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Planning for Economic Development

UNITED NATIONS

Department of Economic and Social Affairs

Planning for Economic Development

*Report of the Secretary-General
transmitting the study of a Group of Experts*



UNITED NATIONS
New York, 1963

NOTE

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SECRETARY-GENERAL'S PREFACE

This report was prepared by a group of experts whom I appointed under General Assembly resolution 1708 (XVI) to assist me in conducting a study of the experience gained and the techniques in use in the planning of economic development by different countries. The group was appointed in the spring of 1962 and arrangements were made to hold two sessions; the first session was held in August 1962, and the second in March-April 1963. Owing to the lack of time, however, the group could not complete the preparation of its report at these two sessions, and it became necessary to convene a third session in August 1963.

The members of the group acted in their personal capacities and their observations and conclusions were put forward to me on their own responsibility. I believe that these observations and conclusions are of great importance for the economic development tasks facing the world community. Accordingly, I am pleased to submit the report to the General Assembly for its consideration.

The group comprised the following: M. Z. Bor, Director, Scientific Research Institute of Planning and of Norms of the Gosplan, Union of Soviet Socialist Republics; Celso Furtado, Executive Director, SUDENE, Brazil; Borivoje Jelic, Director, Federal Planning Office, Yugoslavia; Paul Lemerle, Inspecteur des Finances, Chargé de mission au Commissariat général du Plan, France; Max Millikan, Director, Center for International Studies, Massachusetts Institute of Technology, United States of America; A. M. El Morshidy, Director-General, Ministry of Planning, United Arab Republic; Tarlok Singh, Member, Planning Commission, India; Zdenek Vergner, Director, Research Institute of National Economic Planning, Czechoslovakia; Pieter de Wolff, Director, Central Planning Bureau, Netherlands; and Satoru Yoshiue, Director, Economic Research Institute, Economic Planning Agency, Japan. Mr. Jacob L. Mosak, Director of the Bureau of General Economic Research and Policies of the United Nations Secretariat, was designated by me to serve as Chairman.

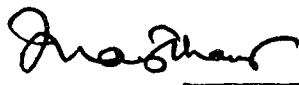
Unfortunately, Professor Bor and Mr. Furtado were unable to attend the third session, though both made valuable contributions to the preparation of the draft report at the earlier sessions. Professor Bor's draft relating to chapters 1, 2, 3, and 4, which he submitted at the second session for the consideration of the group, is reproduced in annex II of this report. Mr. Furtado, after study of the final report — copies of which were sent both to him and to Professor Bor some time prior to publication — stated his agreement with the report and submitted his signature to be appended.

In preparing the report, the group drew upon the studies of national planning experience prepared by its members as well as those submitted on request by a few Governments. In addition, the group was assisted by members of the Secretariat from the Department of Economic and Social Affairs at Headquarters and in the regional commissions. Representatives of the specialized agencies and certain inter-governmental organizations also participated as observers. The studies prepared by the members of the group and those submitted by Governments are reproduced in volume II of the report.

The importance of national planning for economic development is almost universally recognized today. The fact that in recent years country after country has made use of planning in one form or another attests to this wide-spread recognition. There is a growing conviction that, as the experts have put it, "planning is an invaluable aid to policy. In providing for explicit analysis and evaluation of the realistic alternatives that confront individual countries, and in setting forth the implications of alternative policies, planning greatly assists the process of decision-making." It is in this pragmatic spirit that numerous developing countries, as well as more advanced economies, have employed planning as a tool for achieving their national economic goals.

This does not, of course, imply that there is a uniform approach to planning. Inevitably, there is great diversity in individual approaches; but in a world where countries differ widely in their stages of economic development and in their economic and social systems, such differences are only to be expected. I believe that the experts have provided a succinct and clear exposition of the most relevant aspects of the experience gained in planning for economic development. Their analysis should be of great value to all those engaged in the task of economic planning.

On behalf of the United Nations, I wish to thank the members of the group for their valuable contribution and to express my appreciation to the institutions with which they are associated for their co-operation in releasing them from their normal duties in order to prepare this important report.



U THANT
Secretary-General

LETTER OF TRANSMITTAL

TO THE SECRETARY-GENERAL

We have the honour to submit herewith, for your consideration, our report, *Planning for Economic Development*, which we were invited to prepare in pursuance of General Assembly resolution 1708 (XVI). The report summarizes, in accordance with our terms of reference, the experience gained and the techniques in use in the planning of economic development by different countries.

An outline of the study was prepared during the first session of meetings held at the European Office of the United Nations in Geneva from 6 to 10 August 1962. The report was drafted during the second and third sessions of meetings held at the Headquarters of the United Nations in New York and at the European Office in Geneva from 25 March to 5 April 1963 and from 5 to 16 August 1963, respectively.

In addition to our report, we are including, in a companion volume, the studies prepared by the members of the group of experts as well as those submitted on request by a few other countries. We believe that these studies will be of practical interest and help to planners.

The members of the group wish to express their very profound gratitude for the assistance which they received from the members of the Secretariat. It went far beyond the normal servicing of meetings, and without it their task could not have been completed.

United Nations, Geneva
August 1963

Respectfully yours,

Cels. Frutkin

Gov. Klic

P. L. L.

Max F. Milkcan

F. S. Morshidy

Laar

Kyque

P. Dewey

S. Goshine

EDITORIAL NOTE

Studies prepared by the members of the group, as well as those submitted on request by certain Governments, will be issued separately as an addendum to the present report, A/5533/Rev.1.

CONTENTS

INTRODUCTION: THE NATURE AND ROLE OF PLANNING	Page 1
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Chapter

1. THE FORMULATION OF PLANS	6
2. THE IMPLEMENTATION OF PLANS	46
3. ORGANIZATION AND MANAGEMENT OF PLANNING	84
4. NATIONAL PLANS AND INTERNATIONAL POLICIES	96
5. SOME CONCLUDING OBSERVATIONS	110

ANNEXES

I. Terms of reference	114
II. Draft relating to chapters 1, 2, 3 and 4, submitted by Professor M. Z. Bor	115

INTRODUCTION

THE NATURE AND ROLE OF PLANNING

1. In the course of the last few years, there has been a remarkable intensification of interest in national economic planning. Recent resolutions of the General Assembly and the Economic and Social Council, calling for international action to strengthen planning activity, attest to the almost universal character of this heightened interest. What is striking about this trend is not simply that the number of countries engaged in national planning has increased considerably; more important, planning has emerged as a tool of policy in countries differing widely, not only in their stages of economic development, but also in their economic and social systems.

2. Undoubtedly, the wide-spread adoption of planning stems principally from the urgency with which the developing countries view the task of overcoming their economic backwardness and promoting their social advance. In many of these countries, the aim set for policy in recent years has been no less than the long-run transformation of their economic and social structures. They have been seeking to create conditions which will be conducive to economic growth and thereby to lay the material foundations for more equitable and balanced societies. Faced with economies characterized by deep-seated rigidities often too great to be overcome by market forces alone, and confronted by the need to change and adapt their social institutions, many governments have assumed a leading role in economic and social life. Such countries — many of which are endowed with considerable resources of raw materials, fuel and power, and with large masses of manpower — have seen in the preparation and implementation of plans the most effective means for the achievement of economic progress and the improvement of their standards of living.

3. In recent years, it has come to be increasingly realized that, where economic decisions with major social or long-range implications have to be taken, planning is an invaluable aid to policy. In providing for explicit analysis and evaluation of the realistic alternatives that confront individual countries, and in setting forth the implications of alternative policies, planning greatly assists the process of decision-making. Its contribution in this regard has been particularly evident where the dominant economic problems confronting policy-makers have required structural changes for their solution. This has been generally true irrespective of the particular political and social system prevailing in individual countries. In the centrally planned economies, for example, the importance attached to planning as a tool for rapid economic and social change needs hardly to be stressed. It is equally

not accidental that, among some of the countries of western Europe, when faced during the early post-war years with the reconstruction of whole economies, methods of planning were developed in order to guide governments in the formation and execution of policies. It is not surprising, therefore, that among under-developed countries, where economic growth is so largely linked with the problems of structural adaptation, governments have increasingly sought to apply methods of planning.

4. This in no way alters the fact that the forms of planning, and their political significance, differ profoundly among countries with different economic and social systems. Though planning has emerged in many countries, this has not lessened the fundamental differences in political and social values and in the basic characteristics of the political and economic systems founded on these values. The concept of planning in a centrally planned economy thus differs basically from that in a private enterprise or mixed economy. Moreover, the scope and content of planning in individual countries have necessarily been greatly affected by the political, social and economic conditions in which it has been applied. Not only the aims of planning but also the means selected for implementation of plans are closely bound up with political and social purposes; likewise, the methodology of plan formulation is greatly influenced by the aims of planning and the means of implementation.

5. In the developed private enterprise economies, events over the last few decades have led to an increase in the part played by the State in economic matters. The severe unemployment of the early nineteen thirties undermined belief in the automatic capacity of the market system to maintain continuously high levels of employment, and the conviction spread that policies for full employment were a responsibility of the central authorities. In the post-war years, out of the earlier preoccupation with the problem of economic stability, and partly as a solution to it, some of these countries have broadened and redirected their interest towards the objective of sustaining long-run economic growth. Within the context of private ownership of the means of production and reliance upon the price mechanism — supported, however, by a widening sphere of public economic activity — some of these countries have elaborated plans as a means of systematically co-ordinating income, wage, price and other public policies and of enlisting private support for the achievement of common, social aims.

6. Compared with the predominantly market economies, it is quite obvious that not only the political, but also the economic and social system of the Union of Soviet Socialist Republics and some other countries in eastern Europe and Asia, is profoundly different. In these countries the principal means of production are owned and managed either by the State or by co-operatives. The individual enterprises are not guided by reference to market forces, but are instead directed to conform with the national plan. Plans have therefore a different function in these countries from that which they have in

market economies. In the latter, plans are intended to guide and coordinate public policies and to supply coherent production and investment targets for the major branches of the economy, but they seldom supplant the decisions of individual enterprise managements. In the former, however, plans determine and direct economic activity throughout the country.

7. Prevailing political and social circumstances, as well as the level of development, not only determine the general aims and purposes of planning; they also delineate the boundaries within which choices between policy instruments can be made. The aims of plans and the means selected for their implementation, however, are not choices that can be made independently of one another. If the methods of implementation have to be appropriate to the objectives, it is also true that the objectives have to be realistically chosen in the light of the measures for implementation available to governments. In developed, private enterprise economies, for example, the character of planning has necessarily been related to the fact that most economic decisions are in private hands and that governments only indirectly influence these decisions, mainly through general fiscal and monetary policies. In this context, the main aim of plans has usually been to maintain full utilization of the expanding volume of economic resources that arises out of technological progress and population growth; in a few cases, the aim has also been to change the end-use to which resources are put. By contrast, in the centrally planned economies, the management of almost all economic activities has been under the direct control of the governing authorities and the restraints on governmental decisions regarding the choice of aims have therefore been fewer. The principal economic objective has been to maintain rates of growth in output and to raise levels of consumption; but great emphasis has also been given to the long-term political objective of the transformation of the social framework of production and distribution. Among most under-developed countries, the instruments available to governments have been mainly those of private enterprise or mixed economies. The complex of actual policy measures, however, has differed considerably from that in developed economies since a major need has been to change or adapt the existing economic and social structure to the requirements of economic development. From the point of view of economic growth in these countries, the most important decisions are those relating to the process of capital formation. The need for centralized direction of the process of capital formation in the under-developed countries is basically due to the fact that development entails rapid and far-reaching structural changes. In these countries, the principal aim of plans has invariably been to accelerate the rate of growth in income and output without which the economic stagnation cannot be overcome. This has been expressed more concretely in acceleration of industrialization, in development of agriculture and in the building up of economic and social overheads. But considerable attention has also been given to other objectives such as higher levels of per capita consumption, more

equitable distribution of income and wealth, more balanced regional development, the expansion of employment opportunities, and the creation of conditions of economic stability.

8. The diversity among countries in planning experience has clearly stemmed not solely from differences in economic and social systems. Whatever the social system, experience in planning at advanced stages of economic development has differed considerably from that at the earlier stages. Even in the same countries with many years of experience, methods of planning have altered over time to meet changing economic and social circumstances. Both methods of planning and economic policy have also been improved in many countries as experience has been accumulated and statistical services have been strengthened.

9. From the point of view of the under-developed countries seeking to benefit from the planning experience of others, the very diversity of this experience constitutes a valuable asset. It is not only that the under-developed countries differ among themselves in their social aims and premises and in the stages of development which they have reached. It is also true that, within most of these countries, no single economic and institutional system prevails throughout the whole economy. In some countries, tribal or semi-feudal sectors subsist alongside organized, market sectors; and in nearly all, private enterprise sectors function alongside state-owned sectors. Thus, the same planning methods cannot be applied uniformly throughout the country; there has to be flexibility in the choice of methods in order to ensure that these are appropriate to the circumstances prevailing in each sector or region.

10. In many developing countries, plans have aimed at harnessing all available agencies — public, private and co-operative — to the tasks of economic development. Public and private actions have been regarded as complementary rather than as mutually exclusive; and the development of economic activities in the private sector has been sought along lines in harmony with national planning for the economy as a whole. In several countries where public action has been assigned a growing share in the growth of the economy, the scope and opportunities for the private sector have also broadened correspondingly. Effective planning, in fact, requires the participation, in some measure, of all the numerous productive units in the economy as well as of the population at large. Plans are not likely to be effective in any country unless they have the consent and support of the general public. Indeed, the success of planning in developing countries is closely linked to the readiness with which the population responds to the demands of economic progress. Rapid economic development requires numerous changes in the social and institutional fabric of an under-developed country. But in societies where traditional modes of thought and behaviour are deep-rooted, the pace of change is rarely sufficient without active measures on the part of governments. This is why plans have often sought to go beyond the purely economic factors; they have encompassed measures to enlist the co-operation

of the whole body of citizens and to speed the process of social reform.

11. The will to pursue effective policies for economic development may, in fact, be far more important than the technical competence displayed in the formulation of plans. In essence, a plan is a body of economic and social policies expressed in quantified targets and defined tasks. Inadequate data and the lack of technical experience in drawing up plans may increase the margin of error and render more difficult the formulation of plans. While such defects may lessen the ability, they should not weaken the will to select effective policies for the realization of national objectives. It is a principal value of the planning exercise that it can help to clarify and formulate views about the policies necessary for development; and unless the effort is made to identify these policies clearly, the whole task of overcoming stagnation is bound to be seriously impeded. Moreover, the quality of data and technical competence tend to improve in the planning process. But much more important is the fact that the process itself is apt to improve the selection and management of economic policies.

12. In this report, no attempt has been made to give a general definition of the concept of planning. The task of the group has been to review "the experience gained and the techniques in use in the planning of economic development by different countries", and this has been interpreted to mean an exposition of the techniques of plan formulation, of methods of implementation and of the organizational aspects of planning. Though it facilitates exposition to discuss the formulation, implementation and organization of planning separately, it has to be recognized that these different aspects of planning are, in fact, very closely interrelated. Solely for ease of exposition, the description and classification of countries as private enterprise or mixed economies on the one hand and centrally planned economies on the other, which is customary in United Nations documents, have been followed in this report. So far as possible, the attempt has been made to focus attention on those aspects of plan formulation or implementation which, despite differences in economic and social systems, may be of common interest.

CHAPTER 1

THE FORMULATION OF PLANS

13. The purpose of formulating a plan is to identify and define the policies best calculated to achieve general economic and social objectives. A plan provides guidelines for policy through the translation of these general objectives into physical targets and specific tasks for particular economic and social activities. Everywhere, in the formulation of plans, decisions have to be made about the pattern of resource allocation which appears to be most efficient in relation to general objectives. At the same time, the targets set for output and resource allocation have to be consistent with economic and technical possibilities and not place greater demands on the community than it has the capacity to finance. The techniques of plan formulation which have been developed are tools for the translation of general objectives into concrete and feasible programmes of action.

14. Certainly, as will be apparent from the descriptions contained in this chapter, there have been considerable differences among countries in the techniques employed in plan formulation. In part, the techniques utilized have been related to the general objectives of national policy; in countries seeking to achieve high rates of growth of production and consumption and to bring about essential changes in the economic and social structure, the problems encountered in planning and, therefore, the techniques used in formulation, have necessarily differed from those in countries where the basic aim of planning has been the optimum utilization of expanding resources in order to satisfy the needs revealed by the structure of anticipated demand. In part also, the kinds of plans which have been drawn up, and the techniques utilized, have been dependent upon the nature of the instruments available to, and employed by, governments for the implementation of their plans. Finally, the selection of planning techniques has also been greatly influenced by the stage of economic development as well as by such factors as the degree of integration of the economy and the availability of data on which to base plans.

