Planning as
a preparation for policy

1 Public and private activity

A development policy, forming part of a general economic policy. is both complicated and comprehensive. It must influence and direct the whole activity of a modern society in all its variety. This activity takes place partly in the public and partly in the private sector of society, but its most important aspect is, of course, production in factories, workshops, offices, schools and so on, and by means of roads, railways, etc. The results of this productive activity. the products themselves, are sold either for further processing or for ultimate consumption in families, hospitals, military camps and so on. The state shares in production in, for example, the electricitysupply industry and in coal-mining, in the regulation of the monetary and legal systems and in education, and also shares in consumption in the military sector of society. In the West, by far the greater part of these productive activities is in private hands. although a considerable part, possibly even a quarter of the total production, is undertaken directly by the state. In communist countries, however, a much greater proportion of production is in state hands. In Yugoslavia, fifty per cent of production is directly under the state, and in the Soviet Union private production is confined to the liberal professions, the building industry and parts of agriculture and the retail trade. Poland is the only country in the official communist bloc, of which Yugoslavia is not a member, where virtually the whole of agriculture is in private hands. In certain non-communist countries too, such as Turkey and India, the public sector of industry is greater than in most developed countries. In both Turkey and India it was generally felt that there was a lack of initiative in the private sector of industry and, although socialism played no part in the creation of industries by the state in Turkey, it did in India. In the United States, the public sector is rather smaller than in western Europe, and the influence of any socialist party is negligible.

In almost all countries, the state has an indirect influence on private activities. In many spheres, it exercises control by, for example, prescribing hours of work in an industry, by imposing

taxes or by issuing trade or agricultural policies. Even when the public sector is comparatively small, the influence of the state on the whole economic life of the community is nowadays generally great.

2 The division of labour between the public and private sectors

This growing influence of the public authorities on the economic life of the community has been consciously aimed at especially in the communist countries but also in western Europe. Often, however, it has come about unintentionally as the most natural solution to certain difficulties. It has long been accepted that the maintenance of law and order should not be left to private individuals, and that the circulation of money should be entrusted not to banks in competition with each other, but to a single system of central banks. In western Europe the central banks have been taken over by the state. During the Depression, the state also regulated certain unstable markets, especially of agricultural products, and this regulation has remained in force in all countries ever since. During the war, consumer goods were rationed, the supply of raw materials was controlled and permits were required for all building. Many of these examples of state intervention were removed after the war in the developed countries, although others, such as building permits and import restrictions, have been retained, especially in the less developed countries. The dividing line between state activity and private activity is therefore more or less empirical in origin and the question as to whether there may perhaps be a more systematic demarcation between the two is therefore a reasonable one. We shall come back to this question in chapter 5. In the meantime, we must content ourselves with the statement that certain tasks, among them that of formulating what is usually referred to as economic policy, are more competently carried out by the state. It is more or less universally agreed today that the state must exercise fairly detailed control in the economic life of the

country, or at least that this control should be sufficiently detailed for the economic policy to be made a complicated process. All complicated processes require preparation. If the process is not carefully prepared, it will not be possible to fit the various parts properly into one another. It is this preparation, then, that we shall refer to as 'planning'. We may define a plan as a coherent whole of facts and figures indicating the most desirable course of events. Plans can be made for all kinds of undertakings – for a holiday, for a process of production in manufacture or for a public enterprise such as the making of a road – and the part that the state has to play in the social and economic life of the community ought also to be planned. In view of the fact that the state's part in the economic life of the country is to make the economy function as well as possible. a plan of this kind ought to indicate not only what the state itself is to do, but also the most desirable course and direction of the economic process as a whole. It is commonly believed that it is sufficient for the plan simply to describe this course of economic events. This is, however, not so – an essential part of the plan is that it should also indicate the measures to be taken by the state. And it is in this respect in particular that the Western democracies and the communist countries differ markedly from each other the state plays a much more comprehensive part in the economy of the communist countries, because a far greater proportion of these countries' production is in the hands of the state and is directed in detail by it.

