The qualitative aspect of a development plan

1 The optimum social order

For any development plan, but more especially for a long-term plan, one fundamental question has to be asked: is the social order. in other words, the complex of institutions of which the society is made up, the best? In many cases, it will be found that this social order, which has come about in the course of the country's history, is no longer suited to meet the demands of a modern society and modern development. In very many developing countries, the social structure is still feudal, with the result that certain groups of people enjoy privileges which are not based on achievement. These countries also have, existing alongside the old feudal structure, institutions which they have adopted from the earlier capitalist order, that is free entrepreneurs engaging in free competition with each other, sometimes alongside a system of monopolies and protection. Consequently, a really well-thought-out development plan must also clearly envisage the form of the new social order aimed at.

By 'social order' here is meant the whole complex of institutions with their rules and regulations which form the society and within which individuals are able to pursue and develop their activities. Several examples have already been given of institutions, in the sense in which they are to be understood here. In addition, the rights of public and private ownership and the various state institutions with their manifold functions, such as the introduction of systems of taxation and of social insurance, should also be included under this heading. Another example is the manner in which goods and services are provided to others. This may take place by means of a system of markets in which buyers and sellers meet each other, either in free competition or within a strict or fairly loose framework of monopolies. In that case, certain institutions will have been established, such as cartels or employers' associations on the one hand, and trade unions on the other. Further examples are schools and colleges and various types of cultural institutions, including religious bodies. Finally, there is the institution of the family or of the extended family unit, within which many different rules of conduct may prevail.

Every complex of institutions of this kind and the rules which govern their conduct result in a certain pattern of human behaviour in both the material and the spiritual spheres. This in turn will determine production, distribution and consumption and ultimately human prosperity and its equal or unequal distribution over the whole population. The all-embracing and at the same time extremely difficult problem of finding the best social order is in principle dependent on whether the pattern of society which will lead to the greatest welfare of all is found from among the many different social orders that are in fact possible.

The problem is beset with very great difficulties. One immediate and fundamental difficulty is what definition is placed on the prosperity of both the individual and the groups that comprise every population. In the case of the second, the celebrated problem of reducing the prosperity of different individuals to one common denominator has to be solved.

2 Welfare economics as a method

There is, of course, no agreement among the many specialists with different backgrounds of intellectual and technical training who are concerned with this problem. The more everyday aspects of the problem do, however, offer a little more common ground, and much of life is, after all, composed of everyday experience. Economists have probably been most closely concerned with the concrete aspects of the problem in the sphere of welfare economics. Politicians and political scientists have also been preoccupied with the problem, but on the whole they have been less successful than economists in finding a common basis. The great ideological debate between the communist and 'bourgeois' camps is the best known of all the controversies over this point in which politicians have been engaged. Both sides, however, base their arguments on out-of-date theories, the communists on the Marxist theory and their opponents on the 'liberal' theory. In our view, far better results

would be obtained if on the one hand empiricism and on the other welfare economics were taken as points of departure. It is impossible to express in a useful form a theory that has not been sufficiently tested by experience. The theory of economics is well on the way to becoming an empirical science of this kind. What is more, many of its methods are now applicable to spheres that originally did not come within its scope. It is, for example, no longer exclusively concerned with the satisfaction of man's purely material needs.

Although there are still considerable defects in our present definition of the concepts of welfare and prosperity. the theory of welfare economics is none the less able to prove a number of theses which may well act as a guide in our quest for what must today be called the optimum social order. It formulates a number of conditions which a maximum welfare must satisfy in a world in which the men available show definite preferences and certain laws of production obtain, in other words, certain limits exist to what goods and services can be produced with the existing supplies and with the help of the available personnel.

Together with these conditions go the rules that the same commodity must be sold to every buyer at the same price and that these prices must be as if they had come about in free competition on the market. These conditions have become very widely known because they are regarded by the so-called liberal school as a proof of the correctness of what they are striving to achieve — a 'free' society of private entrepreneurs. This is altogether too hasty a conclusion. Certain important reservations have to be added, with the result that a clearly different purport will be given to the conditions mentioned above.

The first reservation is that the optimum social order must satisfy more than simply these two conditions. An order that does not fulfil these other conditions is not an optimum order. One very important further condition is that a redistribution of income must take place that will result in equal marginal utilities for all persons. This means that the last dollar spent will yield the same

utility or satisfaction for everyone. There is, of course, a great deal of uncertainty as to whether marginal utilities can be compared between different persons. None the less, it seems to us to be quite clear that the necessary redistribution of income must be quite drastic. Another important condition is that the system of taxation by which this redistribution is accomplished should not touch marginal income. Extra dollars which can be earned by extra effort should therefore not be taxed. This means that a far smaller proportion of our taxes must be obtained from indirect taxation and from personal income tax than is at present the case. It means therefore a shift of emphasis towards property and profit taxation.