The plan period

15. Before the actual process of plan formulation can be initiated, the span of the planning period has to be decided upon. If planning is to be of a continuous character, it should represent an integrated whole of long-term, medium-term and annual plans for economic development. Long-term plans of economic and social development, both for the country as a whole and for individual regions and sectors, are necessary for determination of the main directions of economic development, for the solution of crucial problems in the way of

further progress, for the creation of new branches of industry, for the complex development of separate regions, and for increases in the standard of living of the population.

16. Long-term plans, however, contain only the most general and aggregated targets and tasks. They have to be co-ordinated with medium-term plans which are of a more detailed and concrete nature. The experience of many countries indicates that medium-term plans have usually been prepared for periods within the range of three to seven years. This period is approximately sufficient for the construction and putting into operation of large enterprises, electric plants, and irrigation projects, as well as for the implementation of measures for the reconstruction and development of ports, railways and roads. At the same time, it is feasible within this period to determine, with sufficient accuracy, the prospective direction and economic effects of technical progress. Moreover, the targets and tasks of the plan covering such a period, especially with respect to the allocation of goods, improvements in the level of education and health, employment and output per man, can be an important and great stimulus to the population for the fulfilment of the plan.

17. Planning in many under-developed countries has not yet included, in practice, the necessary preparation of short-term annual plans. However, as demonstrated by the experience of some countries, it is in the preparation of annual plans that aims can be expressed more concretely in terms of planned activities for existing enterprises and for the construction of new projects. In other words, annual plans lend greater precision to the tasks of long- and medium-term plans, directing the development of the economy in a more operational way and ensuring the mobilization of all national resources.

18. The possibility of introducing "rolling plans" has been under examination in some countries. These are conceived of as medium-term plans of a continuous nature, another year being added to the plan as each plan year is completed. Such a practice has been followed by some large enterprises and, in a wider context, it may be feasible to adopt it for national planning. It is realized, however, that in a consistent medium-term plan the principal magnitudes are closely related to one another, and extension of the plan by a year involves comprehensive examination and reformulation of basic assumptions and relationships. In practice, therefore, continuity in planning has been sought in a variety of ways. Thus, in several countries, long-term plans, say, for a duration of ten years have been drawn up for some key sectors of the economy in which the period of gestation is spread over several years and large investments have to be made. In some developing countries, well before the completion of a plan, an effort has been made to work out new projects and approve them in principle, so that the necessary preliminary steps in the preparation of the next plan could be facilitated. In this way a continuous flow of benefits may be secured and the bunching of projects towards the end of the plan period avoided. In some countries, along with each annual plan, it has also been the practice to draw up a rough outline plan for the follow-

ing year, so that the more important decisions required may be anticipated or taken in advance. In fact, as is to be expected, some of the principal decisions taken in the latter part of a plan period relate to the following rather than to the current plan. As techniques for drawing up long-term plans and making projections for the economy as a whole and for different sectors become better established, the objective underlying the notion of "rolling plans" should be realized more completely as an integral element in the planning process.

Private enterprise and mixed economies

1. RELATION BETWEEN AGGREGATE AND SECTORAL PLANS

19. In many under-developed countries, the initial steps towards planning have consisted in the elaboration of sectoral plans. Plans for the industrial, agricultural or basic facility sectors, for instance, have sometimes been drawn up because, in the view of the governments of these countries, the development of such sectors has been critical for further growth of the economy as a whole. More frequently, however, such plans have been rather in the nature of partial plans, consisting of programmes for capital expenditure in the public sector; they have been a means of co-ordinating, and of introducing a scale of priorities into, the capital expenditure budgets of the various government departments.

20. The deficiency of such sectoral or partial plans is that they have not always been elaborated within the framework of a careful appraisal of the needs, resources and possibilities of the economy as a whole. Particularly in the least developed countries, this has often been unavoidable. The information necessary for such an appraisal, as, for example, data about the level and composition of total output and expenditure, has not been available. Consequently, it has been possible to relate sectoral plans to over-all resources and requirements only on the basis of qualitative judgements. While this defect widens the margin of error in planning, it may be noted that planning in some of the more highly developed economies also began with such sectoral plans. In France, for example, during the early post-war years, statistics were lacking for the construction of an aggregate plan and the first plan consisted in the elaboration of a scale of priorities for certain key industries and sectors whose development was considered essential for reconstruction of the economy.

21. There would be broad agreement, however, that where data are lacking for the elaboration of aggregate plans, efforts should be made to overcome this defect as rapidly as possible. Sectoral plans indicate the planned level and composition of output and the productive resources required to achieve targets within each sector. But the over-all feasibility of sectoral plans depends on their consistency with such constraints as the saving-investment balance, the external balance and the manpower balance. And such consistency can be tested only within the framework of an aggregate plan.

22. Among under-developed countries which have formulated comprehensive plans, the elaboration of plans for the major sectors of production has usually taken place concurrently with the preparation of a plan at the aggregate level. In the first instance, initial targets for output of each of the major sectors have, in many countries, been derived from projections of the level and pattern of income and expenditure developed by means of an aggregate model. The elaboration of sectoral plans, and the testing of their consistency with each other and with total available resources, have then been achieved through a process of successive approximations. Plan formulation has thus entailed a continuous readjustment of plans at the aggregate, sectoral and project levels until a consistent and feasible plan has finally been reached; the formulation of a comprehensive plan has consisted in a synthesis of plans at different levels.

23. While aggregate and sectoral plans have necessarily been progressively integrated into a single, comprehensive plan, a common preliminary step in the elaboration of plans has been to devise an aggregate model of the economy. Such models were originally designed and utilized as a guide in the formulation of anti-cyclical policy in the developed private enterprise economies, where the main pre-occupation was with the problem of maintaining adequate levels of effective demand. The models served as a means of projecting the level of economic activity which, within the existing economic structure and institutional framework, might be generated by market forces. Taking the main behavioural and technical relations as given, they sought to determine the levels of effective demand and employment at which the economy would be in equilibrium. If these models, based as they are on the aggregate relations indicated mainly by past experience in the market economy, were the exclusive source from which more detailed physical and financial, medium-term and long-term plans were derived, there would be strong grounds for criticism of their operational value for planning of economic development. But, in the formulation of operational plans of such a character, the aggregate models have been appropriately adapted to their new tasks. Attention has continued to be focused on the main behavioural or technical relations which are important both for short-term and longer-term models, such as the propensities to save and import. But in addition, due attention has been given to the typical longer-term relations bearing on economic growth, such as the relations between capital and output.

24. Clearly, in countries which have been seeking to bring about major structural changes, the relations contained in the aggregate models often could not be derived from past experience but have to be estimated in more appropriate ways. Future changes of the structure of the economy as well as the intent of governmental policy have had to be taken into account. An increase in the level of saving, for example, which is a common aim in under-developed countries, generally is heavily dependent on the prospective trend in public saving. Governments have therefore to make decisions about the fiscal and

current public expenditure policies which they propose to pursue. Indeed, a particular value to be gained from the exercise of constructing an aggregate model is that it helps to indicate concretely the extent to which policies have to be changed in order to realize any particular increase in saving; governments, and the public supporting them, can weigh the longer-run benefits ensuing from an increase in saving against the shorter-term costs in terms of higher taxation or limitations in current expenditure. To estimate the prospective level of total saving, under-developed countries have therefore been required to engage in detailed projections of public revenue and expenditure as well as in some analysis of private saving and of their capacity to secure and service foreign capital. By no means all countries have, in fact, undertaken such detailed work, but the need has been obvious. Only from such studies and on the basis of governmental decisions about fiscal and budgetary policies has it been possible to arrive at some realistic estimate of the aggregate level of investment that might be supported. Similarly, reliable estimates of the aggregate capital-output ratio or of the import function have rested, not merely on past trends in these relations, but on detailed analysis of the capital and import requirements implied by the prospective composition of domestic output and demand.

25. This has tended to modify the role of aggregate models in the process of plan formulation. It is true that most countries have begun with the construction of such a model in order to provide a broad framework of targets for total output and its distribution between consumption, investment and exports. As a preliminary to the planning of resource allocation, some initial estimates have been made about the potential rate of increase in total output and imports, about the proportion of additional income to be saved and invested and about the rates of increase in consumption and exports. Where comprehensive planning has been vigorously pursued, however, and where physical and financial plans have been elaborated in detail, it has often been found necessary to alter substantially the initial targets derived from the aggregate model. Thus, the task of planning at the aggregate level has been less to construct models from which the requisite changes in the composition of output and resource allocation could be derived than to test the consistency and over-all feasibility of sectoral production plans.

2. PLANNING OF PRODUCTION AND RESOURCE ALLOCATION

(a) *The main determinants of resource allocation*

(i) *Planning investment and consumption in under-developed countries*

26. A key decision in the formulation of plans is the allocation of resources between investment and consumption. Among under-developed countries, it has invariably been an aim of policy to in-

crease the share of resources allocated to investment in order to accelerate the rate of economic growth. The targets postulated for investment, however, have necessarily been set in relation to the ability to achieve them. If targets were set which exceeded the capacity of governments to maintain a dynamic balance between saving and investment, their implementation would give rise to domestic inflationary pressure or a worsening in the external balance. Clearly, in many under-developed countries, the capacity to raise the rate of saving and investment rapidly has been severely circumscribed by the very low levels of per capita income that prevail. At the same time, however, the need to increase the rate of saving calls for appropriate policies. While much has already been done, more can still be done to refashion and strengthen those governmental policies and financial institutions which serve this end. Though realistic targets have necessarily had to be based upon the instruments available to governments, the importance of raising the rate of saving and investment in under-developed countries has meant that the instruments have also had to be adapted to meet the aims of accelerated economic growth.

27. The main task in determining targets for investment has consisted in evaluation of the possibilities which exist for raising the rate of investment and saving. This has entailed an analysis of the possible future levels of private and public saving as well as some estimation of the future inflow of foreign capital. Only approximate estimates of private saving have been possible in most under-developed countries; it is in the field of public saving that the most detailed estimates have been possible. Since evaluation of the possibilities for raising the level of saving and investment in developing countries has turned very largely around the issue of fiscal policy, it is only natural that most plans have devoted considerable attention to public revenue and expenditure.

28. The problem of raising the level of saving and investment among under-developed countries, however, has not been solely a matter of increasing the share of saving in income. The volume of investment also depends on the ability to secure sufficient supplies of investment goods. It is true that some types of capital goods—most notably, building materials—are currently produced in almost all under-developed countries; and there is often scope for the fuller utilization of existing capacity as well as for the conversion of some equipment in consumer goods industries to the production of certain capital goods. In the main, however, under-developed countries lack capital goods industries or have only recently initiated the large-scale development of such industries. Accordingly, in order to obtain supplies, most of these countries have had to rely very largely on their ability to import capital equipment. However, since the import content of domestic consumption has tended to be small in comparison to the import content of domestic investment, an increase in domestic investment has tended to increase foreign exchange requirements. Except for the comparatively few under-developed countries which have enjoyed favourable balance-of-payments positions, the limita-

tions on the capacity to import capital equipment have been an added constraint on the level of investment that could be realized. Efforts to increase the proportion of income that is saved have thus generally had to be accompanied by measures to make available a rising volume of foreign exchange for imports of capital equipment or to expand domestic production of such equipment. In other words, policies to control or influence the allocation of current resources among sectors or projects have had to be guided, at least in part, by the effect of the resultant changes in the composition of output on prospective supplies of capital equipment.

29. This is only to say that, in order to raise the level of investment, it is not only necessary to achieve a higher level of saving expressed in financial terms but also to ensure that the physical resources are available for realizing a corresponding increase in investment. In developing countries, where a primary aim has been to raise the level of saving and investment, close attention has accordingly had to be paid to the need for structural adaptation of the economy in order to make available increasing supplies of investment goods; and this has considerably influenced the planning of production and resource allocation.

(ii) *Planning investment and consumption in developed private enterprise economies*

30. In the developed private enterprise economies, where a comparatively high rate of saving has already been achieved, a significant change in the share of investment has usually not been a dominant purpose of policy; and the policy instruments which governments have exercised have usually had only a marginal influence on the share of saving in income. In these circumstances, the volume and distribution of investment have been viewed largely as a dependent variable which is related to the level and rate of growth of final consumer demand. In the elaboration of production and investment plans, it has accordingly been natural to take the prospective level of private and public consumption at the end of the plan period as the principal starting point. The procedure has usually been to start with a projection of the prospective level of consumer demand, often based on the initial hypotheses suggested by aggregate models for the prospective level of output and rate of growth. Given the projected increase in total consumption, the prospective composition of consumer demand has been estimated on the basis of knowledge about income elasticities of demand and other relevant considerations. This analysis of consumer demand, taken together with plans for public consumption, has provided a means of setting production targets for final consumer goods and services. From these targets, the requisite increases in output of intermediate goods have been derived, using knowledge of the input coefficients that relate intermediate to final goods industries as well as to each other. The next step has then been to determine the additions to productive capacity that would be required

to realize the planned increases in output of final and intermediate consumer goods; this yields information about the requisite increase in supplies of investment goods. Finally, the requisite pattern of output or supplies indicated by the changes in domestic demand has had to be reconciled with foreign trade plans; production for export has been estimated and choices have been made between the importation or domestic production of the requisite supplies.

31. One clear example of this method is provided by recent planning in France. In drawing up recent plans, the Government first considered alternative rates of over-all growth and selected a rate which appeared to be the maximum consistent with such equilibrium conditions as the maintenance of dynamic balance between saving and investment, employment and the supply of labour, exports and imports, and public revenue and expenditure. On the basis of the selected rate, a preliminary sketch of final demand in the last year of the plan was elaborated; this consisted of an analysis of consumer expenditure and contained assumptions about foreign trade as well as about investments required to promote growth in the period beyond the plan. From this description of the level and pattern of final demand, requirements of intermediate goods and services were estimated and an input-output table for the economy was thus completed for the terminal year of the plan. The estimates contained in the preliminary plan were then checked in detail both by the various commissions which represent different industrial sectors and by the relevant ministries. After successive revisions, a final version of the plan was reached.

(iii) *Influence of long-term growth objectives and of foreign trade on planning of resource allocation*

32. It is obvious that some part of the investment undertaken in every country during the period of a medium-term plan is not geared towards raising the current output of consumer goods and services but is guided by other considerations of a broader or longer-run nature. In large part, plans have, of course, been concerned with the allocation of resources among sectors and industries so as to increase output of consumer goods and services in accordance with expected or planned changes in the level and composition of final consumer demand during the plan period. But, in some part, they have also been concerned with the allocation of resources among sectors and industries so as to maintain or raise the rate of growth in the years beyond the immediate plan period. Among the developing countries, it has been necessary to give relatively greater emphasis to this latter aspect of planning. For their main aim is not simply to maintain a rate of growth in consumption compatible with the current rate of saving. Rather, it is to raise the rate of saving in order to accelerate the pace of growth in total output and thereby, ultimately, to improve standards of living. And this means that a substantial proportion of current investment has to go into raising the future capacity of the

economy to save and invest rather than into raising current per capita consumption levels.

33. In principle at least, the basis for decision about the allocation of that part of investment designed to raise the capacity for production of consumer goods and services at some time beyond the period of a medium-term plan does not differ from that guiding the allocation of investment for increased output of consumer goods and services within the plan period. Both are related to some notion of the desired pattern of future consumption. In practice, however, the planning of investment to achieve a larger increase in output of consumer goods at some more distant time in the future tends to require a somewhat different approach. For the longer the time-horizon envisaged in plans, the more important are expected changes in resource endowment, the level of technology and the structure of production; and since these give rise to changes in relative costs and prices, the more difficult it is to determine the future pattern of demand in advance. Accordingly, the allocation of investment intended to raise productive capacity in the longer-run has been guided more by broad considerations about the sectors strategic for growth in the economy and less by detailed analysis of the prospective pattern of consumption. In the planning of such investment, attention has been more directly focused on the interrelation between structural changes in the economy and long-run economic growth.

34. Besides aims with regard to changes in the future share of investment in output, another major factor having varying influence on the planning of production and resource allocation has been the role of foreign trade in the economy. Whatever may have been national policy with regard to the share of foreign trade in the economy, the preparation of plans has necessarily required that decisions be taken about the range of products which it would be more advantageous to produce at home or to obtain from abroad through the export of other products. Such decisions have been possible only on the basis of some analysis of domestic production possibilities and a comparison of domestic costs with foreign prices.

