countries and too high for others. Planners, who attempt to set targets which are either unrealistically high or unrealistically low, base their actions on the wrong conception of the roles which targets and planners play in the planning process. If a target is out of line with resources, measures adopted for achieving the target are likely to have harmful side effects. Moreover, planners should not set targets. They should provide a series of alternatives to the political authorities who, in the last analysis, must assume the responsibility for selecting the appropriate targets and the policies and measures for implementing them. Unless the heads of government accept this responsibility, there is little likelihood that the plan's targets will be achieved.