Another reservation that must be added to the first two conditions refers to those cases in which the laws of production show one of two phenomena which deviate from the features that were previously generally accepted. The first of these two phenomena is that of technical overcapacity. It is the result of the indivisibility of certain installations of production, such as railways, roads and electric power stations, which have a certain minimum size. For these technical reasons, there is bound to be a greater capacity in a number of industries than demand for the product. The railways or electric power stations will not, or at least not always, be fully used. Under free competition the prices of their products will therefore show a loss. For this reason, private undertakings are not the proper institutions for the operation of such branches of industry. If they are not government controlled, they will combine into monopolies. Hence communal production is the only possible solution here. A system of two-part rates for private enterprise has been suggested as a solution to the problem, so that the optimum conditions may be satisfied and continuing losses need not be shown. Although this solution does contain an element of truth, we are, for different reasons, of the opinion that even then such industries can lead to a better approximation to the optimum prosperity if they are run by the community as a whole. [22]

The other phenomenon leading to a deviation from the liberal view is that of the so-called external effects. Expressed in its

simplest form, this means that certain of the advantages or disadvantages connected with production in a given branch of industry are not experienced by the buyers of the product but by others; in other words, by outsiders. This means that these advantages or disadvantages are not expressed in the price and therefore not in the profitableness of the industry. This, then, is an inaccurate criterion of the industry's utility to the community. In such a case, the private industry is not allowing itself to be guided by calculations showing the advantages and disadvantages for the community and it is thus able to do things that are not in the common interest. A well-known example of such negative external effects, or external diseconomies, is that of air and water pollution. If these drawbacks are taken into account, production should perhaps either not take place at all or else be limited. As examples of external advantages, we may take the maintenance of a road for which no toll may be levied and the administration of a school for which no tuition fees may be charged. In these two cases, although there are no buyers, since neither the users of the road nor the pupils pay, both the road-users and the pupils have advantages from the maintenance of the road and the running of the school respectively. These examples may seem rather trivial, but they do illustrate the principle of external effects. It is perfectly clear that, under the circumstances, the road must be maintained and the school run by the public authorities.

A more modern interpretation of welfare economics can, then, provide us with a criterion for the demarcation of the functions of the public and the private sectors of society. It is interesting to note that most of the functions carried out at present by the state can be classified among the activities which show either technical overcapacity or else external effects. Positive or advantageous external effects are clearly present, as in the cases already cited – the upkeep of roads and the running of schools. They are also present in the case of the maintenance of the public peace and of foreign security, both very old functions of the state. Public health care and protection of the currency also come into this category. Technical over-

capacity is present, for example, in the case of roads, railways, electric power stations and broadcasting stations, the latter showing technical overcapacity in the sense that they can serve more listeners virtually without extra expense.

It will therefore be clear from these examples that welfare economics can provide certain more objective points of departure for the definition of the optimum social order. At present, welfare economics would seem to point to a mixed order of society, in which the state has many important functions.

There is, moreover, nothing against a country having certain preferences for definite cultural or social elements that are not covered by an economic analysis alone. I have already said that the aims of economic development are autonomous insofar as they do not conflict with each other. It may even be possible to say that the analysis given here is a more penetrating attempt to avoid conflict in the choice of social order.

3 The empirical approach to the problem

The best starting-point for an empirical approach to the choice of the optimum social order is the various existing organisations of society and their development. These can be compared with each other and the modifications to their structure which the successive governments of the country have considered necessary can be observed in their development. In general, it may be assumed that the changes that have taken place were made with the purpose of raising the general level of well-being as this was understood at the time the changes were made.

The developments observable over the past fifty or hundred years indicate for the most part a movement away from feudalism towards a capitalist society of free enterprise and from there to a mixed order. At the same time, a number of socialist economies have also been established. These economies, that is, those prevailing in countries governed by communist parties, are still developing; but it is interesting to note in this connection that this

continuous development has not always resulted in a reinforcement of the socialist features. Both in Yugoslavia and Poland and in the Soviet Union, a certain degree of decentralisation has taken place and in some cases there has even been a reintroduction into industry of private management. It is therefore possible to maintain that a great deal of experiment is going on everywhere in an attempt to find the best possible social order and that one result of this is that the Western and the communist systems are beginning to achieve a measure of rapprochement. Western society has changed by extending the public sector, by the introduction of progressive systems of taxation and of various forms of social insurance, by accepting a certain measure of planning and by expanding public education. Communist society has also changed. A different view is taken now in the communist countries of the use of money, the calculation of costs especially of capital as a factor in production, of the organisation of trade among themselves and of the function of decentralisation. Although the differences between the western democracies and the communist régimes are still great, these changes on both sides have undoubtedly brought the two systems much closer together. What is more, the movement continues. Neither side has succeeded in finding a solution to all its social problems. The communist countries are still troubled by the problem of the distribution of work between the industries and the government, by the place of agriculture and the agricultural workers and by what attitude to take towards certain forms of art and writing. The West too is still struggling with serious social problems. Certain forms of income derived from speculation or property are regarded by very many in the West as unsatisfactory. The question of industrial democracy - joint decision, shareholding and ownership between employers and employees – is still unsolved. The organisation of education and, as in the communist countries, the influence of certain types of artistic expression are still pressing problems. The developing countries are concerned with the problem of making their own choice from what is present in their own countries and what they

encounter in others. The development plans of most of these countries contain a number of fundamental reforms.