3 Short-, medium- and long-term policies

A government's economic policy is usually determined in the first place by the length of the term over which the aims of this policy are to be achieved. The aims themselves which in practice play the most important part in any policy are discussed in section 4 of this chapter. Here it may simply be said that policies can be concerned with the improvement of economic conditions in the immediate future, the more distant future or the very distant future. The

immediate future is usually regarded as being the next calendar year or the budget year, and a policy proposing measures which may influence the country's economy during this limited period is known as a short-term policy. A policy aiming at the development of economic conditions over the next five years or so may be defined as a medium-term policy, and a policy aiming to influence the country's economic development over a period of fifteen, twenty or more years may be called a long-term policy.

These distinctions between the lengths of term in economic policies can be made because there are certain factors which influence economic development from year to year and others which have an influence in the medium or long term. Fluctuations, in the harvest and in the stocks needed by industry and commerce, for example, may determine economic conditions in the coming year, but their influence may be compensated for by other changes which cannot be foreseen because of the random character of these changes. The same applies for incidental changes influencing the country's economic conditions, such as changes in import duties. Counter-measures introduced to deal with such changes are included within the short-term economic policy, which requires preparation in the form of a one-year or even of an *ad hoc* plan.

Economic development over a period of five years is to a great extent dependent on investments made in the immediate future and especially on those whose yields will become available only after some years – and this, after all, applies to the great majority of investments. In addition, new institutions established in the immediate future may also have a considerable influence on the social and economic life of the country over a period of the next five years and a five-year plan is usually the most suitable preparation for a policy that seeks to achieve these aims.

Finally, there are also factors which have a long-term influence on economic development. Among these may be counted an extension of public education, very long-term investments, such as the construction of a great dam – the Aswân High Dam is an example – and far-reaching changes in a country's institutions brought about over a long period as the result of, for example, successful propaganda for birth-control. A long-term or 'perspective' plan is the best preparation for many of the economic measures concerned with these and similar factors. In conclusion, it may be noted that this distinction between short-, medium- and long-term planning has come about very gradually as a result of our increasing awareness of the nature of human activity.

4 The aims of social and economic policy

It is necessary to describe the aims of social and economic policy and the means of achieving these aims if this policy, whatever its form, is to be defined more precisely. In the following discussion of these aims and means, I propose to take as my starting-point the need to view all the measures proposed in social and economic policy as a single whole resulting from the close connection that exists between economic and social factors. This whole is what we call the economic policy or rather an economic policy, since there are different ways of approaching the question. This policy is then described in terms of the whole body of its aims and the means by which these aims are to be achieved.

These aims are autonomous or independent insofar as they are not in conflict with each other. By autonomous I mean that they may be chosen according to the government's own preference, and for the economist or planner they are data. In formulating its aims, the government will naturally take the preferences of its electors into account, and these preferences are also autonomous. This does not mean that the government is bound to follow all these preferences in their entirety. It may exercise a degree of control, especially if it feels that the electors are not fully aware of their own interests, perhaps because of short-sightedness. (This would be an example of a conflict between preferences as they are seen by the electors at present and as they may perhaps be seen at a later stage.) It may also happen that the government itself is short-sighted or in some other way inconsistent in its aims, and the

specialist planner may possibly be able to correct faults of this kind.

