CHAPTER 8

SOME REMARKS ON THE ORGANIZATION OF ECONOMIC POLICY

8.1. Number and Nature of Agencies and Their Tasks

8.11 Economic policy, as will have become clear from the preceding analysis, is a complicated activity. Its preparation and execution require a large number of agencies, spread over the country, with many thousands of officials. In order to be well done, it requires a deliberate organization of the tasks involved. Evidently the nature and extent of such organization depend on various circumstances. One type of policy requires a much more elaborate organization than the other. In war time the number ot agencies and officials is perhaps double that of a normal period. Today, in a normal period, economic policy requires a much more intricate machinery than, for example, in the nineteenth century. The degree of organization needed also depends on the quality of both the population and the officials.

An appropriate organization of any activity must be based on an analysis of its tasks. Since the tasks involved in economic policy are the handling of the various means, including, for quantitative policy, the instruments, the organization and the formation of executive agencies should be based on the various means and instruments, not on the aims or targets. The aims should, of course, be in the minds of the agencies, but they should be, at the same time, aware that other means or instruments will also exert their influence on the target variables. It is the task of the Central Bank, to give an example, to handle credit policy, not with one special aim in mind, say the defence of the gold stock or of the value of money, but with all aims together, including a stable level of employment, in mind. It is no use therefore having agencies for separate aims. Executive agencies have to act and action presupposes an instrument or a means.

8.12 Apart from executive agencies there have to be co-ordinating

and supervising agencies and these will have to occupy themselves with the complete set of aims and means. To the extent that a certain group of aims can be attained by a certain group of means, without other means interfering, there may, of course, be co-ordinating agencies at an intermediate level which need only look after this group of aims, but this hardly applies to the main means of policy.

There is a correspondence between the organization of economic policy and the structure of the matrix of coefficients in the simplified version of the economic model describing the relations between target variables and instrument variables. If that matrix is partitioned there are groups of targets and instruments that can be treated independently of the others.

In the case of policy problem 162 (§ 4.23), and according to equations (4208), (4216), (4217) and (4218), there is no such partitioning, but the agency responsible for wage policy has to pay attention to two only out of the four target variables, namely employment and balance of payments deficit; the agency responsible for indirect taxes to three only: furthermore, the target for investment activity is unaffected by the level of indirect taxes.

In order to let the process of economic policy run smoothly and efficiently it is desirable that the various means are allocated to the agencies in such a way as to leave no doubt concerning competence. The instructions to each agency should be such, however, as to let all relevant aims be permitted to exert their influence (cf. § 8.2).

It follows from the preceding argument—and in fact, from the general interdependence of aims and means—that a system of autonomous ministers, each of them responsible for a certain set of aims, is incompatible with modern economic policy. This has been appreciated in most countries, and a certain degree of co-ordination usually takes place. It is doubtful, however, whether the degree of co-ordination is sufficient according to modern standards of efficiency. [1]

As was already stated in § 1.3, the process of economic policy may be decomposed into various consecutive phases, to be called planning, co-ordination and decision, execution and supervision. This decomposition is of course schematic, and the complexity of the process will

[1] In several countries this applies in particular to the co-ordination between the Treasury and the Central Bank.

not always permit keeping to it in detail. The phases will sometimes have to be repeated: a provisional attempt at coordinating certain elements may require a second planning phase to be inserted, etc. Co-ordination and decision have been mentioned as one single phase because of their interdependency. The various phases will be discussed in succession.

Before doing so we have to recognize that the process requires time. Certain acts of policy can be carried out in a few hours. There are others that take years; this is especially true of the decisions to carry out big investments or to set into motion a coherent program of, say, industrialization. The important element formed by a change in a tax rate usually requires several months: it has to be prepared by the Treasury experts, to be discussed by the executive officials of the Treasury, to be discussed in the Council of Ministers, perhaps to be submitted to one or more other Councils or Committees, it has to be submitted to Parliament and to be discussed in two Houses as a rule.

8.2. Planning of Economic Policy

The origin of certain acts of economic policy sometimes has to be sought for in preparatory discussions among private circles, in political parties or in research institutions. Schemes of social security, for example, were discussed for years before they entered into practical policy. Proposals to nationalize certain industries were subjects of hot controversy between citizens and experts decades before they played a practical role. Proposals for compensatory budget policies as a means of stabilizing cyclic movements were discussed long before they became parts of any government program. Often it is the underlying principles rather than the technical aspects of a policy which are discussed and worked out by the circles just indicated.