4 Fundamental reforms in the developing countries

They depend in the first place on the political views of the people themselves or of their government. In addition, there are also great differences in the degree of influence which the population is able to exert on the government. In many of the countries governed by a dictatorship, this influence is very slight. The population can exert a much stronger influence in some of the countries with a democratic government, though this will depend on the general level of education among the population. And within the country itself, those members of the population who are at a higher economic or intellectual level will have more influence on the government than those at a lower level.

Most developing countries regard land reform as necessary, and aim at a more equal distribution of land among a greater number of people. This aim is justified in countries where there are large landowners who neglect production on their estates, having bought them, for example, simply as an investment against possible inflation. Sometimes, however, it is not advantageous to distribute a large estate, if, for instance, this would entail the division of an extensive system of irrigation without adequate co-operation among the small landowners. In such cases, a separate organisation is usually required, and this is probably best carried out by the state. Such a central organisation must, however, be in a position to function as soon as the land reforms come into operation.

In general, agriculture will only flourish as a small-scale industry if an extension service and a number of auxiliary co-operative services – for credit, purchase, sale and processing – are set up at the same time.

Finally, with reforms that are as extensive as this, it is necessary to take into account all forms of evasion, such as the distribution of

land among members of a family who turn out to be men of straw on behalf of the original owner, with the result that the situation remains completely unchanged.

A second fundamental reorganisation urged in many developing countries is that of the state machinery. This is often severely hindered in its operation by inefficiency, corruption and tradition. Inefficiency is, of course, a feature of the countries as a whole, but it tends to be far greater in the case of the machinery of the state. It takes the form of interminably long procedures which are conducted very slowly and in which too many different authorities are involved. For example, the granting of an import licence may not automatically confer permission to pay for the import, or an import licence for a machine is not necessarily accompanied by licences for the import of spare parts for the machine when these parts are worn out. Another common example of state inefficiency is the employment of too many authorities on the same subject. The Turkish five-year plan cited a number of examples of this kind of duplication. As a final example, there is the frequent case of insufficient delegation of authority to ministry officials at a lower level, with the result that these men are unable to make any decisions without going as far as or almost as far as the minister himself. Corruption is, of course, partly due to the fact that official salaries are too low, but there are also cases where it denotes the granting of a special privilege to persons in power. It is particularly harmful when it occurs in the inland revenue. In this case, it is necessary not only to reform the revenue department, but also to change the attitude of the tax-payers. A firm attitude on the part of the administration will do much to bring about a healthier outlook on the part of the tax-payers. Apart from the efficiency and the power of the machinery of taxation, there is also the question of the taxes themselves. It is a well-known fact that in the poorer countries indirect taxation forms a larger proportion of the whole revenue than direct taxation. There is even a fairly clear negative connection between this proportion and the income per head of the population. Although this situation tends to cause pressure on the general

prosperity of the mass of the population, it does at the same time lead to greater savings, which is the reason why indirect taxation plays a bigger part in the economy of the communist countries than direct taxation. In countries where the community itself determines incomes, the problem may be viewed differently.

The reform of the industries controlled by the State that was advocated in the Turkish five-year plan of 1963-7 was closely connected with the reorganisation of the state administration in the narrower sense. State enterprises are, of course, far more directly influenced by the administration than private industries, and it is to be expected that many of the aspects of inefficiency associated with the government machinery will be found in the industries that are under government control. They are frequently obliged to fulfil certain political functions, such as keeping prices low or providing work for many people which for various reasons are opposed to efficient industrial management.

Finally, educational reform is an urgent need in many developing countries, as in several of the more developed countries as well. Above all, educational methods need to be changed. Rote learning must be replaced by intelligent understanding, and mere listening by activity. The purely historical treatment of subjects must give way to a more systematic treatment. The one-sided emphasis on purely intellectual formation must be replaced by a training of the whole character, and the stress on individual achievement must be overcome by more team-work. One of the most important things to be borne in mind, in any attempt that is made to introduce these educational changes, is that it is not a question of going from one extreme to another, but of achieving a balance between two extremes. It is particularly important, for example, that a balance should be found between a wide curriculum and specialisation. Lastly, modern methods of teaching languages and mathematics have an important place in these necessary educational reforms.