35. For developed countries with diversified natural resources, the integration of foreign trade into domestic production plans has not necessarily represented a major aspect of the problem of production planning. But, in developing countries, it has been a dominant element in planning. In small countries, especially, the relevance of the prospective pattern of domestic consumer demand has been considerably diminished; it is external, rather than domestic, demand which has been the more important consideration. Thus, planning of production and resource allocation has turned mainly upon identification of the export opportunities open to these economies; and this has focused attention primarily on the analysis of supply conditions. Such things as natural resource endowment, the supply of skills and relative factor prices have been the most important elements in planning. Clearly, the ease of access to external markets also has to be taken into account; obstacles to trade imposed by other countries may rule

out development of particular lines of production which, in terms of cost conditions alone, would otherwise be preferred. But, for very small countries, it is none the less true that it is generally not the pattern of domestic demand which dominates their planning of resource allocation so much as it is their domestic supply conditions.

36. Thus the planning of production and resource allocation has invariably been considerably influenced by the emphasis on raising current consumption or investment on the one hand and by the importance of foreign trade on the other. In view of the very low levels of per capita income prevailing in many of the under-developed countries, large changes in saving and investment rates within the period of medium-term plans have generally been very difficult to attain; the transformation of these countries from low saving to high saving economies has been rather in the nature of a longer-term objective. Considerable attention has necessarily been paid to the planning of increases in current output of consumer goods if only to maintain, or improve slightly, current consumption standards in the face of rapidly growing populations. However, final plans have usually been appreciably modified by the views held about the long-term structural changes required for economic development as well as about the directions in which the greatest comparative advantage lies in international trade. Such analysis, both of demand composition and of the requisite structural changes for longer-run growth, while not necessarily indicating the specific projects to be preferred, has generally suggested the broad scale of priorities to be assigned to the major sectors of production, such as industry, agriculture and basic facilities, consumer goods and investment goods industries, or export industries and industries producing for the domestic market.

(b) *The sectoral allocation of resources*

37. The specific targets set for investment in the different sectors of the economy, such as agriculture, industry, power, transport and social facilities, have necessarily differed with the economic conditions prevailing in each country. The sectors critical for economic growth not only vary from country to country but also for the same country at different stages of its development. Consideration of the relative importance of investment in the different sectors and within each sector has an important bearing on the strategy of development to be adopted in given conditions and at a given stage of development of a particular country. Such consideration has to be supported by a careful analysis of the existing structure of the economy in relation to national objectives and the means available for their implementation.

(i) *Targets for productive activities*

38. The targets which can be set are largely dependent on the phase of development of the country under consideration. In the in-

dustrial sector of some of the larger and economically more advanced of the developing countries, for example, the emphasis in recent years has been upon the development of the heavy and engineering industries. Where import substitution of consumer goods has been largely exploited and where the need for an expanding flow of capital equipment cannot, in any case, be met from foreign trade alone, the development of these industries has appeared as the best prospect for sustaining domestic growth. Governmental policy has thus been designed to encourage the organic development of groups of inter-related industries, a guiding principle being the fullest utilization of potential resources and the long-run exploitation of external economies.

39. In the least developed of the developing countries, aims at the initial stage of development have generally had to be set differently. In many, there has been a wide scope for import substitution in both industrial and agricultural production of final or intermediate consumption goods. Changes in the structure of production within the foreseeable future have had to be shaped largely by the aims of meeting domestic demand for final and intermediate consumer goods from domestic production and of expanding export capacity. While, in addition, there have been certain possibilities for the domestic production of investment goods, most of these goods have had to be imported from abroad during the initial stage of development.

40. Whatever the pattern of industrial development pursued in individual under-developed countries, it has been a common experience that a rapid rate of industrialization and over-all growth cannot be long sustained without improvement in the productive capacity of the agricultural sector. The modernization of this sector has, in fact, confronted most under-developed countries with one of their most difficult tasks in planning for economic development. A steady expansion in the supply of food and agricultural raw materials to the urban areas has been a condition of industrial growth and, in order to avoid inflation or increased imports of agricultural produce, strenuous efforts have had to be made to raise the productivity of domestic agriculture. Quite apart from problems encountered in the implementation of plans for the agricultural sector — which are discussed in the next chapter — the formulation of plans for this sector has invariably met with special difficulties. The institutional conditions in the agricultural sector of many countries, the wide-spread illiteracy and ignorance about modern techniques, and the susceptibility of output to the vagaries of weather present obvious difficulties. But, in addition, planning of the agricultural sector is frequently hampered by organizational difficulties. Because there are great numbers of independent producers scattered widely throughout the rural areas, the channels of communication between the central government and individual producers are often tenuous; besides restricting the ability to implement plans, this means that there are often deficiencies in the information about agricultural conditions necessary for the formulation of plans.

(ii) *Targets for social services*

41. While this discussion has so far been confined to the allocation of investment within the productive sectors of the economy, it has to be recognized that there are certain social pre-conditions for rapid economic growth. In the allocation of resources, due consideration needs to be given to the basic relationship between economic and social development. There are many activities included under social services which are in fact directly related to economic aims; important among these are vocational and technical education, the spread of elementary and secondary education, scientific research, the development of health services, family planning, town and country planning, and the housing of industrial workers. Experience indicates that while, in the early stages, certain productive activities may have to be given special emphasis, the stage is soon reached when economic progress slows down or cannot be adequately sustained because of weaknesses concerning the human and social factors of development.

42. Determination of the proportion of resources that should be allocated to the expansion of social services is a matter of broad political and social judgement. However, such decisions need to be preceded by an attempt to identify and assess the additional benefits likely to ensue from increased expenditure on social services; the yield in social benefits should at least not appear unreasonable in the light of the general scarcity of resources.

43. The benefits derived from increased expenditure on social services have to be assessed from two points of view. On the one hand, social services themselves contribute directly to improvements in the quality of life; better health or educational facilities, for instance, are essential ingredients in the improvement of standards of living. On the other hand, social services help to raise the productivity of the working population and thereby contribute indirectly to the expansion of total output. Virtually all expenditure on social services is likely to make some positive contribution towards the improvement of living standards. However, if balanced social and economic development is to be maintained, the expansion of social services has to be maintained in some reasonable relationship to the growth in output of commodities and other services; efforts to improve the health of the population, for example, require, among other things, that nutritional standards be improved through the expansion and diversification of agricultural output. In actual practice, social programmes during recent years have tended to be increasingly assessed in terms of their potential effect on the productivity of the working population and the growth of total output. In the field of education, a considerable amount of work has recently been undertaken in several countries in order to form estimates not only of the supplies of different classes of skilled manpower required for continued growth but also of the contribution of education and research to growth.

44. The human need for the expansion of social services in under-developed countries is clearly great. The supply of medical practi-

tioners, nurses and hospitals is pitifully inadequate in many countries. At the same time, there are often large sections of the community in low-income groups or in more backward regions whose contribution to economic growth is dependent on the development of educational, health and other social services. It is recognized, however, that, on account of the over-all limitations of resources, it may not always be possible to allocate sufficient funds for social services and it may be necessary frequently to adopt a selective approach in this field. This is only to stress the need for relating educational, health and other social programmes as clearly as possible to over-all plans for development. It is in this context that the elaboration and assessment of programmes for selective improvements in education, health and other services can best be done.

(c) The selection of projects

45. The planning of production and resource allocation should finally yield decisions about the specific industries or projects to be established or expanded. The purpose of broad plans for production and resource allocation is to delineate the changes in level and structure of production required to realize the targets set for the rate of growth in total output and its distribution between investment and consumption. To implement these plans, however, requires that they be broken down into terms of specific industries and projects; and this translation of broad plans into specific projects gives rise to certain important operational problems.

46. In predominantly private enterprise or mixed economies, planning by its very nature implies that governments are seeking to create a different level and structure of production than would be generated by market forces alone. Particularly in under-developed countries, achievement of the aims of planning requires that emphasis be laid on changing the proportion of income allocated to consumption and investment. For reasons which are familiar, the criterion of private profitability by itself may not result in creation of a structure of production consistent with the desired changes. Thus, an important operational problem in these countries is the application of governmental measures to bring private investment decisions into conformity with the aims of plans.

47. In many private enterprise or mixed economies, the problem may be viewed as one of implementation, rather than of formulation, of plans. In these countries, national plans have often indicated targets for output and resource allocation only at the level of the major sectors of production or of major industrial groups; more detailed targets for individual industries or commodities have not been specified. Since a high proportion of investment decisions, particularly in the productive sectors, is in private hands, it has not been deemed worth while to work out production and investment plans in detail. By the same token, however, this absence of detailed targets has rendered more difficult the task of managing those governmental

measures designed to influence private investment decisions. The ministries responsible for the implementation of such measures as the licensing of imports or building materials, tariffs or fiscal and credit policies, have not been guided by any scale of priorities for specific industries or commodities, but have had to rely on more general and vaguer criteria. Several such criteria or formulae have been suggested to facilitate the social evaluation of projects. But these have generally not escaped from the difficulty that, in particular, the social as distinct from the private benefits derivable from a project are not, by definition, measurable through the pricing system. Thus, in practice, ministries have generally been left to interpret social preferences according to their own lights and in the absence of any quantified scale of priorities.

48. In some countries, plans have been expressed in sufficient detail to lessen this problem considerably. National plans have contained investment targets for each sector and industrial branch, evaluated on the basis of the capital and foreign exchange requirements necessary to realize the desired changes in the structure of production. However, even though the sectoral and industrial allocation of investment is specified in the plan and can be implemented by direct governmental action or through indirect measures to influence investment decisions, there still remains a problem of choice between alternative projects serving identical purposes. Countries are faced with the problem of choosing between alternative ways of producing the same output or of earning or saving the same quantity of foreign exchange. In other words, decisions have to be made between techniques which allow productive resources to be combined in different proportions for the production of a commodity or between the importation of one commodity in exchange for the production and export of another.

49. It may be noted, in passing, that expression of the choice of projects in terms of these two sets of decisions is a practical statement of the problem. In theory, the problem is more complicated since choices between alternative methods of production affect relative prices and, hence, the composition of demand. A theoretically complete solution of the problem would require the construction of a general equilibrium model in which the demand and supply schedules in all product and factor markets, together with the production functions of all commodities, were known. However, since planning takes place in a dynamic context in which the structure of demand, supplies of productive resources and techniques are all changing, this approach is beyond the reach of practical application. In fact, choices between alternative projects have invariably been considered in terms of the resources required to produce the same or closely substitutable physical output or to earn or save the same amount of foreign exchange. Even here, with the statistical data that are available, the repercussions of different choices on prices and demand for the product have often been difficult to estimate; and the same applies with greater force to the effect of different choices on the rest of the

economy. It is true that, in some countries, the evaluation of projects in some sectors has been extended to comparisons of benefits and costs, but more systematic work in this field is necessary.

50. For under-developed countries, a further complication that has arisen in choices between projects within sectors is that market prices of the factors of production do not accurately reflect their relative scarcities. This is particularly true for the prices of the main factors of production, notably, the rate of interest, the exchange rate and wages. Savings either from internal or external sources are scarce, but their price is usually well below their marginal value in production. This is obviously the case for governmental savings but it also holds for foreign loans which, at least in some cases, are available at very moderate rates of interest. Similarly, the price of foreign exchange seldom reflects its real marginal value. By contrast, prevailing wage level usually tends to overestimate the social cost of labour, since the opportunity cost of previously unemployed or very inefficiently employed labour is rather low. Therefore, if actual market prices of factors of production are used to compute the profitability of projects as a basis for optimal selection, serious errors may be made; for example, projects may be chosen which, taking into account the phase of development of the country, draw too heavily on imports or are too capital intensive. This conclusion is not altered by the fact that prices which should be used in comparing various projects are those that measure the value of the factors of production which would obtain once the effect of the investment programme on factor supplies had worked itself out; generally, such prices will also fail to reflect relative scarcities. Therefore, the view has often been advanced that accounting or shadow prices, which more accurately measure relative scarcities, should be substituted for market prices in the calculation of social costs. The adequate use of such prices, however, has often been hampered by difficulties encountered in assessing their appropriate values. Nevertheless, the correct values often differ so strongly from actual market prices that even rough guesses may be sufficient to improve considerably the selection of projects.

51. The problem of choice between alternative projects has had to be faced, not only in regard to alternative techniques for the production of the same output for the domestic market, but also in relation to foreign trade. In this latter context, a few countries have experimented with procedures for selection which amount, in principle, to the use of an accounting rate of exchange. In one developing country, for example, the capital and current costs of each project have been broken down into their domestic and imported components. The export proceeds derived from the output of the project, or the imports replaced by the output, have also been estimated. Gathering together the domestic and foreign exchange components in costs and proceeds, it has then been possible to calculate the net amount of foreign exchange which would be earned or saved by the project for each unit of domestic costs. Projects can then be ranked

in order of the ratio of net foreign exchange earning or saving to domestic costs; and by going down the list of projects until the available investment funds are exhausted, a selection of the preferred projects is made. In principle, though this is less easy to undertake in practice, any indirect costs generated by a project are also included in the calculations. Thus, if operation of the project required additional domestic output of an agricultural raw material, the capital and current costs involved in its production would also be broken down into their domestic and foreign exchange components.

3. MUTUAL CONSISTENCY OF PLANS

52. Throughout the process of plan formulation, a continuous task is to check whether the numerous physical and financial targets are consistent with one another. Though, in principle, the main balances that a comprehensive plan has to satisfy are everywhere the same, the range and complexity of tests for consistency have varied appreciably with the degree to which plans have been elaborated in detail. The following paragraphs indicate the salient features of the main balancing tests that have been applied.

(a) *Balances between aggregate and sectoral plans*

53. The simplest, and most aggregated, balance sheets are the main tables in a system of national accounts. In most countries, these have been employed to ensure that total claims on resources for consumption, investment and exports are balanced with total supplies derived from domestic output and imports. At a more detailed level, the three principal balances on which most countries have focused attention in the preparation of plans have been the saving-investment balance, the external balance and the balance between demand for, and supply of, labour. The principal role of these balances has been to indicate the prospective limits to the supply of resources for investment, the supply of imports and the supply of labour. These have set the boundaries within which production and expenditure plans have had to be elaborated.

(i) *Balances between saving and investment*

54. In the mixed or private enterprise economies, planning for a dynamic balance between saving and investment has been among the most important and the most difficult of the tasks confronting the policy-maker. Estimation of *domestic saving* for the period of a medium-term plan has been based on past trends in the relation between private saving and the different categories of income, on the rate of growth and increases in output envisaged over the plan period, and on proposed or expected changes in public revenue and

current expenditure. As regards private saving, separate estimates have usually been made for corporate saving and for the savings of unincorporated enterprises and households. But in under-developed countries, data on private saving have usually been sufficient only for the most approximate assessment of prospective trends; in plans of these countries, a common assumption has been that the marginal rate of private saving would be somewhat higher than the current average rate.

55. In the under-developed countries, governments have necessarily relied very largely on the public budget as the means of raising the share of total saving in total income. Thus, the surplus of current revenue over current expenditure which has been achieved in the public sector has been crucial for the over-all balance between saving and investment. In the estimation of the prospective level of current public expenditure, a major element has been assessment of the effect on such expenditure of the proposed pattern of public investment expenditure; this has required detailed analysis of the public investment programme. The prospective level of public current expenditure has been estimated in different ways in developing countries. Some have been content with indirect estimates based, for example, on the assumption that the share of public consumption in national income would remain unchanged. In certain countries, however, detailed year-by-year estimates have been worked out after allowing for such factors as normal increases in personnel, the effect on current expenditure of the establishment of new services under the development plan and anticipated changes in levels of wages and other costs.

56. Since public revenue in many under-developed countries is heavily dependent upon import and export duties, a major element in the estimation of prospective revenue has consisted in the projection of trends in exports and imports. Similarly, estimates of revenue from taxes on corporate and personal incomes have depended upon the projections made for national income.

57. Most plans of under-developed countries have also assumed a substantial inflow of *foreign capital* to bridge the gap between domestic saving and domestic investment. In view of the extremely low levels of per capita income, levels of domestic saving sufficient for adequate rates of growth have not appeared feasible within a plan period. Obviously, estimates of the prospective supply of foreign capital for inclusion in medium-term plans can be no more than highly speculative. A few countries, however, have attempted to form some impression. Investment programmes, for instance, have been analysed in order to identify projects which might attract loans from international or other external, financial institutions. Or, the balance of payments has been reviewed in order to determine how much additional borrowing from abroad would be within the debt servicing capacity of the country. Still, these have been only partial estimates or checks. Generally, the foreign aid estimates included in plans have not been directly assessed but have rather been derived as the residual balancing item between domestic saving and domestic investment.

