CHAPTER I The Elements of Development Policy

I Introductory

Economic development is increasingly felt to be a necessity for a number of countries which are suffering from a low level of material well-being. In the presently advanced countries, the process of economic development was carried on by large numbers of individual entrepreneurs. Government action, although sometimes important, was restricted in scope, often limited to providing transportation facilities. Decisions were taken on the basis of vague ideas of general progress, and often somewhat haphazardly. The process was not an even one, but was interrupted by setbacks and crises; and probably quite a good deal of misplaced energy and effort went into over-investments. In many respects development was a process of trial and error.

It is now believed that economic development may be furthered by what may be called a "development policy." This certainly does not mean that no use would be made of the powerful force of private initiative; but it is hoped that some of the errors and waste of the past may be avoided. This development policy would have four principal objectives:

- (i) To create the general conditions favorable to development;
- (ii) To acquaint the government itself, the business community and the public generally with the potentialities and advantages of development;

- (iii) To make a number of investments, usually of the "basic" type; and
- (iv) To take measures designed to facilitate and to stimulate private activity and investment.

We may say that (ii) will result in the projection of a pattern of development, whereas (iii) may be said to represent the government investment program, or plan, consisting of a number of public projects. In order that the pattern may materialize, a number of private projects will also have to be carried out. Activity (iv), the policy in the narrower sense of the word, is an attempt to induce action by the private sector in conformity with the pattern. In this paper, "program" is used to refer to the total of desired investment, both public and private, unless the context indicates that only public investment is meant, and "programming" accordingly refers to programming for the whole of the economy.

In this introductory chapter a few remarks will be made on the nature of each of the objectives of development policy and their interdependence.

I 2 The Creation of the General Conditions for Development

In order that sustained development may take place, an economy must possess certain basic characteristics. Among these are a minimum of security and stability, both in general and particularly with respect to economic matters. There must be some government activity of the sort usually considered essential to an orderly state, such as the maintenance of order and of physical security of persons and property. In addition, there must be a minimum of "instruments of economic" policy" in the hands of the government, and these must be properly used. For example, the financial and monetary policy must be such that serious inflation as well as deflation is avoided. Inflation may upset the economy by introducing an ele-

ment of uncertainty and unreliability into economic calculations, and by causing misdirection of productive resources. In particular, inflation creates an opportunity for speculation and the acquisition of high incomes by persons who do not make productive contributions to the economy; this results in a greater demand for luxuries than can be satisfied by an optimum use of the factors of production. Also there will be a tendency towards balance of payments disequilibrium, resulting in currency regulations, which are often discriminatory and not in the general interest.

Another general task of the government is to provide a minimum of social security and to correct the most extreme inequalities in income—inequalities easily conducive to social unrest and lack of cooperative spirit in production.

Finally, a very important condition for development is the provision of training and education at all levels. Since these activities are not as a rule considered a part of economic policy, they will not be considered in this report, but their importance should not be overlooked.

1 3 Awareness of Development Potentialities and Advantages

Awareness of the possibilities of development is accomplished largely through statistics, research and information. First come the basic activities consisting of the collection of statistics and the making of surveys. On their data must be based the diversified activities called programming; these are discussed in some detail later in this report. The results of statistical investigation and programming must be communicated to those concerned with development together with facts about government policies; here the provision of adequate information is of importance.

The basic statistical orientation must consist, first of all, of reliable statistics on such subjects as production, trade, prices, govern-

ment finance, income and income distribution. In addition to this a summary of the structure of the economy must be prepared, taking the well established form of national income estimates and national accounts. Even if the basic material is incomplete or unreliable in certain respects an attempt should be made to arrive at such a summary.

Programming may take a form ranging from one sheet of tentative figures on a country's future income and investment to a series of reports on all industries and contemplated projects involved for the next decade. Programs by their very nature have to be guesses and must be revised periodically. Perhaps their most important contribution is that they try to show the interdependence of the relevant economic phenomena. Even those programs are useful which do no more than show in the most elementary way that the rise in income must bear some relation to the volume of investment, and that incomes must not be expended in a manner and for purposes which may cause inflation. Of course, the more detailed they are, the more guidance they will provide to the business community, where they may serve as the basis for market research.

4 Basic Government Investments

For a country to be stable and to offer a basis for economic activity and development, a certain number of fundamental investments must be made. There must be a minimum of housing and transportation facilities. Supplies of power and water must be available, land may have to be reclaimed or irrigated and so on. Usually such investments cannot all be made by private individuals, since their yields spread through the community and do not readily take the form of income to the investor. The extent of these facilities should of course have some relation to the volume of production of the consuming industries, and the investments should therefore be planned on the basis of the general development to be

expected. There may be some difference of opinion about the exact dividing line between public and private activity in these fields; this question is discussed later on.

1 5 Measures to Facilitate and Stimulate Private Activity

In certain circumstances, the emphasis will have to be shifted to-wards a more indirect type of policy, designed to facilitate and stimulate private activity. This does not mean that public investment will not have to continue. But the policy as a whole will have to become more subtle and use more instruments. It will have to be based on more elaborate programming. Instruments of tax policy, both direct and indirect, import duties or subventions will have to be employed, and representatives of certain industries will have to be approached directly. The use of these devices will have to be judged against the background of the general policies referred to in Section 1 2, so that a co-ordinated series of objectives can be achieved by the simultaneous application of a variety of instruments of economic policy.

In the next few chapters the various elements of development policy proper will be taken up in succession.

I 6 Development Policy Under Varying Circumstances

Depending on circumstances some elements of development policy will require more emphasis and attention or will appear more or less promising than others.

If a country finds itself in a state of severe inflation, attention may have to be directed to the proper general policy before embarking on new and ambitious programs or policies.

In an early stage of development, more emphasis may have to be

laid on basic investments, perhaps those designed to eliminate economic bottle necks. In later more mature stages, the stimulation of private investment may come more into the foreground. To what extent this will be at all possible and promising will also depend on the general attitude of the population with regard to development and to government measures, and on the quality of the administrative apparatus. The details of development policy will be governed by the structure of the country's economy, as determined by its natural resources, climate and geographical situation, as well as by temporary bottlenecks that may arise.

Finally, the size of the country should be mentioned as a factor. In a small country, it may require so few persons to design and execute a policy that it becomes relatively easy to accomplish the orientation, co-ordination, persuasion and co-operation so important for successful development. This applies in particular, as will be clear, to the role that may be played by general advisors from foreign countries.