By far the largest volume of planning work, as a rule, is performed by the government agencies to whose competence the policy belongs. This is especially true for elements of current economic policy. A large number of government agencies are more or less continuously planning policy changes for the near future. One of the difficulties about the efficiency of this process is the absence of co-ordination. Even in the planning stage there should be a set of provisional directives for

this work designed to avoid inconsistencies. This applies, first of all, to the basic data to be used. If the Treasury is working on tax reductions, the Minister of Social Affairs on wage policy and the Ministry of Economic Affairs on price policy there should be evidently a common basis as to what cyclical position will be probable, and the policies of these various ministries should be consistent with each other: under boom conditions, when it is desired to keep prices stable, financial policy should be directed towards a stabilization of total demand which is the driving force in short-term movements. Co-ordination is also needed as to the aims of policy: they have to be consistent in themselves. This may be facilitated by certain "declarations of intent" by the government.

Such declarations will also be of considerable help for the contacts, during the preparatory stage of policy design, with the private sector. These contacts are very desirable and almost indispensable for arriving at a reliable forecast and for creating a sphere of mutual understanding between the private sector and government agencies.

8.3. Co-ordination and Decision

As already observed, co-ordination has to start in the planning phase with the issue of directives to the agencies concerned. It is a process of mutual influence between the specialized agencies and the co-ordinating centre. The centre has to start by the sending out, on the basis of a macro-economic analysis, of provisional directives. The specialized agencies, when working out their plans, may strike elements that were unknown to the centre, or of which sufficient account had not been taken. It may then be necessary to amend the directives and start a "second round". Sometimes one round will be sufficient, sometimes even more than two rounds will be needed. The final stage of the phase under discussion consists of the decision as to aims and means and the extent to which the means need to be used.

The function of co-ordination and decision requires the existence of inter-departmental bodies, especially when instruments which exert manifold influences are involved. Changes in taxation, for example, will have to be discussed with a number of departments, because they influence the level of investment or consumption, or since they affect

the competitive situation of certain industries. Wage changes will have to be discussed because of the same problems, and so on. There will have to be one central committee where economic policy generally will have to be co-ordinated; apart from the Council of Ministers which has to take the final decisions. Its decisions will have to be prepared by a central committee of high-level officials of the ministries. There will have to be staff organs for the various committees in order to carry out the investigations and to draft the necessary documents. The general design of co-ordination, based on the type of analysis presented in this book—and particularly the analysis as given in Chapters 3 and 4—will have to be the well-defined task of one well-defined unit. There should not be, in other words, any doubt as to the competence in this respect.

The pattern of organization of economic policy may have to be streamlined in some other respects as well. There will have to be clarity about the division of tasks between Parliament and Government. As a rule the details should be left to the government and the main features should be a matter for discussion in Parliament. There is a tendency to go into too many details in parliamentary debates. It requires a certain self-discipline on either side to avoid this. A well-organized debate would be made possible if there would also be some streamlining in the time schedule of economic policy. Simultaneous proposals on the more important subjects at regular intervals, e.g. once or twice a year, might be a valuable schedule. The most important features of a year's policy should, as a rule, be submitted on budget day.

Special problems of co-ordination arise when some instruments of economic policy, as, for example, wage rates or certain price and market regulations, are only supervised by the government, but largely handled by private organizations. By itself this handling by private organizations is a form of decentralization, comparable with the decentralization in local administration, which has many advantages. If, nonetheless, the instruments are considered of great importance to the general economic situation, a certain power to veto or amend their changes has to be given to the central government. It will depend on the economic situation whether these powers have to be more or less stringent. The government may permit wage changes within certain

margins, for example. If, however, there is a strong upward pressure, because of, say, a boom situation, it will be certain beforehand that all wages will rise until the upper limit is reached. This may make the margin illusory.

8.4. Execution

The execution of economic policy is distributed over a large number of agencies, each of them handling certain means; often the execution will have to be subdivided according to geographical units, branches of industrial activity, social groups, and so on. In the majority of cases there wil be a hierarchic relation between the local, branch or group agencies, and the central, supervising agencies in each subject. Many well-known questions of organization and efficiency will come up and have to be solved according to business standards, although special attention has to be given to certain characteristics of the public task.

One of these special characteristics is the autonomy of local authorities. This autonomy has important human and technical aspects and should be respected as much as possible. But by its very nature, that is, by the fact that the territory covered is restricted, it will also show some of the disadvantages of decentralization, as discussed in section 5.6. Some of the decisions taken by local authorities will also very much affect the well-being of other parts of the national economy. A certain supervision and guidance of local policies has to form the counter-weight. The forms of supervision and guidance are not indifferent. Persuasion rather than orders should be the usual instrument; particularly if the policy envisaged by the central authorities is in the interest of local communities themselves, without their being aware of it. A well-known example is business-cycle policy. At a certain juncture, for example in a period of slackening of private demand, it may be desirable to increase public demand; or in another situation, namely one of brisk private demand, it may be desirable to reduce public demand. Such an anticyclic policy is not always voluntarily carried out; nevertheless it is in the interest of the economy as a whole, and also, as a rule, in the interest of local communities individually. Persuasion of local communities will have to be attempted but it may be wise to supplement it with variations in the grants-in-aid

given by central authorities to local bodies. And in very urgent circumstances direct decisions by central authorities may be unavoidable. If so, the value of self-determination should, however, be taken into account.