58. In many development plans, it is not only estimates of the total supply of saving assumed to be forthcoming over the plan period that have had an approximate and provisional character; the same has been true for estimates of *investment requirements*. In many countries, even though targets for output may have been worked out in some detail, estimates of the investment required to realize the planned increases in output have generally been based on limited information. More accurate estimates have had to wait on the completion of detailed surveys of the requirements of specific projects. In the initial stages of development of the planning process, these estimates have frequently had to be based on past trends in the capital-output ratio for broad sectors of production or even for the whole economy; and subsequent, actual experience has often deviated substantially from such estimates. The tentative nature of initial estimates, both of investment and of saving, only emphasizes the need for continuous reappraisal of plans in the light of actual experience if a dynamic balance between saving and investment is to be achieved and maintained.

(ii) *The external balance*

59. Another major task in plan formulation has been the assessment of *import requirements* and for the prospective supply of foreign exchange. In most under-developed countries, plans for domestic production, consumption and investment have generally not been elaborated in the detail necessary for refined assessment of import requirements. Nevertheless, some attempt at estimation, even though very approximate, has been essential for evaluation of the realism of the over-all plan. For this purpose, imports have generally been broken down into three categories: capital goods; materials and fuels needed as current inputs for domestic industry and agriculture; and final consumer goods. Thus, domestic investment programmes have had to be considered from the point of view of the imports of capital equipment which these are likely to require. In so far as these programmes have not been translated into specific projects, however, only crude estimates based on past import coefficients have been possible. Similarly, estimation of the likely requirements of fuels and materials has often been limited by the lack of information. A few countries, however, have attempted to make estimates with the aid of input-output tables. The sectoral import coefficients derived for a reference year, taken together with the planned changes in final output, have been utilized to estimate prospective import requirements. Estimation of imports of final consumer goods has, wherever possible, been based on knowledge of income elasticities of demand combined with information about planned domestic production. In all categories of imports, an important factor, for which allowance has had to be made in estimating import requirements, has been the extent to which the expansion of domestic production would result in import substitution.

60. In assessing the *supply of foreign exchange* likely to become available for the financing of imports, many under-developed countries have sought to make projections of trends in external demand for, and domestic supply of, their principal export commodities. These have been supplemented with analysis of the prospective development of trade in new exports, including such service components as tourism. Finally, an addition — sometimes partially estimated as described above — has been made for the possible inflow of foreign capital.

(iii) *The manpower balance*

61. A further task in drawing up comprehensive plans has been to assess whether the employment generated by production plans has been consistent with the supply of labour. In particular, attention has had to be paid to the various kinds of skilled labour required for the fulfilment of production plans. On the one hand, this has indicated the limits likely to be set on the achievement of production targets by the supplies of all the different categories of technicians and skilled labour expected to become available over the planning period. On the other hand, it has provided a basis for drawing up plans for the allocation of resources among different types of educational and training facilities.

62. In the main, however, *educational plans* have to be drawn up on a longer-term basis. The requirements for different skills generated by a medium-term plan are of particular relevance for decisions with regard to the establishment or expansion of short-term vocational training programmes. More comprehensive educational programmes, however, have to be conceived in terms of ten to fifteen years and can therefore be related only to long-term economic plans. It is true that the future needs of the economy for technical skills is not the only basis for an educational programme, since education is generally recognized as having a value in itself over and above the contribution which it makes to economic productivity. None the less, a clear picture of the quantitative needs for manpower with a variety of specialized skills over a period of years can at least set lower limits to the amounts that society must invest in education of one form or another if it is to fulfil its economic ambitions. The amounts the society will wish to invest above these lower limits will depend on many other considerations, particularly ones of a value nature, that are beyond the scope of this report. The importance of this area is indicated by the large share of the budgets of many governments allocated to education.

63. In many under-developed economies where the *under-employment of labour* has been wide-spread, a further aspect of manpower planning has been the need to assess production plans in terms of their capacity to absorb a rising proportion of the expanding labour force in productive, full-time employment. Estimation of the potential magnitude of the unemployed or under-employed labour force has

sometimes provoked further scrutiny of production and investment plans in order to determine whether some reallocation of investment could not result in a more extensive utilization of labour and in higher total output.

(b) *Balances between sectoral demand and supply*

64. It is within the limits set by the supplies of labour, foreign exchange and resources for investment that domestic production and expenditure plans have had to be elaborated. The total requirements generated by these plans have had to be rendered consistent with total supplies. Careful estimation of the requirements implicit in production and expenditure plans has rested on detailed analysis of the planned composition of output and demand; and it is only in relatively few countries that plans have been elaborated in sufficient detail to allow of such estimation. However, some attempt has necessarily been made in all plans to assess whether the planned composition of demand is matched by the prospective composition of output and imports.

65. As regards the *investment* component in final demand, the requisite supplies have generally been indicated, even if only very approximately, by investment programmes. In a number of under-developed countries, surveys of planned investment projects have been made in order to determine the distribution of prospective capital formation between machinery and construction; and the requisite supplies of machinery and building materials have then been compared with production and import plans.

66. As regards *final consumer demand*, most countries have employed similar techniques in estimating its future composition. Wherever the information has allowed, the income and price elasticities of the various products have been analysed. In this connexion, use has been made of such things as family budget surveys, demographic forecasts and projections of the distribution of the labour force by occupational group and wage level.

67. In most under-developed countries the lack of adequate information has meant that methods of estimating final consumer demand have been relatively crude. Family budget surveys have, however, been quite widely conducted, particularly among lower income groups in urban areas; and some estimates of income elasticities have frequently been possible. For this purpose, consumers have sometimes been divided into urban and rural groups, since each group is likely to have a different consumption pattern. Separate treatment of each one of the whole range of consumer goods and services has been beyond the resources and knowledge of most planning agencies and the analysis has generally been confined to key commodities. Usually, pragmatic adjustments have had to be made to the results of such estimating procedures in order to allow for such things as price changes or policies intended to improve nutritional levels or to discourage consumption of luxury goods.

68. In some of the least developed countries, income elasticities have not been used at all in estimating prospective demand for final consumer goods. This has usually been because of the lack of data. However, the inability to estimate the demand pattern has not necessarily been a serious drawback in production planning since, in some countries, the current scope for import substitution has been a sufficient guide to the setting of production targets. In such countries, some adjustment to the import figures has sometimes been made to allow for population growth or, in the case of food, for some improvement in nutritional levels. Nutritional norms, for instance, have been established to eliminate dietary deficiencies among certain groups in the population.

69. In the estimation of *intermediate demand*, under-developed countries have usually taken account of only the more important inter-industry relations. Particularly in the least developed countries, inter-industry relations are, in any case, often rather simple and obvious. The main relations may reduce to those between agricultural production and the processing industries or to those between the general level of economic activity in an area and the supply of such basic facilities as power and transport; and, in such instances, the estimation of intermediate demand is not a major problem.

70. In industrially more advanced countries, however, inter-industry relations are considerably more important. In such cases, attempts have sometimes been made to construct commodity balances. These have usually been completed only for key commodities and they have therefore provided only a partial check on the consistency of production plans.

71. As a way of performing a more complete test, a few countries have tried to supplement commodity balances with the more generalized statement of inter-industry relations that is provided by an input-output table. This has usually been completed for the final year of the plan. Such a table offers the considerable advantage over commodity balances in that it sets forth all the inter-industry relations, together with the composition of final demand and imported supplies, in a single matrix; and this helps to ensure that no important relations are overlooked. Further, it permits the derivations of input coefficients that include indirect, as well as direct, requirements; and this facilitates estimation of the total effect on the economy of a change in output of any one industry.

72. However, completion of an input-output table presents considerable practical difficulties; most notably, the technical coefficients relating inputs to the output of each industry have to be known. Among the few under-developed countries where attempts have been made to complete an input-output table for the final year of the plan or for intermediate years, the first step has usually been to incorporate the information derived from commodity balances into the table. With regard to those productive activities for which no commodity balances have been constructed, estimates of the technical coefficients have been derived from an existing input-output table for a recent

reference year, the coefficients being pragmatically adjusted to allow for expected structural changes in the economy. Through this mixture of estimates based on planned changes in output and inputs and on past trends in the economy, the table has been completed.

4. PROCEDURES IN PLAN FORMULATION

73. The preparation of a realistic, comprehensive plan depended, in large degree, on successful co-ordination of the plans and intentions of the innumerable economic units within the nation. In the preceding paragraphs, some description has been given of the techniques which have been employed in plan formulation to effect this synthesis. The extent to which it has been possible to utilize these techniques, however, has been closely related to the organizational procedures which have been evolved for the preparation of plans. Indeed, the nature of the plans that have been elaborated in different countries and actual planning procedures cannot be dissociated from one another.

74. In countries where plans have been largely limited to the expression of broad targets for total income, investment, consumption, exports and imports or for output by major sectors, procedures in the preparation of plans have been relatively simple. Such plans have been based mainly upon general economic and statistical analysis and their preparation has therefore taken place largely within the planning agency itself. This has generally meant that plans have been limited mainly to projections of the over-all rate of growth, based on general analysis of such things as the aggregate capital-output ratio, the saving-income ratio and the import function.

75. For under-developed countries, as suggested earlier, the operational value of plans based on such macro-economic analysis is limited. It is true that the intent of such plans has sometimes been confined to the provision of broad guide-lines for general governmental measures, such as monetary and fiscal policies. Such projections may also be valuable in revealing the need for vigorous action, say, to raise levels of saving and investment, if adequate rates of growth are to be achieved. But if greater weight is to be placed on such aggregate plans in the conduct of policy, these plans require a surer foundation in more detailed analysis of economic conditions and prospects.

76. To a considerable degree, the ability to formulate plans realistically, as well as to implement them effectively, depends on the adequacy of the system of economic reporting. This means that fairly extensive channels of information between the central planning agency and the economy at large have to be developed if detailed information about plans and intentions in the various sectors of the economy is to be available.

77. The need for a two-way flow of information between public and private planners arises from two considerations. First, the public planners must make the best estimates they can of how private

decision-makers will behave over the plan period in response to a variety of changes in the pattern of governmental regulation. Secondly, the private sector must, in formulating its investment plans, have the best information it can get as to the economic environment in which it will operate over the plan period. Since the decisions of these two groups are interdependent, close communication between them is essential. In a number of countries, for instance, considerable progress has been made in developing statistical information not only about the past and current behaviour of consumers and private producers but about their likely future decisions as well. Better projections of this kind are critical to planning in under-developed economies of the mixed type.

78. Plan formulation as the concerted action of numerous economic groups, rather than as the isolated act of a central planning agency, is well illustrated by post-war experience in France. In that country, the first step in planning has been the preparation by the planning agency of preliminary sketches of alternative rates of growth in output and their implications in terms of employment, investment and saving, the external balance and the public budget. After considering these alternatives, the government has indicated to the planning agency which rate of growth should be adopted as the target. On this basis, the planning agency has sketched in figures for final demand in the last year of the plan. This has entailed an analysis of consumers' expenditure, decisions about government capital formation and assumptions about foreign trade and the level of investment required to promote growth in the period beyond the plan. From this analysis, it has been possible to elaborate an input-output table containing estimates for each sector of its sales to, and purchases from, other sectors.

79. The second stage of plan formulation in France has then been to enter into detailed consultations with representatives of industry and other interests. This work has been conducted through the Modernization Commissions. One set of commissions represents the different sectors of economic activity, such as agriculture, the various manufacturing industries, education and housing. Through this set of commissions, sectoral plans have been elaborated in greater detail and the initial assumptions contained in the first sketch, such as those concerning technical coefficients, have been checked and revised. The second set of commissions is concerned with more general problems, such as the maintenance of balance between investment and saving, employment and the supply of labour, or balanced regional development. Through the detailed work of these two groups of commissions, the initial plan has been checked and revised until a final version has been reached which could be submitted for approval to the political authorities.

80. Comparable procedures in plan formulation have been in evidence in those under-developed countries where plans have been elaborated in some detail. In a number of countries the planning agencies, in collaboration with the ministries concerned, have entered into

direct consultations with different industries. Industries may be represented by associations of employers, and the larger enterprises as well as leading executives have also participated in the discussions. In some countries, as in India, special development councils have been constituted for individual industries. For detailed consultation with individual enterprises and industries and for the flow of information to and from the central planning body, responsibility has generally been assigned to the appropriate ministries.

Centrally planned economies

81. Public ownership of the predominant part of productive capacity has had a decisive influence on the character of the planning systems of the centrally planned economies. The management of an economy based on public ownership both requires and permits comprehensive planning of the whole process of economic development. Planning in such economies encompasses all the factors such as natural resources, the means of production, and manpower, which play a role in economic growth. It also extends to all facets of the economic process; thus, it deals with the creation of the social product and its distribution between investment and consumption, the planned exchange of goods at home and abroad, the consumption of raw materials and intermediate goods as well as of final goods, the system of prices, and credit relations. Further, planning in the centrally planned economies is comprehensive in the sense that regional plans are elaborated as an important component part of over-all plans.

82. Planning in these countries is also typified by the fact that most targets are translated into directives which become binding on operating units. Starting from fundamental, aggregate indicators and sectoral projections, plans are elaborated down to the level of specific indicators for individual economic units; this has provided each unit with a framework of directives within which to conduct its economic activities. However, the directive character of plans has been supplemented, as is explained below, by the provision of material incentives for enterprises and individual workers. In addition, a range of measures relating to such matters as the allocation of credit and investment resources, prices and foreign trade has constituted a part of plans and has been utilized for the achievement of planned targets and goals.

83. Another salient feature of planning in centrally planned economies is the close interrelation between long-term, medium-term and annual plans. By means of long-term and medium-term plans, the broad strategic goals for development and for transformation of the economic and social structure have been defined. Annual plans have been used as a tool to translate general long-term objectives into practical short-term targets and to provide a framework for the current management of the economy.

84. While these broad characteristics have been persistent features of plans in the Soviet Union and other centrally planned eco-

nomies, their systems of planning have undergone certain changes and improvements over the years; these have been related to the growth and diversification of their economies and to the associated changes in their structures, as well as to institutional changes in the economic and social fields. In the initial phase of planned development, systems of planning and management in many centrally planned economies were fairly similar, since the problems of, and conditions for, economic and social transformation were also similar. But in the course of further development, while the same basic methods of planning and management have been retained, there has been a gradual adaptation to the specific economic, social and other conditions of individual countries.

85. These changes have been carried out especially in the course of the last six or seven years. More and more attention and importance have been given to long-term and medium-term plans. At the same time, there has been a tendency to frame and express the central plan only in terms of the more global indicators, and to reduce the range and number of the very detailed directives transmitted to enterprises; this has left enterprises with more operational autonomy and initiative within the framework of the planned targets. In some of these countries, as is the case in the Soviet Union, the authority of regional organs in planning has been substantially increased and strengthened. Generally, wider use has been made of incentives to encourage better performance on the part of both individuals and enterprises and to achieve a more rational use of resources. While, in the earlier stages, priority in planning was given to the physical indicators of development, in more recent years increasing attention has been given to criteria of economic effectiveness and to the role of economic calculations.

86. These changes have not, of course, been independent of the stage of development which these countries have attained, or of the requirements which a more developed and diversified economy places on economic development planning in terms of more refined methods. As the economy itself undergoes change, methods of planning and management are also subject to change and improvement.

1. CRITERIA AND PRIORITIES IN PLAN FORMULATION

87. It is evident that methods of plan formulation do not, in themselves, provide solutions to the problems of economic growth. Plans have to reflect certain criteria and priorities derived from an over-all policy for economic development. However, through the analysis of actual possibilities in the process of plan formulation, the feasibility of a proposed policy can be evaluated. The analytical techniques employed in the process of planning can bring out the possibilities for, and the limitations on, economic growth; and, in so doing, they may throw more light on the appropriate criteria of choice, indicate certain priorities in the utilization of resources and, in general, help in the formulation of a development policy.

88. In the centrally planned economies, decisions with regard to such macro-economic choices as the pattern of development, the scope and volume of structural change and the broad scale of priorities, have been influenced by the general goals set for the economy and society and by the stage of development reached in the country. A general definition of the common economic goals of growth and development would undoubtedly include the aim of rapid growth in productive forces, which, in time, contributes to a rapid improvement in the standard of living of the population. But to realize such general goals, a strategy of economic development is necessary; and, besides the given objectives, this must take into account the initial volume of material resources, the level of economic development so far achieved, the factors facilitating further growth, and all the possibilities, problems and limitations relating to growth. Moreover, in realizing the general goals, the strategy must also seek to maintain a dynamic equilibrium between sectors in order to avoid the emergence of imbalances.