The aims of an economic policy may be either ultimate or derived. Ultimate aims may be defined as the greatest possible satisfaction of the whole population, although this definition means very little because it is so general. A first derived aim is one stating the quantity of consumer goods and the productive efforts of all kinds that are deemed necessary to bring about the greatest possible satisfaction of the population, and a second derived aim is one stating the objectives in income and production that are an assumed requirement for the quantities of consumer goods and the productive efforts necessary to the achievement of this greatest possible satisfaction. A further step in the direction of derived aims brings us to the economic measures that the government should take if these objectives in production are to be achieved; in other words, the means. For practical purposes, the aims of an economic policy are very often defined in a derived form. It is well known that the Soviet Union for a long time stated its production objectives for steel, coal, cement, sugar, cereals, etc., as its aims for the five-year plans. When the West reached the stage of planning and defining its economic aims, there was a marked preference for the use of what are known as macro-economic figures, showing a summary of the national income, national consumption, employment and so on. For medium- and long-term plans, the growth over the period under review is even more important than the level in one year, with the result that growth-rates have a place in these plans as prominent as aims. For example, an annual growth of 5 per cent in national production or national income was chosen as the aim over the period 1955–60 for the member countries of the Organisation for European Economic Co-operation (OEEC). A similar aim of 5 per cent annual growth has also been decided upon, as the recommended program, for the Development Decade 1960-70 of the United Nations for all the developing countries; 5-3per cent has been chosen as a standard figure by the Alianza para el Progreso for Latin America and 7 per cent as an aim by the Turkish plan for 1963–7. Similar figures have been adopted by

Egypt and Venezuela.

Apart from these total figures, a number of figures concerned with the distribution of the national income over groups of the population and geographical sections of the countries in question are of great significance. Generally speaking, however, it is not so easy to give accurate figures here, although the question has received a certain amount of attention in the plans of India and Tunisia.

Finally, it should be noted that certain of the aims that are sometimes included in an economic policy are for the purpose of achieving equilibrium in the balance of payments or of avoiding inflation, although these are not always expressed in figures.

Short-term aims are also expressed in the form of changes in comparison to the preceding year. In western European countries, an aim directed at the balance of payments and the level of prices is frequently included among aims of this kind.

5 The means of economic policy

A given aim can be attained by various means or combinations of means, and one of the special functions of the plan is that of choosing the best possible means from all those available. From this it will be seen, then, that the means of a policy are less autonomous than its aims. The choice of means is to a great extent conditioned by their effectiveness, although the question of preference, or valuation, will also play a part in determining this choice, since a means will only be considered suitable if the sacrifices are slight in relation to the results expected. In this connection, the psychological aspect is also important. For example, psychological objections to certain forms of taxation as a means of achieving the aims of an economic policy are bound to carry some weight, and there may be even stronger psychological objections to the introduction of forced labour, from the compulsory service of people of a certain age to the establishment of concentration camps for political opponents of the government. The very fact that many countries refuse in advance to consider industrial conscription

shows that autonomy does play a part in the choice of means.

The means may also be classified as either qualitative or quantitative. Among the qualitative means are those institutions chosen by a country as the organisational framework within which its economic and social life takes place. A further distinction can be made here between the absolutely fundamental institutions. such as the citizens' rights of property and ownership and various forms of joint decision, and the less important institutions, such as certain kinds of taxation or of social insurance and the toleration or non-toleration of certain monopolies. The part played by the state as a producer and the extent to which it can intervene in the country's production are also important in the qualitative choice of means. Extreme examples of this are, on the one hand, the policy of laissez-faire, the principle of complete non-intervention on the part of the state and, on the other hand, the drastic state intervention which took place during the war and which has always been normal in communist countries. There is today, in most of the countries of the West, an extensive implementation of economic policy. [9]

The quantitative means of economic policy are the figures stating the intensity of intervention by a number of institutions, such as rates of taxation, import duties, the interest-rates of the central bank, scales of subsidy and prices on market regulation. It is often sufficient to change these figures in order to influence the national economy to the extent required, especially in the case of short-term policies. It far less frequently happens that the institutions themselves are changed – this means is generally employed only in the case of long-term policies. A great deal of short- and medium-term planning, on the other hand, is quantitative.

It is, of course, not always possible to make a rigid distinction. The reduction of the level of taxation in a certain case to nil, that is, the abolition of this particular tax may, for example, be regarded as either a quantitative or a qualitative measure. The setting up of a new institution, on the other hand, is bound to influence production investment figures and to cost a certain sum of money, so that this qualitative measure also has a quantitative aspect.