In order that the numerous detailed decisions that have to be taken by both the agencies of the central policy-maker and the agencies of local authorities are taken in the right way, they should be taken in accordance with the aims of general policy. Exact knowledge and understanding of this general policy are among the means to obtain this parallelism of attitude.

8.5. Supervision

The execution of economic policy has to be supervised, that is, facts and figures about it have to be collected and to be critically considered against the background of the aims set. The function of such supervision is, primarily, to supply the responsible policy-makers (i.e. Government) with the means of controlling their own executive agencies. In addition, this supervision is a necessary instrument for Parliament to be able to perform its task; and, in the last ressort, also for those citizens who, individually or collectively, want to test government policy.

The function of supervision is, however, not only to appraise past acts. It also has to yield an important service in the shaping of future acts. As was discussed in § 1.3, planning has to start with an appraisal of the situation. This appraisal consists of a comparison between the actual situation prevailing and the situation considered most desirable. It will be clear that such an appraisal is identical with our definition given to supervision.

Supervision thus conceived will be largely a question of the collection of good statistics and other factual information and of their analysis. In an increasingly complicated world the role to be played by analysis is of growing importance. The task of these analytical studies may be clarified by asking why, as a rule, economic policy will not lead to the aims set. There are three groups of reasons why this is so. First, policy may not exactly have been carried out as it was intended by the policy-makers. Secondly, it may not have worked out as was

expected. And, thirdly, new events or developments will have intervened.

The reasons why policy may not have been carried out exactly as was intended are themselves manifold. Minor technical obstacles may have come up during the execution. There may have been misunderstanding as to what the intentions were in detail. There may have been made errors in the execution. And there may have been lack of parallelism between the intentions at the top and the acts at the basis of the hierarchic pyramid.

There are also several reasons why a policy may not have worked out as it was supposed to. The reactions of the economy may have been different from what was known to the policy-makers, because these reactions were only superficially known, or because they were subject to conditions not realized. Since there are so many reactions involved—those represented by each of the "reaction equations" of the economy—the possible locations of divergency are numerous.

Finally, new events may have changed the situation; they may also be numerous; in the language of our models, autonomous terms may have appeared in almost any of the equations.

For all these reasons, the analysis of the data collected for the supervision of economic policy must be a careful and detailed one, requiring the application of scientific methods and of much factual knowledge about the economy concerned. This type of analysis, as so many other elements of economic policy, is in continuous development and improvement. As will be clear, it has to be developed more or less along the same lines as the design of policy itself.

8.6. International Economic Policy

Whereas economic policy inside most modern countries is beginning to be well organized, it is hardly organized at all in the international field. The outstanding factor at the basis of this situation is national autonomy, an institution with such deep roots that it is almost a datum to the economist. Since, however, several of its effects on human well-being have been proved to be disastrous, it should not actually be taken as a datum. Slow changes, only, are possible, it seems, and it will only be by a continuous process of information and education

that some restrictions in autonomy will be obtained. In § 5.6 we tried to show that certain means of economic policy should indeed be centralized and it follows that accordingly a certain organization in international economic policy should be introduced.

In the present situation there is clearly a lack of agencies that can be held responsible for the fulfilment of certain aims which, in all probability, would be felt to be highly important by most citizens of the international community. In a few fields only, do international agencies, and those with a very restricted competence, exist, and there are continuous attempts on the part of national governments to reduce even these competences. In the jungle of international policy this is a self-evident feature. But, as we asserted in §§ 1.5 and 1.6, this state of affairs may well prove to be one of the biggest and most dramatic inconsistencies in the aims of economic policy, or rather policy generally. There can be no doubt about what the directives should be of all interested in world welfare.

In the actual situation a large role is played by negotiations between these autonomous policy-makers. As a consequence, the organizational picture of international economic policy is far more complicated than the already complicated subject matter would require. It is a "world of monopolies", smaller and larger ones, meeting in bilateral, or plurilateral combinations, complicated by all types of pressure groups, and their affiliations inside governmental bodies of a considerable number of countries.

There is scope for a complete reconsideration, from a truly international point of view, of this organizational pattern. There should be a few centralized agencies responsible for some of the most outstanding aims, with numerous decentralized agencies wherever that would be compatible with the vital interests or the world community. In today's jargon there is scope for much more co-ordination and integration. It is, however, beyond the scope of this chapter to give more than "some remarks" on the organization of economic policy. Some attempts at an elaboration of the remarks just made have been made elsewhere. [1]

[1] J. Tinbergen, International Economic Integration, Amsterdam 1954, Chapter XI.