89. A feature common to the development of the centrally planned economies has been the aim of creating an economic structure conducive to rapid growth. That is why, in the plans of all of these countries — especially in the early phases — there was a marked tendency to increase the rate of investment with all the consequences which such a policy must have for the utilization of resources and the pattern of development. For a prolonged period, priority in development was given to such sectors as energy, basic metals, machinery, construction and transport, as the main sectors which would contribute to the further growth of investment. Naturally, other industrial sectors, such as those producing consumer goods, were also being developed according to the given possibilities; similarly, within the scale of priorities already established, special attention was given to the development of agriculture. But it is a fact that the sectors first mentioned enjoyed a high priority and were basic to subsequent structural changes in the economies of these countries.

90. In the course of development, as the level of output has risen, the structure of these economies has been transformed. At the higher level of output, since relatively high rates of saving and investment have already been achieved, the process of further growth has required a different pattern of dynamic structural change. As a rule, continued growth has demanded greater diversification of the economy and greater integration of the various sectors. Such a situation has been associated with changes in the scale of priorities.

91. In these conditions, the relations and proportions in the distribution of social product and available resources have been gradually changing. Increasingly, the relation between investment and consumption has been stabilized; at the same time, the changes in the structure of investment, as well as the growth of consumers' incomes, has been reflected in the accelerated growth of consumer goods industries; in addition, these have contributed to agricultural production, to development of the service sector and to construction of housing and other

overhead facilities. Thus, while the general goals of economic policy, and in particular the aim of rapid growth in productive forces, have remained unchanged, the criteria and priorities in development have been gradually modified in accordance with the stage of development, with the structural changes that have already been realized and with the greater inter-sectoral integration achieved. In recent years, these criteria and priorities have also been increasingly influenced by the general expansion of foreign trade and the growing co-operation and co-ordination of plans among the centrally planned economies; greater attention has been paid to the advantages of international specialization in the selection of priorities.

92. It is evident that this process, either in its specific content or in its timing, has not been uniform in all the centrally planned economies. Differences in economic level at the outset as well as in economic structures have given rise to specific features in individual countries. Moreover, such a process could hardly occur without the possible emergence of temporary difficulties arising from the particular scale of priorities embodied in the plan or by unforeseen events or shortcomings in the process of implementation. But this is easily understandable, especially when account is taken of the fact that, in centrally planned economies, major changes have been condensed into, and realized within, a relatively short period of time; such changes, in different conditions, have usually been spread over a longer historical period.

2. BASIC PLANNING METHODS

93. The preparation of plans in centrally planned economies has been a many-sided operation, involving the participation at different stages of the considerable apparatus of the central planning organs, the planning services of ministries, regional organs, enterprises, scientific research institutes, and other bodies. The participation of such a wide range of organizations and personnel has been essential to ensure that account is taken as accurately as possible of local conditions for development, the resources available for such development and the objective factors on which it depends. With this approach to the organization of planning work, it has obviously been impossible to draw up the whole national economic plan in one stage; rather it has been necessary to revert many times to previously calculated indicators and to amend these indicators. It is also obvious that, in these circumstances, it has not been possible to design a system of co-ordinated indicators by following a specific sequence in the preparation of plans, particularly as, in practice, these indicators are all interdependent. Accordingly, planning work has proceeded concurrently on both sectoral and aggregate indicators, both at the centre and in all other units of the economic organization. Thus, the method of drawing up plans in centrally planned economies may be described as one of successive approximations, carried out in several stages, until a consistent plan is achieved which reflects a relatively optimum solution.

(a) *The elaboration of general directives*

94. All these operations, which are conducted by a large number of bodies, must, of course, be directed from the outset towards the gradual co-ordination of the plan as a whole. To this end, the central planning organ prepares a quantitative framework of the plan consisting of "control" figures. These figures include (a) tentative output targets which, at this initial stage, serve rather as guide-lines than as directives, and (b) more strictly defined limits of the amounts of equipment, labour, raw materials and other inputs which will be made available to the enterprises within the plan period. In this preparatory work, the central planning organ relies on analyses of the period preceding the current plan and provisional economic models which express the broad relationships between the aggregate indicators; these models are subsequently elaborated and verified on the basis of more detailed calculations of sectoral, branch and other indicators. These operational methods are briefly described in the paragraphs below.

95. From the analysis of development in the preceding period are derived first, the initial indicators for the current plan period, and secondly, information on major trends and factors which may either accelerate or restrain development. Considerable attention must be paid to the restraining factors, since the general rate of development in the plan period depends on solution to the problems which they represent. The information derived from analysis of past trends is, at the same time, of great importance in the identification of industries whose growth is considered crucial for the over-all expansion of the economy. These are often called the "leading links" of the plan, since their incidence to some extent determines the whole system of inter-relationships among the plan indicators. Of course, these leading links, as well as the restraining factors, vary according to the specific conditions prevailing in the period under analysis.

96. Taking into account the level of development at the outset of the plan period and the structural trends and factors disclosed by the analysis, a *general over-all* model is worked out for planned development during the period. The system of indicators in the national accounts, known as the balance of the national economy, is used as such a general model. The usual method of calculating these indicators at the first stage has been extrapolation — though not merely linear, of course — corrected by the application of new coefficients based on the analysis of changes in the interrelations observed in the preceding plan period.

97. These calculations have been based on extrapolations of production trends, employment and labour productivity, capital-output ratios, investment and consumption, such extrapolations often being made at the same time and their results compared. An example of these calculations is that based on the balance of labour resources. This is established from demographic data and indicates the total populations of working age, active population and the distribution of labour by sector. From this is derived the estimated increase in the

total number of workers; the estimates are prepared separately for the productive sectors on the one hand, which comprise industry, agriculture and transport, and for the non-productive or service sectors on the other. The number of workers in the productive sector, in combination with the estimated increase in the productivity of labour, serves to determine the general increase in the volume of the social product. The volume and growth of fixed capital and total investment required for the estimated increase are then determined on the basis of an analysis of trends in investment per unit of increase in the social product. The growth of current material expenditure is thereafter estimated on the basis of earlier trends. The basic elements in the balance of social product and national income are thus determined. This provides a basis for consideration of the potential growth of consumption and finally, for mutual adjustment of all the elements in the balance. (It should be noted that, in these countries, the social product is equal to the sum of the gross values of production of all goods and productive services.)

98. The general balance thus obtained has to be further verified and adjusted on the basis of an analysis of certain important intersectoral relations which might have a decisive influence on further development and which, during the preceding period, may have been limiting the growth potential of the economy. For example, such a role may have been played at different periods by various sectors such as agriculture or the steel industry and, in countries whose national economy is closely bound up with foreign trade, by the volume of exports and imports. The latter are determined by an analysis of import coefficients and of trends in the proportion of export to output. By means of such calculations and analyses, the general balance of the social product and the national income is rendered more precise and a deeper insight into their internal structure is obtained.

99. This summary type of planning and analysis at the initial stages of plan formulation undertaken by the central planning body represents one of the starting points for the higher party organs and the government in the preparation of their general politico-economic directives for the plan. The elaboration of these directives starts from the over-all analysis of the aims and needs of the development of the society; account is taken, not only of economic, but also of cultural and social requirements as well as of those relating to international political relations. However, the real material possibilities for the realizations of these goals or for the fulfilment of requirements is revealed by the initial analysis undertaken by the central planning organ. Thus the elaborations of the general directives for the preparation of the plan is undertaken at an early stage concurrently with the preparation of the initial quantitative framework of the plan, and the establishment of prerequisites and directives is in many ways connected, though not identical, with this planning work.

100. It may be noted in passing that considerable attention is at present being paid to analysis of the prerequisites and possibilities

for the use of *input-output techniques* in preliminary work. Initial experiments have been conducted in a number of countries; but since this technique has not yet been used for a sufficiently long period to allow study of past developments in the national economy and since there are consequently insufficient grounds for projecting changes in technical coefficients, it has not been possible to apply the method with the necessary confidence and, accordingly, to put it into widespread use. It is quite clear, however, that as and when the prerequisites are met, this technique for assessing inter-sectoral balance will be widely used as a connecting link between the planning of economic aggregates and of separate branches of the economy. In fact, studies are in progress to investigate the possibilities and requirements for its use not only at the initial stage of planning operations, when such a task is based on data expressing existing relationships, but also at subsequent stages when it serves as a check on the mutual consistency of targets set for different industries.

(b) *The role of specific balances*

101. The first stage of planning operations and the adoption of the above-mentioned directives serve as a point of departure for drawing up detailed plans for individual production sectors, capital investment, labour and wages, production costs, levels of living, foreign trade and other economic elements.

102. With a view to maintaining a continuous link between the separate factors of economic development, a number of balance calculations are used in preparing the plan. They play a decisive part in determining the interrelations between sectors of production as well as the relationships between production and consumption of finished goods. The internal content of the whole system of balance depends on detailed technical and economic estimates of the requirement of materials and energy and the utilization of equipment, land, and other resources. These estimates are derived from both the direct operational experience of enterprises and the results of scientific research. The most widely used is the *system of material balances*, which deals with output and requirements of intermediate and final goods.

103. A most important tool in the formulation of production plans is the *balance of productive capacity* in major sectors and branches; this balance includes physical indicators of the existing capacity at the beginning of the period, capacity entering into and going out of commission, estimated capacity at the end of the period and the average capacity in use throughout the period. In practice, the results of calculations of productive capacity have been primarily used for substantiation of the draft plan of industrial output, for planning capital investment and for compiling balances and plans for the distribution of machinery and equipment.

104. The planning and construction of new enterprises and the expansion of existing enterprises call for creation of the corresponding raw material base. Plans for this sector are prepared with the aid of *balances of minerals*. These balances are calculated on the basis of data on the planned capacity of enterprises, the volume of the prospected reserves, the level of extraction of mineral raw materials at the beginning and at the end of the planning period, and import possibilities.

105. Another important balance of resources, used in planning the development of agriculture, is the *balance of land*. This indicates the area under crops, and gives a general picture of the utilization of all land in the country. On the basis of an analysis of this balance, conclusions are reached on the possibility of further improving land utilization and of bringing unoccupied land, virgin soil and temporary marshland into agricultural use.

106. In addition to such balances dealing with capacity, labour and material resources, preparation of the plan is also based on the system of *balances of money flows*. Among these is the *balance of money income and expenditure* of the population. This balance is concerned with the fixing of targets designed to ensure an improvement in the level of living of the population, and is used as a means of equating the purchasing fund of the population with supplies of goods and services. Information derived from this balance is supplemented with indicators of the income elasticity of demand which are derived from family budget surveys undertaken among various social groups of the population. Taken together, these calculations provide a basis for the formulation of measures relating to levels of living such as levels of money wages and of retail prices and the network of free services.

107. With regard to the planning of levels of living, attention should be drawn to a methodological difference of approach between annual and medium-term plans on the one hand and long-term plans on the other. In the latter case, consumption estimates are prepared, in the light of the given total resources, primarily on the basis of considerations of the most rational structure and volume of consumption — taking account of nutritional standards and results of other research in this area — and on determination of the most economic ways of meeting those needs either through sales of consumption goods or services to the population, or through free services. This is possible because all the factors affecting the choice of this structure, such as incomes and prices, are also determined by the plan and may be changed considerably over such a long period. On the other hand, in five-year plans and to a greater extent in annual plans, the actual current structure of incomes and prices and the associated elasticities of demand have to be taken into account, since those factors cannot be substantially modified during such periods.

108. An important part in the system of national economic planning has also been played by financial planning, taking the form of a

summary *financial balance* prepared by the central planning organs; this comprises the state budget prepared by the Ministry of Finance, cash and credit plans prepared by the state banks and the financial plans of enterprises. Since the physical proportions of planned development have already been determined on the basis of specific calculations in the national economic plan itself and since the provision of materials for the volume and structure of final and intermediate consumption is a primary and determining consideration of planning in centrally planned economies, the main purpose of financial plans is to ensure that the flow of financial resources in the national economy is in close conformity with the physical plan. Accordingly, financial plans play an essentially derivative role in national economic planning. This is further underlined by the fact that, under the system of preponderant state ownership and of centrally fixed prices, there is virtually no special problem of financing for, say, capital investment, as distinct from the problem of the physical provision of such investment. However, since they express flows of goods and services in monetary terms, these plans are used as a means of verifying the over-all consistency of the national economic plan.

109. The role of financial plans is, nevertheless, of considerable importance in the process of implementing over-all plans; the planned flow of monetary resources supports the planned movement of goods or directly influences their movement wherever this has not been determined in the framework of the plan. Such tools of financial planning as taxation, the granting of credits, and the system of "economic accounting" of enterprises have had a substantial effect in encouraging enterprises to realize the plan targets for production and exchange of goods.

110. The methods outlined above broadly illustrate the approach to preparing a plan in the centrally planned economies, though they do not, by any means, cover all the work on a plan. As a result of this work as a whole, detailed plans are elaborated for all branches and main types of activity. Since the balance method is used directly in the work on specific plan targets, and since the general control figures are defined at the outset of the whole operation on the basis of aggregate calculations and analyses, all the specific plan targets should theoretically be interconnected in a balanced system. In practice, however, such a perfectly consistent result cannot usually be achieved at this stage for two reasons. First, the general control figures derived from the initial aggregate model cannot take account of detailed structural interrelations, and the detailed plans prepared have therefore not usually fitted exactly within their framework. Secondly, when detailed plans are prepared, it is usually impossible to take all the relationships into account, since the system of such interdependent relationships is extremely complicated. For these two reasons, after specific plans have been prepared, it is necessary to recheck and amend them in order to ensure that they are fully consistent with one another.

(c) *The role of over-all balances*

111. The specific balances described above relate to particular sectors, to resources and to financial flows. These balances are integrated into a system of national accounts called the *balance of the national economy*. The balance of the national economy is used both for ensuring consistency among the partial plans and for ascertaining whether the structural changes implicit in these plans conform to over-all aims. These accounts include:

(i) The *balance of production and utilization of the social product*, which reflects — in a generalized form — the changes in the volume and structure of the social product and is, therefore, compiled in constant prices. It is subdivided into more detailed balances — the means of production on the one hand and final consumption goods on the other; these are further subdivided into the output of industry, construction and agriculture. In some countries where the industrial structure is more complex, the plan balance of industrial production is worked out by branches in accordance with their subordination to particular ministries concerned with industry; in the event of a general imbalance becoming apparent, this facilitates identification of the source of the imbalance.

(ii) The *balance of production, distribution and final utilization of national income*, which reflects — again in generalized form — the movement of incomes and is therefore compiled in current prices. This balance reflects the interrelations in the distribution of incomes between the production sector, the services sector and the population; these interrelations are determined by the state budget and the credit balance, the financial balance of enterprises and institutions and the balance of money income and expenditure of the population. As a result of all these processes of distribution and redistribution, the net receipts of the productive and non-productive sectors and the population are established. They are then matched with the planned allocation of the net national product, calculated on the basis of detailed plans for such components as retail trade, capital investment and material consumption of the non-productive sector.

(iii) The *balance of labour resources*, which has already been mentioned at the beginning of this section.

(iv) The *balance of fixed capital*, which reflects changes between the beginning and the end of the period in the stock of capital and thus creates the conditions for analysis of such factors as changes in the rate of increase in fixed capital, its rate of depreciation as compared with the volume of investments, and changes in the volume of uncompleted construction.

112. The compilation of these balances makes it possible to verify the general consistency of the plan. In addition, analysis of the inter-connexion of their indicators shows the trend of labour intensity and capital intensity and other structural prerequisites and movements embodied in the partial plans. These balances therefore provide a

basis for conclusions regarding the lines along which the partial plans need to be adjusted. The actual adjustments and improvements cannot, however, be effected only on the basis of the system of balance tables of the national economy, because the indicators they contain are too generalized. The whole system of balances of natural resources, productive capacity and, in particular, balances of materials and energy, needs to be used for this purpose.

113. In this connexion, as noted earlier, the possibility of using *input-output techniques* is also being discussed in centrally planned economies, with particular reference to the system of material balances. Work on material balances is particularly cumbersome, and the listing of only selected materials and products, upon which the preparation of the balances is based, is inadequate for the full and consistent reflection of changes in one balance on all the remaining balances. However, certain difficulties are encountered in the use of input-output techniques in this field. Mention has already been made, in connexion with aggregate models, of the problem of the variability of technical coefficients in a plan covering a more or less protracted period. In addition, however, owing to the inevitably large scope of such a table in a centrally planned economy, a very large quantity of basic data is required, and the data must be compiled with a high degree of accuracy, since inaccuracies in one part of a table affect the reliability of the indicators of the whole table. The balances at present available to the central planning agency do not contain data classified in sufficient detail for use in an input-output table. As used for operational purposes, these balances frequently classify users not by the specific products which they manufacture, but by broader industrial complexes producing ranges of products; in addition, balances list separately the requirements only of the more important users and contain no more than broad estimates of the requirements of smaller users taken as a group. Moreover, the users listed separately are not the same in each balance. Therefore, the input-output tables so far compiled in centrally planned economies have been used for rough calculations in the initial stages of the plan or for the approximate determination of adjustments in it. They cannot yet replace the system of balances for the distribution of materials and products.

114. By means of all these tools, a co-ordinated national economic plan is ultimately obtained and the corresponding list of basic indicators is derived from it. After ratification of the plan by the government and parliament, these indicators are transmitted to the direct executors of the plan, namely, enterprises and other organizations. It will be understood that the consistency of the plan cannot be absolute. This is not only due to the relative imperfection of the methods hitherto used for preparing the plan and to the impossibility of anticipating in the plan all specific conditions in which plan assignments will be carried out. It is also because the central plan does not determine the whole economic life of the country down to the minutest detail; its indicators are more or less global and accordingly leave room for the independent solution of detailed problems by managers

in order to safeguard production and meet consumers' requirements. Consequently, the plan must allow for some manoeuvrability; the possibility of such manoeuvrability is created in the plan by the formation of certain reserves of essential commodities to cope with unforeseen contingencies.

(d) *Efficiency criteria in investment planning*

115. An increasingly important role in the preparation of investment plans and of the balance of fixed capital mentioned earlier is being played by calculations of the economic efficiency of capital investment, particularly investments introducing new technology or the mechanization and automation of production processes. These calculations, which are made at all stages of projecting and planning, make it possible to determine the most effective lines for the development of production techniques, to establish the priority of operations and to determine the effect of those operations on indicators of the national economic plan. The calculations are not used to determine the allocation of investment by sectors but rather to decide between projects which differ in degree of capital intensity. In order to reach such decisions, a criterion has been applied which favours the choice of more capital-intensive projects only under certain conditions. Stated in simple terms, the choice between a more and a less capital-intensive project producing the same output is decided in favour of the former only if the additional capital required for its realization can be recouped through savings on current cost over a period which is equal to, or shorter than, the normative recoupment period fixed by the authorities. In evaluating the efficiency of each project, account is taken not only of direct capital outlays but also of related investment in associated branches of production as well as of the length of the construction period and the life span of the projects. In practice, if not in theory, the role played by the normative recoupment period — or, more correctly, its reciprocal, known as the coefficient of efficiency — is in a certain sense similar to that of an imputed rate of interest. Thus, if savings on current expenditure are regarded as the return on additional capital, the more capital-intensive project is chosen only if the rate of return exceeds the imputed rate of interest.

116. In the Soviet Union, different normative recoupment periods or, to use the reciprocal, different "normative coefficients of efficiency" have been established for each branch of production. In some other countries, however, a uniform coefficient has been applied to all sectors. Decisions on the normative coefficient have been taken on the basis of a survey of the prospects which exist for reducing current expenditure by replacement of existing means of production with equipment embodying the newest methods of increasing labour productivity or of achieving economies in materials.

117. In connexion with the problem of the economic efficiency of capital investments, the centrally planned economies have also been discussing the question of the prices used in these calculations. Since

the basic purpose here is an increase in over-all productivity, the need has been for prices which would most accurately reflect the relative use of resources in the production of different commodities. In actual fact, however, prices have deviated from these relative levels. The establishment of a system of conventional accounting prices to serve the purpose of calculating economic efficiency is therefore being studied.

3. PLANNING PROCEDURES

118. The preparation of a plan for the national economy as a whole requires co-ordinated work among all units of the planning system. The participation of planning units at all levels ensures that the final version of the plan is well grounded in accurate information both as regards the needs of the economy and as regards supplies of labour, material, financial and other resources required to meet these needs.

119. As has already been stated, work on preparing the plans proceeds almost simultaneously in all parts of the planning system. Medium-term plans have been formulated in the perspective of long-term plans, and targets in these plans have been distributed by years, individual branches, economic regions, enterprises and building organizations. Current annual plans have been drawn up on the basis of the targets set for each year in the medium-term plan, corrected according to the progress made in carrying out the medium-term plan and according to changes in the needs of the economy and in economic relations.

120. The procedure and time limits for the preparation of the national economic plan are decided upon beforehand by the directing organs. Work on the plan can be subdivided into the following stages: preparation of the forms of tables, indicators and instructions for their use; assessment of results and analysis of the fulfilment of the plan for the preceding period; working out directives or control figures for preparing the plan; preparation and confirmation of the plan; and transmission of the targets under the state plan as directives to enterprises and other units directly involved in carrying out the plan. In practice, however, it is often difficult to separate one stage from another. For example, analysis of the execution of the plan, which is begun before the end of the preceding plan period, is accompanied by the preliminary setting of indicators for the subsequent plan; on the other hand, work on the preparation of the new plan is associated with the continuous revision and correction of data on the anticipated fulfilment of the preceding plan.

121. The purpose in working out the forms of tables, indicators and instructions for applying them is to ensure uniform preparation of the plan throughout the system of planning organs. Uniform tables, indicators and methods of calculation are a means of ensuring that plans are comparable, and that the data relating to specific branches of the economy and to individual regions can be added together.

122. Since work proceeds on the new plan before the preceding planning period has ended, it becomes essential to determine the anticipated level of fulfilment of the plan. Reported data are used for the period which has already passed, but for the remaining part of the period, the anticipated fulfilment of the old plan has to be estimated.

123. The actual preparation of the new national economic plan begins with the elaboration of control figures for the planning period. These indicate the development targets for the various branches of the economy, establish the main divisions for which the targets for the planning period are set and prescribe the most important measures for ensuring their fulfilment. The draft control figures are prepared by the central planning bodies with the help of the ministries and departments, and, in the Soviet Union, the planning boards of Union Republics, the National Economic Council of the USSR or other bodies. Already, at this stage, a system of economic balances is extensively employed to ensure that all sections and indicators of the plan are properly co-ordinated. The control figures confirmed by the country's governing organs provides the basis on which the whole plan is drafted.

124. The number and kind of the main indicators expressed in the control figures vary considerably from one centrally planned economy to another. In all countries, however, limits on the means available for further development are set and confirmed at this stage of plan formulation. These are the limits obtaining in such resources as supplies of essential materials, capital investment and labour; and enterprises have to keep within these limits in making their own plans. Other indicators relating to the volume of production and sales included in the control figures are conceived at this stage as guides rather than as directives.

125. The work of the enterprises on their own plans is based on the control figures transmitted to them. In preparing its plan, each enterprise consults its suppliers and consumers, so that the plan is already co-ordinated in principle with the plans of other related enterprises. Such co-ordination among enterprises does not, of course, cover all the requirements in respect of material supplies, imports and other resources.

126. Throughout the work on the plan, the relevant problems and targets are discussed in consultation with the workers of enterprises and other organizations, with trade union bodies, and, if the plans concern the economic development of particular regions, with the local population. The importance of this is that the more people understand the contents of the plans and the more they consider them their own responsibility, the more actively are they likely to set about carrying them out and the greater is likely to be their initiative during the planning period itself.

127. The plans of enterprises are checked and corrected in the ministries, and the consolidated plans for the various branches of the

economy are then submitted to the central planning authority, which at the same time also receives the financial indicators, draft plans for regional units, and other relevant information. The role of the planning authority at this stage is to put the partial plans together and to ensure that the requirements of the national economic plan as a whole are met. Deficiencies are usually detected at this stage: they are analysed and corrected in co-operation with the ministries and, if the particular problem so requires, with the enterprises themselves. After being balanced and checked, the national economic plan is then submitted by the central planning authority to the government; after approval by the government and parliament, it becomes obligatory. The five-year and long-term plans, or the directives concerning them, are, as a rule, considered by the Central Committee of the Party.

128. Work on the preparation of long-term plans has usually been organized somewhat differently from that on annual and medium-term plans. Annual and medium-term plans, whose planning procedures have just been described, provide the basis for direct control of the development of the economy. By contrast, a long-term plan for a period of fifteen to twenty years is not an instrument for controlling the economy but a basis for the preparation of medium-term and annual plans. Scientific research and surveys of resources are vital components in the preparation of long-term plans; work on these plans has therefore been organized in rather the same way as large-scale scientific research, use being made of the services of a wide range of leading specialists and scientists. This work has been done only at the centre, through co-operation between the central planning authority and the ministries, and the relevant indicators have not been transmitted to enterprises.

129. In the centrally planned economies during recent years, there has been much discussion and study of the problem of continuity in planning. In this connexion, various ideas have been advanced — and, in some cases applied — concerning moving five-year plans or extended annual plans. For example, in some countries, such as Czechoslovakia, when annual plans based on the five-year plan are worked out, the planning directives for the following year are laid down at the same time. This gives enterprises, particularly in branches with a long production cycle, a clearer view of the prospects.

130. Solution of the problem of continuity of planning is of great importance from the point of view of ensuring a more harmonious economic development process. The improvement of medium-term plans resulting from the intensification of long-term planning and from constantly taking into account the results of current developments is one step towards solving this problem. At the same time, a tendency to extend the planning period has been revealed in the operational plans themselves, which are still on an annual basis. The experience of the next few years should show what method of dealing with this problem is best.

(a) *International co-ordination of plans*

131. In recent years, considerable efforts have been made through the Council of Mutual Economic Assistance (CMEA) to achieve closer co-ordination of national plans among the centrally planned economies. Currently, the process of co-ordination of the development plans of the CMEA countries is as follows: after preparation of draft national plans, the member countries of CMEA hold multilateral consultations. Total resources and requirements are taken into consideration and adjustments are made in the draft plans. Recommendations are drawn up by the CMEA organs on matters requiring joint consideration. These recommendations, submitted by specialized standing committees, are adopted at the sessions of the Executive Committee and at annual sessions of the CMEA. To facilitate the process of international co-ordination, solutions to a number of problems have been sought: important among these have been the problems of standardization, methods of price formation, the establishment of methods for international comparison of relative costs, and the elaboration of improved methods for evaluating the effectiveness of investment.

4. FORMULATION OF PLANS IN YUGOSLAVIA

132. Yugoslavia is the only socialized economy which has developed entirely distinctive methods of planning and management. In the early post-war years, the system of organization and management of the economy in Yugoslavia was similar to that in other centrally planned economies. However, in the course of the nineteen fifties, this system underwent a series of changes. The main basis of these changes was the transfer throughout the economy of the management of enterprises to workers' councils; and this was accompanied by a far-reaching decentralization in the management of economic, social and administrative activities. Broad autonomy was granted not only to enterprises, but also to regional political bodies (communes, districts, republics) and to social services, similarly based on principles of self-management. National plans have accordingly assumed a more aggregative character, with the aim being to establish global proportions in the rate of growth of various sectors, the distribution of income, the structure of capital investment, foreign trade and the balance of payments. These proportions embrace a whole series of other implied relations, which are designed to solve the most essential of the dynamic and structural problems of economic development. As such, they constitute a group of consistent, mutually harmonious elements. With such characteristics, plans no longer specify detailed targets for individual enterprises.

133. Plan policy, which is designed to realize dynamic goals with respect to the production pattern, the distribution of income, the volume and structure of investment and consumption, and the balance of payments, has been effected mainly through the fixing of

general legal norms regulating the distribution of enterprise incomes, through fiscal measures, through long-term credit policy influencing the dynamics and structure of investment, and through short-term credit, price and foreign trade policies. The general regulations, set by law or specific decrees of government, have been designed to induce the enterprises to operate at a certain level of profitability and to strive towards increases in over-all productivity.

134. In the process of plan formulation, macro-economic and sectoral analyses of development possibilities have been made with the use of a set of balance sheets and of aggregate models; these cover the main dynamic and structural factors in production, investment, consumption, employment, productivity, income and price elasticities. This analysis, even when carried out in detail, has served to determine only the global proportions of economic development, the role of various economic factors, and goals and targets of a general nature.

135. Procedures in plan formulation in Yugoslavia have also been adapted to the existence of self-management in economic activities and social services and to the autonomous nature of regional authorities. As socially-owned enterprises are autonomous units, there are no direct administrative links between enterprises and government bodies in the process of formulation of plans. But there is considerable consultation of enterprises through the regional planning boards, industrial chambers and associations, and other bodies. In the preparation of plans, the federal planning authorities co-operate closely with republican and lower territorial planning boards, also consulting such bodies as industrial chambers, trade unions, banks, associations of enterprises and research institutes. In the first phase of plan elaboration, a global framework containing alternative choices with regard to targets and policies is worked out and submitted for discussion to political and professional bodies at various levels. After a certain position has been adopted and the choice of alternative basic solutions has been made, the process of formulating the plan in more concrete terms is initiated. In this process, professional and political organs and bodies are repeatedly consulted. When a final draft of the plan has been worked out and approved by the Government, this is submitted to the Parliament for final decision.

CHAPTER 2

THE IMPLEMENTATION OF PLANS

Private enterprise and mixed economies

136. The approach to plan implementation has necessarily been much influenced by the social and institutional setting. The level of development already attained and the nature of the planning procedure itself have created a variety of situations. Among the more developed of the private enterprise and mixed economies, planning often began immediately after the Second World War when the overriding tasks were recovery and reconstruction of the economy. In such circumstances, the objectives were usually expressed in the form of priority allocation of resources for key sectors; and governments sought to realize such objectives by the use of methods which, at least in principle, were not unlike those employed in war-time economies. In later years, some of these countries began to plan for balanced growth of all sectors of production and of public services, using a co-operative method of planning; representatives of all the groups among which the power of economic decision is shared have actually taken part in the formulation of plans. In such cases, there has been a fairly strong built-in incentive for individual decisions to be oriented towards the targets which have been collectively defined, and plans have had the character both of a common programme of action and of a global market survey. Aside from budgeting their own capital outlay in accordance with the plan, the authorities have also usually exerted some measure of control over private investment through the use of more specific incentives. In some countries, attention has been focused mainly on short-term economic planning, the emphasis being on the use of available policy instruments to avoid or correct disturbances which might impede the growth rate. In other countries, both developed and under-developed, plans have contained specific, longer-range targets, their preparation being largely the work of a group of specialists responsible to government. Implementation has generally rested on broad guide-lines and policy measures; but these have often been rather loosely co-ordinated with plan objectives and with one another in view of the need to allow scope for free choice by the private sector within the framework of plan targets. Policies to influence the private sector accordingly have generally taken the form of providing basic facilities and of modifying the system of incentives and disincentives. The one area of economic activity where the link between plan targets and measures for their implementation has been direct and close is the public sector. To a considerable degree, the

problem of implementing public sector programmes in these countries has been one of co-ordinating them with the budget and of providing effective administration for project execution.

1. IMPLEMENTATION OF SAVING AND FOREIGN EXCHANGE TARGETS

137. The development plans of the under-developed countries have set comparatively high target rates of growth for national income. In order to attain these high rates of economic expansion, marked increases in capital formation have been planned. The achievement of large increases in investment has, in turn, implied a parallel expansion of saving if targets are to be reached without the emergence of domestic inflation or severe balance-of-payments difficulties. Consequently, very considerable increases have been projected for both domestic and external saving.

(a) *Domestic saving*

138. Development plans have invariably supposed that the required increase in domestic saving would take place partly through the growth in both voluntary private and public saving that is generally associated with higher incomes. Much reliance has also been placed on government policies designed to increase the proportion of current saving out of total income. In fact, government policy has been viewed as the indispensable means of bringing about the required increases in total saving.

139. Increases in public saving have been a key element in most development plans. The wide-spread emphasis on a larger government contribution to total saving may be partly a belated recognition of the inadequate levels of public saving in recent years. During the nineteen fifties, for example, the ratio of public saving to national product in most under-developed countries increased either very slightly or not at all. In large measure, this resulted from the rapid increases in government consumption generated by the process of economic and social change.

140. In the plans of most countries, increases in public saving have been sought both through attempts to limit the growth of government consumption and through policies to increase public revenue. However, in view of the accumulated need for a wide range of public services and pressure for expanded government consumption, it is not surprising that in many countries the enlargement of government surpluses envisaged in development plans has depended heavily on substantial increases in public revenue. There is wide-spread recognition today that reform of the tax structure is essential to the implementation of development plans. Governments in the under-developed countries have traditionally relied heavily on indirect taxation, particularly taxes levied on foreign trade, as a means of raising public

revenue. Taxes on imported consumer goods have been widely used, since they offer the advantages that they are easily administered, yield substantial revenue and, at the same time, discourage unessential or competitive imports. In some countries, export taxes have made an important contribution to public revenue; these receipts have come from a number of sources, including export duties, government trade monopolies and marketing boards. Profits from the operation of multiple exchange rate systems have also been an important source of government revenue in a few instances. Internal taxation of commodities and services has generally increased in importance, reflecting the fact that many countries have recently raised the rates on luxury items and broadened the range of commodities covered by internal taxes.

141. Though greater reliance has generally been placed on indirect taxes, most under-developed countries have made appreciable use of direct taxes, particularly on personal and business incomes. Taxes on capital, while very common, have generally contributed relatively small amounts to government revenue. Frequently, the possibility of raising public revenue from the agricultural sector has not been fully utilized. It must be recognized, however, that the taxable capacity of large segments of agriculture is low because of low levels of income and productivity. At the same time, land values have been generally inadequately assessed for tax purposes and, while a number of countries have taken some steps to introduce realistic agricultural taxes, there has been a wide-spread need for comprehensive reform of agricultural taxes. Among the objectives of such reforms has been a reform of the tax structure so as to provide adequate exemptions for smaller farm enterprises and graduated taxes bearing more heavily on higher agricultural incomes.

142. With the pressing need for greater public saving, many countries have taken steps to increase tax yields by changing both tax bases and tax rates. Tax reforms have included the upward adjustment of personal income taxes and the introduction of taxes on capital gains, wealth, personal expenditures and gifts. In recent years, most countries have also made efforts to close legal loopholes, to tighten the administration of tax laws and to reduce the extent of tax evasion.

143. While governments have, in general, sought to increase tax yields from private income, they have often made slower progress in expanding revenue derived from public enterprises. Owing to the low prices sometimes set for publicly produced goods or services, many of these enterprises have not only failed to operate at a profit but have often operated at a loss. It should, however, be borne in mind that public enterprises must frequently be undertaken where heavy costs have to be incurred and often have long periods of gestation before the stage of profitable operations is reached.

144. In the scheme for financing their plans, some countries have assigned an important place to deficit financing. In general, where the deficits are thus planned, the saving required to meet investment objectives is expected to come from increases in private domestic

saving or from the transfer of foreign resources. Over a period the aim generally is to undertake deficit financing within safe and "non-inflationary" limits, having due regard to the expansion of money supply required by a growing economy. However, despite efforts to raise levels of public saving, pressures to expand expenditure combined with the difficulties of raising tax revenue had led a number of countries to resort to what might be considered excessive and unplanned deficit financing. Bank borrowing has frequently been used to finance such deficits; in many instances, the extent of such borrowing in relation to the resources available in the economy has resulted in the emergence of high rates of inflation.

145. In framing tax policies to increase public saving, governments have had to take into account the effect of such measures on personal and corporate saving. It has been a matter of concern that in some instances taxes may reduce private saving and thus, in the end, fail to raise aggregate domestic saving to the required degree. The importance attached to increases in private saving has been directly reflected in government measures designed specifically to increase the volume of business and personal saving. The immediate impact of public policy on private saving is, of course, limited by the fact that such saving is, to an important degree, determined by factors which government policy can influence only indirectly. Nevertheless, government policies can have an appreciable influence on private savings as well as in channelling such savings into desired investments.

146. Among the measures which governments have employed to increase business saving is the temporary exemption from taxation of profits earned by new enterprises. A number of countries have granted exemption from taxation of reinvested earnings, while some have sought to increase business saving through a policy of liberal allowances for depreciation. In some countries, special efforts have been made to promote saving by small enterprises through the granting of favourable tax treatment. Personal saving has been encouraged through allowance of tax deductions for such forms of saving as life insurance premiums, and the exemption from taxation of income derived from interest on government bonds. Saving in the form of investment in equities has been encouraged in some countries by granting tax exemption to income in the form of dividends. Others have levied taxes on consumption expenditure to encourage saving. In addition to tax measures, several countries have employed other policies to promote personal saving. Among these measures are programmes to induce purchases of government bonds and assistance in introducing new or expanded saving facilities in the form of local saving institutions, postal saving plans, provident funds and co-operative societies. These measures, in combination with others designed to enlarge institutional facilities and encourage the development of capital markets, seek to expand and mobilize savings, as well as to direct such savings into productive channels.

(b) *Foreign saving and foreign exchange*

147. In the past, virtually all under-developed countries have relied, in varying degree, on foreign funds to finance part of their investment expenditure. This pattern is also reflected in recent development plans, which have generally been based on the assumption that foreign as well as domestic saving would be available for the financing of investment programmes in order to accelerate their economic development. The expected contribution of foreign saving has varied widely, but in the majority of countries it has amounted to one-fifth or more of total investment outlays. The availability of needed foreign exchange is of special importance to the financing of plans of the under-developed countries. Thus, even where over-all saving may be adequate, a lack of foreign exchange for the purchase of essential specific capital goods and industrial raw materials may prevent or impede the implementation of plans in certain crucial sectors of the economy. Success in plan implementation requires not only an appropriate rate of growth of saving, but also of the supply of foreign exchange.

148. In view of the close interrelationship between the internal and external balance and because of the importance of foreign exchange supplies, the planning of foreign trade as an integral part of the over-all plan is of particular significance, especially in the under-developed countries. In practice, only a small number of the under-developed countries have prepared detailed export and import programmes as a part of their development plans. The reasons for the apparent neglect of foreign trade planning in many countries can be readily understood. The planning of exports is necessarily subject to a wide margin of error in view of frequent and unforeseeable variations in world demands for primary products. Besides the adverse trend in the terms of trade of the under-developed countries which has persisted over recent years, their export prices have been subject to considerable fluctuations arising from cyclical disturbances in the developed private enterprise countries, as well as from the vagaries of weather which have unpredictable effects on supplies of agricultural products for export and domestic consumption. Together, these uncertainties accentuate the difficulty of planning the foreign trade sector. Moreover, inadequate statistical information and a shortage of trained staff have frequently hampered efforts to prepare comprehensive programmes for the external sector. For these reasons, governments, in preparing development plans, have often confined themselves to a statement of global export goals and to rough estimates of import requirements. Although such goals and estimates have had to meet the requirement of consistency with the planned import balance, they have frequently not been adequately tested for consistency with planned expenditure and production flows.

149. While export promotion policy has frequently been based simply on the assumption that planned increases in agricultural production would yield additional supplies for exports, some governments have taken more direct action. A number of countries have

established production targets for individual export commodities, and national plans have included projects for the development of new export products. Countries have sometimes also attempted to combine plans for industrial development with programmes for export promotion by establishing industries with potential export markets. Export sales have also been encouraged by such measures as the granting of export bonuses, rebates of export taxes, the elimination of restrictions on exports, the establishment of special financing facilities for export industries and the conclusion of barter or other bilateral trade agreements. Exchange control policies and, especially, multiple exchange rate systems have also been used to provide incentives to exporters.

150. While export promotion policies have not always been adequate, the failure to meet export goals has frequently also been due to circumstances beyond the control of the under-developed countries. Among the most prominent of these circumstances have been a number of economic factors influencing primary-commodity exports and, in addition, the commercial policies of the developed private enterprise countries. Thus, primary-product export receipts have suffered from the high degree of instability which characterizes these markets. Moreover, the possibilities of expanding exports have been limited by the slow rate of growth of demand for many foodstuffs, and by such technological changes as economies in the use of industrial raw materials and the development of synthetics. Although many of the developed private enterprise countries have taken steps to liberalize commercial policies, quota restrictions on imports of foodstuffs and some minerals and metals, protective tariffs and restriction on imports of textiles and certain other manufactures produced by the under-developed countries have, by and large, remained in force, and have seriously hampered the expansion of exports from the under-developed countries. The unfavourable prospects for exports, and especially for exports of manufactures to the industrially advanced countries, have led a number of countries to look to markets within their own regions as alternative outlets.

151. The import policies of the under-developed countries have reflected the high priority assigned to the task of increasing the domestic output of substitutes for imports. Import substitution has had the twofold purpose of reducing imports of those commodities which could be economically produced within the country and of increasing the proportion of total foreign exchange receipts available for the purchase of capital goods. Programmes for import substitution have included the expansion of domestic food production, the development of manufacturing industries producing articles of mass consumption, and the establishment of at least some producer-goods industries. Most plans have included more than one of these programmes, the emphasis depending on the existing supply pattern, the availability of resources, the size of the market and the stage of development.

152. In order to facilitate the attainment of import objectives, various foreign trade and payments measures have been adopted. Apart from a relatively small number of countries which have main-

tained free convertibility, the under-developed countries have imposed restrictions of varying degrees of severity on foreign exchange transactions. In many instances such restrictions have been combined with systems of import licensing and import quotas. Foreign exchange control has usually involved the allocation of exchange to importers on the basis of priorities established by the government. Some countries have also combined exchange control with the use of multiple exchange rates.

153. In the course of plan implementation many countries have found that their export goals had been set too high, or that imports have tended to exceed plan estimates. As there has generally been relatively little scope for accelerating the expansion of exports, countries have been faced with the alternatives of reducing imports or increasing foreign borrowing. Since additional foreign financing has often not been available, reductions in imports have usually been necessary. Although there has been frequent resort to a tightening of import restrictions on less-essential consumer goods, in many cases imports of capital goods and of industrial raw materials have also been affected. This, in turn, has entailed cutbacks in investment programmes or in under-utilization of available productive capacity; in either case, progress towards the achievement of plan targets has been impeded.

154. The inability to finance development plans solely through domestic saving and foreign trade has resulted in concerted efforts to accelerate the inflow of foreign funds. While governments have generally given preference to foreign official funds over private capital as a source of external finance, a change in attitude towards foreign private investment has recently occurred in some countries. One important factor in this change has been the need to obtain not only capital but also the services of foreign technicians and managerial staff. Policies to attract private capital have included a general easing of restrictions on capital movements, the extension of guarantees for the repatriation of foreign capital and investment income, and liberalization of legislation restricting foreign participation in certain domestic enterprises. Selected new foreign enterprises have frequently also been granted special tax benefits. However, despite efforts to attract foreign capital into activities singled out for expansion, the bulk of private capital has continued to flow into export industries and public utilities, while investment in manufacturing has remained relatively small and has been largely concentrated in a few of the more industrialized of the under-developed countries.

155. A few countries have been able to obtain foreign finance through issues of securities on the capital markets of the developed private enterprise countries, but such transactions have accounted for a very small proportion of the total flow of foreign capital to the under-developed countries. Much larger amounts of foreign private capital have been obtained in the form of export credits extended by banks or suppliers in these developed countries. Such credits have, however, usually involved repayment within a relatively short period

and their servicing has at times constituted a substantial burden on the balance of payments.

156. The under-developed countries have relied heavily on official bilateral and multilateral agencies for assistance in the financing of their development plans. While most under-developed countries have sought assistance from both national and international agencies, many have indicated a preference for multilateral sources of finance. However, although the number of multilateral agencies providing assistance has been increased in recent years, and their operations expanded, their total resources have continued to be small in comparison with the funds available under bilateral aid programmes.

2. IMPLEMENTATION OF PUBLIC INVESTMENT PROGRAMMES

157. The preceding section has described government policies aimed at achieving an increased level of public saving. The need for such higher saving levels has resulted from the setting of targets calling for the expansion of investment, particularly in the public sector. The emphasis on public investment to achieve plan objectives has been of central importance in the development plans of the under-developed countries, but it has also played an important role in the economic policies of the industrial countries.

158. In the developed private enterprise economies, the share of public in total investment has been partly determined by the fact that the private sector accounts for the bulk of economic activity. A second factor which has placed a limit on the extent of public investment in these countries stems from prevailing views with respect to its role, views frequently very different from those influencing public capital formation in the developing countries. This is not to say, however, that the various developed private enterprise countries have a uniform view, or that the views have remained unchanged over time in those countries, regarding the extent of the responsibilities which could be assumed by the public sector. These views have differed from country to country, and from time to time within countries. Such differences help to explain the considerable inter-country variation in the size of public investment ratios.

159. In the developed private enterprise countries, it is often believed — though this belief, too, has been subject to change over time — that public spending should be confined to supplying services of a social nature, such as health and education, and certain essential economic services, including those which fall under the heading of “national monopolies”, such as public utilities. The provision of even these services, however, has involved a substantial level of investment. Moreover, over the short term, the level of public spending has been considerably influenced by considerations of economic stability.

160. Where the share of public investment has been relatively high, this has reflected the belief that it is the proper function of the State to operate a comparatively wide range of traditional public

services or even to engage in such key economic activities as mining and other branches of heavy industry. In several countries, moreover, governmental control over, or operation of, certain industries has been motivated at least in part by a determination to go beyond the provision of the customary range of public services in order to bring about desired structural changes or to promote economic expansion.

161. In their efforts to shape the future course of the economy, the present plans and policies of the developed private enterprise countries have given considerable weight to the need for expanded public services, and in many countries a more rapid expansion has been envisaged for public investment than for private investment. However, the greatest emphasis has continued to be laid in these countries on the key role of private enterprise in the economy.

162. While these developed countries thus look upon private enterprise as the main source of economic growth and many of them regard the principal tasks of the government as ensuring economic stability and providing a favourable economic climate for the private sector, the under-developed countries have generally viewed the public sector as the key instrument for securing economic development. The development plans of the under-developed countries have emphasized the need to introduce significant structural changes and to raise rates of capital formation. In view of the unacceptably slow pace at which private saving increases and the need to provide a wide range of facilities to which private enterprise is not attracted, the public sector has been charged with a dynamic role in fostering development. Public investment, in particular, has been viewed as laying the foundation for growth, mainly through supplying basic social and economic services presently lacking, but also, in many instances, through undertaking the production of essential commodities.

163. Although virtually all under-developed countries have assigned a central place to public investment in assuring the success of development plans, the share of public in total investment has exhibited wide variation from country to country. In general, its share has been smaller in cases, such as many Latin American countries, where considerable progress had previously been made in supplying basic infrastructure facilities. Its share has been especially high in a number of African and Asian countries. The importance attached to public investment in all regions is evident in the large increases which have taken place in the share of public to total investment over the past decade. With a few exceptions, moreover, the present development plans of the under-developed countries provide for a continuation of the past trend towards an increased share of public in total investment. As in earlier years, the share of planned public investment often tends to be highest in countries where private investment is low and where the development of infrastructure facilities has previously lagged.

164. The nature of the role assigned to public investment may be viewed, not only from the standpoint of its size in relation to total investment, but also in terms of its distribution among various

economic sectors. The sectoral pattern of public investment has varied considerably among the under-developed countries. This diversity has reflected a number of factors, including the development paths which have been chosen and the priorities assigned to various sectors, the nature of existing bottlenecks in public services or in the supply of key commodities, and the differences in the capital costs of providing various commodities and services. A majority of under-developed countries have devoted the largest part of public investment expenditure to transport and communication. Electric power, too, has claimed an important part of this expenditure. The provision of such basic facilities has been regarded as a necessary preliminary to the development of more directly productive sectors. In a number of countries, general administration, health and education have claimed important, though smaller, shares of public funds. Particularly in Asia, investment in agriculture, especially in irrigation and the development of new lands, has been given substantial emphasis in public investment programmes. In many of these countries, the expansion of agriculture has been looked upon as central to the process of economic development by virtue of its role in supplying much of the saving and foreign exchange and many of the material inputs required for growth. To a considerable degree, high levels of investment in agriculture have also reflected a concern with the problem of ensuring an adequate supply of food to rapidly growing populations and mitigating the pressures on scarce supplies of foreign exchange. Public investment in industry has reached levels of moderate significance. Examples are investments in key products such as fertilizers, cement, steel and fuel. In such countries, either private enterprise has failed to meet development needs, or the investments have been part of deliberate programmes to enlarge public participation in industrial production.

165. While there have been wide-spread increases in public investment, the realization of public investment programmes has often fallen short of plan targets. One reason has been the inadequacy of budget allocations to cover the financing requirements of public sector programmes. In some cases, this has stemmed from shortfalls in available resources on account of unforeseen adverse changes in economic conditions. Frequently, both internal and external costs are found to be greater than the initial estimates at the time of the formulation of a plan may indicate. In the face of foreign-exchange shortage, the under-estimation of external costs particularly creates difficulties. Such experience has emphasized the need for flexibility in planning; a number of countries have sought to accomplish this through the institution of annual plans and implementation programmes within the framework of medium-term or long-term plans. These annual plans serve as a means for reviewing the scope of projects in the medium-term or long-term plans in the light of later information and for taking advantage of new possibilities of development which may come to light as implementation proceeds.

166. A second reason is to be found in insufficient preparation and phasing of proposed projects as well as in under-estimation of actual costs. Inadequate costing of projects has often taken the form not only of under-estimation of the capital cost of investment projects, but also of a failure to provide for operation and maintenance requirements which arise once the facility has been completed.

167. Because of these difficulties, budgetary requests for such projects are often not formulated realistically or with sufficient precision. Sometimes, while outlining the development aims to be realized, plans fail to translate them into the concrete measures to be taken or to provide clear enough guidance as to the further steps for more detailed programming which should follow. Co-ordination among related programmes and projects has been difficult to achieve where the tasks to be carried out by individual agencies and their relative sequence and priority are not set out in the plans. These factors largely account for inconsistencies which may arise in the course of implementation between the operations of different departments.

168. Again, a common source of difficulty in linking the fiscal budget to development plans has stemmed from inadequacies in the traditional form of preparing budgets which has tended to focus on the item purchased rather than on the function or purpose of the expenditure in the context of government programmes. To deal with this problem, a number of the under-developed countries have recently adopted the programme budgeting concept, which follows a system of classification based on economic and functional lines. Besides efforts to co-ordinate the planning and budgetary processes at the technical level, some countries have also attempted to forge a closer link through the greater participation of planning authorities in the preparation of the budget. Thus, in one case, difficulties encountered in relating expenditures to plans during the first five-year plan led to the introduction of working parties in which representatives from the planning commission and the finance ministry, together with other interested authorities, jointly take decisions on expenditures. In another instance, the planning authority participates in the entire budgetary process, from the first budget proposals to the supervision and control of budget implementation.

169. Many governments have also experienced difficulties in ensuring that public expenditures result in the creation of physical assets and public services in the intended proportions. Among the reasons for these difficulties is the absence of an adequate technical organization to establish physical performance targets, wherever feasible, and to oversee their implementation. In order to establish such targets, a number of countries have adopted the performance budget concept, in which both the physical and financial sides of government operations are linked through setting forth the budgeted cost of end-products expressed in physical terms. Several Latin American countries have introduced programme and performance budgets to facilitate plan implementation, while a large number of countries

both in Asia and Latin America have introduced the technique on a limited basis in the case of specific programmes.

170. Further, implementation of public investment programmes has often been made difficult by factors such as inadequate co-ordination among executive departments and the need to obtain parliamentary approval of expenditures on an annual basis. The execution of public sector programmes has also been hampered by shortages of experienced staff. Newly installed capacity in public enterprises has sometimes not been fully utilized because of a lack of qualified personnel. Entrepreneurial and managerial skills are scarce in the under-developed countries, and recruitment for public enterprises has presented serious difficulties. Further, administrative shortcomings have often resulted in delays in the placing of contracts and the issuing of the authorizations required before work is undertaken.

3. IMPLEMENTATION OF SOCIAL PROGRAMMES

171. Among the under-developed countries in recent years, social programmes have been increasingly implemented as part of over-all economic development plans. A number of such programmes are considered essential for the implementation of over-all plans. These include education, technical training, eradication of disease and general improvement of living conditions.

172. Although each of these social programmes presents its own special tasks, their implementation has brought forth certain common problems. First, the demand for these services is being constantly stimulated by the growth in population, urbanization and industrialization as well as by the growth of popular expectations. At the same time changes in technology are making constant demands upon the adaptability of the labour force. However, the resources provided for in the plans and in fact available are invariably inadequate in relation even to urgent and high priority needs. Secondly, implementation of social programmes continues to suffer from want of trained personnel, especially teachers, doctors, nurses and social workers. Thirdly, responsibility for implementing social programmes falls to a large extent within the province of local authorities both in the towns and in rural areas. These authorities have frequently only meagre resources of their own; they lack personnel with the necessary experience and calibre and are weak in organization. Fourthly, a large part of the training system for "intermediate" personnel, such as skilled workers and lower management personnel, is undertaken by private institutions which need to be encouraged. Finally, all social programmes call for leadership, initiative, increasing awareness and co-operative effort within each local community. These take time to develop. In fact, the formulation and execution of social programmes, relating them to the means available, co-ordinating them with economic development plans and ensuring that their benefits reach out to the bulk of the population are complex tasks for which there must be

adequate organization and machinery for evaluation at the national as well as regional and local levels. Equally essential are planning units within the various ministries or states and local authorities which can elaborate programmes falling within their respective areas and undertake continuing analysis and appraisal of the specific programmes in relation to over-all plans.

4. IMPLEMENTATION OF AGRICULTURAL PLANS

173. In most developed private-enterprise or mixed economies, agricultural plans have been directed towards a complex of targets. On the one hand, they have aimed at increasing the contribution of agriculture to national output through a more efficient use of factors; but on the other hand, they have pursued specific goals with respect to the standard of life of the agricultural population. In most cases some sort of parity has been sought between the growth of the average per capital incomes of agricultural and non-agricultural workers. This has often implied the opening up of employment opportunities in industry or in the services for some of the agricultural manpower in accordance with the planned targets for these two sectors. It has almost always required a change in the existing trends of expansion of the various crops in order to foster the development of those most likely to find outlets at home or abroad at prices high enough to have the desired income effect.

174. Given such targets, which can sometimes be mutually conflicting, implementation procedures have usually included some or all of the following elements:

(a) Various market support prices, such as selective price supports through government purchases, export subsidies, stockpiling, quantitative restrictions on certain crops, or sometimes the direct control of marketing;

(b) An investment programme designed to supply equipment required for achieving the planned level of output and to improve rural amenities;

(c) Government financial and technical help, wherever needed, for the consolidation of holdings in order to increase their average size;

(d) Government financial and technical help to co-operatives of various kinds.

175. In most under-developed countries, a large part of agriculture is generally organized along traditional lines, being restricted to serving the elemental needs of peasant households. Levels of productivity are very low and production is largely insensitive to changes in the market economy which, in any case, are transmitted very imperfectly, if at all, to farm producers. This situation is most marked in the case of basic food crops and traditional live-stock rearing. For raw-material crops destined for local industries or for export, the marketing channel is usually better organized, and farm production is conducted on more commercial lines. The improvement of productivity

in the food sector and, in particular, the expansion of marketed supplies have been a key problem engaging the attention of governments of newly developing countries. Greater efficiency in export production has also been an important aim in many countries.

176. The impediments to agricultural expansion which governments in the under-developed countries have sought to remove are broadly of three main types: one is lack of the material resources and services comprising the economic inputs essential for agricultural growth; a second is an institutional and economic environment which deprives agricultural producers of incentive to expand output; a third, and related, obstacle is the inadequate development of organizations and institutions which reach out to the procedure in the villages and disseminate technical knowledge.

177. The need to provide specific agricultural inputs arises out of the fundamental problem of the low levels of productivity prevalent in the under-developed countries. Most agricultural development plans have recognized that in order to increase productivity it is necessary to introduce improved forms of agricultural technology. Governments have been confronted with the task of choosing the best possible combination of inputs and techniques to bring about increased agricultural output through technological innovation. The actual choice has reflected a number of factors, including the amount and nature of resources available, the degree to which agriculture is regarded as a priority sector, and the nature of agricultural needs in the particular country. Experience in many countries suggests that there has been a tendency to underestimate the requirements for the development of this sector. However, the disappointing rate of over-all economic growth, due in part to inadequate expansion of agricultural output, has led many governments to raise the share of public investment devoted to agriculture in their most recent plans.

178. Except for those countries where the share of public expenditure devoted to agriculture is very small, governments have recently sought to implement development plans by providing a number of agricultural requisites. These include various combinations of the following: irrigation facilities; multi-purpose projects combining power, water supply and flood control; subsidized fertilizer and seed; agricultural credit; the development of new agricultural land; agricultural machinery and equipment, improved transport facilities, especially the provision of feeder roads; processing, marketing and storage facilities; extension of co-operative services; and training programmes.

179. The provision of irrigation facilities for providing security to crops against the threat of poor rainfall and for increasing productivity has occupied an important place in the implementation of agricultural plans of many countries. It has been given particular emphasis in the plans of Middle Eastern countries where water shortages often represent a major impediment to growth in farm output. In some countries, irrigation is to be provided, along with other services, through large-scale multi-purpose water resource projects. Other

countries, however, have undertaken to provide both multi-purpose schemes and medium- or small-scale irrigation works in implementing their most recent plans. Each of these types of project meets a different set of needs; multi-purpose projects provide a broad range of services and agricultural inputs, while small-scale projects meet requirements for water in a rapid and flexible manner adapted to local needs and conditions. Since large irrigation works have a long gestation period, the simultaneous undertaking of small and medium works also helps to ensure a more orderly flow of benefits. In the under-developed countries where the need for irrigation facilities is great, small works constructed by cultivators through their own efforts have an important role to play both in establishing links with large reservoirs and in themselves.

180. Many governments have stressed the need to increase the supply and utilization of fertilizers and improved seeds or plants as important ingredients of plans to achieve agricultural targets through higher yields. The use of these inputs has often been encouraged through agricultural loans or by means of liberal subsidies. This technique has also been used with considerable success in a number of the developed private enterprise industrial countries. In order to increase the supply of these materials, a number of governments have established or helped to finance the establishment of seed farms and fertilizer factories.

181. The lack of credit on reasonable terms, especially for the small cultivators, has been a serious deterrent to the expansion of agricultural investment and output. Although many under-developed countries do have rural credit societies or agricultural loan associations, their financial resources have often been meagre. In dealing with this problem, governments have increasingly supplied financial resources in the form of institutional agricultural credit through agricultural development banks and co-operative associations of farmers. In some instances, important links have been forged between the central bank and the institutions specializing in the organization of agricultural credit. In order to increase the accessibility of credit to small producers, short-term loans have often been provided on the security of the crop instead of property, a loan requirement that many agricultural producers are unable to satisfy. Although the volume of institutional agricultural credit remains relatively small in comparison with private credits, over the last decade it has grown very rapidly in many countries. The need for government measures to expand the supply of medium-term and long-term credit to farmers for investment purposes is becoming increasingly recognized.

182. To increase the effectiveness of institutional agricultural credit as a means of implementing development plans, such credit has sometimes been provided in kind; an example is the provision of fertilizers rather than cash. In addition, it has frequently been closely tied to marketing of farm products, especially through co-operative credit and marketing societies, which facilitates the repayment of loans. Less frequently, the provision of credit has been linked through

agricultural extension services to the planning of improved farm operations, under various forms of supervised credit. This type of co-ordinated approach has been employed for many years with great success in Japan and has recently been adopted elsewhere in Asia as well as in Latin America.

183. A measure of basic importance for dealing with a number of problems faced by peasants has been the development of co-operatives. While co-operatives have to some extent been employed as a basis for organizing production, their use has more frequently been confined to improving the distribution of supplies and credit, to providing storage and marketing facilities, and to the channelling of extension services. In some countries, membership in a co-operative association has been required of new landholders benefiting from land redistribution measures. By and large, however, co-operatives have not yet become a firm tradition in the under-developed countries.

184. The utilization by producers of the material inputs and services described above is essential for the transformation of agricultural technology required in the under-developed countries. However, the extent to which agricultural producers are induced to adopt superior methods has been severely limited in many countries by an institutional and economic environment which deprives them of the incentive to expand output. Discouraging features of the environment include prevalence of insecure tenancy at high rentals, wide fluctuations in prices, poor communications, and unorganized marketing systems for farm products and farm supplies, as well as chronic indebtedness. Since indebtedness is mostly to landlords and traders in many newly developing countries, the economic bargaining power of the small farmers is often very weak. In dealing with these problems, government measures have been focused to a considerable extent on land reform, on providing remunerative prices for crops and on improving agricultural marketing machinery.

185. One of the principal reasons for the lack of incentives to expand investment and output has been the prevailing land tenure systems. In most under-developed countries, measures have been put into effect, or are under consideration, to eliminate such conditions as extreme disparities in the size of holdings, prohibitive land rentals, and inequitable tenancy arrangements. In many Latin American and Asian countries, a common characteristic has been the marked unevenness in the distribution of landholdings, whereby the bulk of the producers farm only a small part of the total cultivable area. In many countries of North Africa and the Middle East, many holdings are too fragmented to be efficiently farmed, while at the same time rents are often very high. Remedial measures have included the expropriation of landholdings, generally with compensation to landlords in the form of long-term bonds, the redistribution of the acquired land to peasants for operation either as individual farms or on some kind of collective basis, the statutory reduction of rents, the protection of tenancy rights, and the progressive consolidation of plots.

186. The implementation of land reform has often been a slow and difficult process, partly because of political difficulties but also because of the complexities involved in the administration of reform measures, and the need to build up institutions to provide services, such as credit, formerly rendered by landlords. Another closely related problem has been the need to link land reform with improvements in agricultural efficiency, which entails technical advisory services for the new owners, training in management on co-operative farms, and the wider distribution of improved farm supplies. In order to achieve a more efficient use of land, some countries have introduced penalties for under-utilization of land on large holdings; others have undertaken the consolidation of peasant farms of uneconomically small size. Not only the under-developed countries but also a number of the developed private enterprise countries have recently taken steps to achieve a more economical size of farm. Thus, in countries of the European Economic Community, the consolidation of small farms has been encouraged as a means of promoting more efficiency in agriculture.

187. In addition to their extensive efforts to encourage agricultural expansion through reforms in landholdings and land use, governments have also sought to implement agricultural plans by means of price policies aimed at guaranteeing a satisfactory financial return. In some countries, to be sure, the wide-spread approach of earlier years — involving control of basic foodstuff prices through a variety of measures aimed at protecting consumers and counteracting inflationary tendencies — has continued. With the increased emphasis on agricultural expansion, however, price policies in many countries have been reoriented towards providing positive incentives to producers to undertake greater investment. These policies have often taken the form of government guarantees to purchase selected crops at favourable prices. In some instances, such price-support policies have been integrated into domestic price-stabilization schemes involving buffer stock operations. The successful implementation of guaranteed price policies calls for a network of official buying stations within easy reach of producers, adequate storage facilities and an effective grading system. In general, deficiencies in the marketing system have tended to limit the effectiveness of producer price policies, especially for basic foods.

188. With regard to the inadequacy of institutions to provide services to agriculturists, reference has already been made to the efforts of governments to establish co-operatives, credit and marketing services and price guarantees. Equally important is the establishment of a wide-spread network of extension services for increasing productivity levels through enlisting the co-operation of the farm households in the achievement of the goals of the agricultural plans. Unlike industrial workers, farm producers in the newly developing countries remain strongly exposed to the influences of the traditional community, so that an educational and advisory approach is an essential element in the implementation of agricultural plans. This is

being increasingly recognized by governments, which are intensifying agricultural extension services, and strengthening research efforts on which extension services must be based. Greater use is being made in many countries of demonstrations on the farmers' own fields as the most potent way of promoting the wider adoption of improved practices, such as the use of fertilizers, better seed and pest and disease control measures. The shortage of trained extension and research workers is being remedied steadily by agricultural education and training programmes at all levels. Two powerful agents in opening up the rural areas to the flow of new ideas are the improvement of transport facilities — especially feeder roads to the villages — and rural electrification.

189. In the under-developed countries, disguised unemployment or under-employment of rural labour is usually too great to be eliminated by the prospective increases in aggregate demand. This problem, however, presents both a special challenge and an opportunity. In the implementation of plans for the agricultural sector, an important part can be played by the utilization of under-employed rural labour to create physical assets for the development of the rural economy. In particular, the productivity of the land in many areas can be raised by projects executed through the use of unskilled labour, such as drainage and irrigation channels, soil conservation terraces, bunding, and afforestation. A number of governments, especially in Asia, are developing methods of organization and compensation appropriate for employing idle manpower on productive projects. Other approaches to the fuller utilization of rural manpower which are receiving the attention of many governments include diversification of the farm production pattern, especially through double cropping and expansion of animal husbandry; and the promotion of openings for non-agricultural employment in rural areas for members of farm households. Rural electrifications and the establishment of small industries to process farm products or manufacture articles required by farm families are important aspects of the implementation of some agricultural plans. The ultimate solution to rural under-employment, however, lies in the permanent migration out of agriculture of workers who cease to be required for farm production, as agricultural productivity rises. In this sense, the progress of the agricultural sector is dependent upon the development of the economy as a whole.

190. The price incentive policies of many countries have emphasized the promotion of agricultural exports. A number of countries have undertaken to stimulate farm exports through the elimination of unfavourable multiple exchange rates or through the reduction of export duties that previously restrained the growth of agricultural exports. To achieve a degree of stability in the return to producers of export commodities and thereby to remove a major disincentive to production, several types of measures have been employed. In several African countries, stabilization funds have been utilized. In many Latin American countries, variable export taxes have been among the

devices used to insulate producers partially from world price fluctuations.

191. Experience has clearly shown the importance of adopting a comprehensive range of measures to promote agricultural development. A common reason for failure to achieve objectives has been the emphasis on removal of one or two limiting factors while other deficiencies have been neglected. A too restricted approach has reflected partly a lack of necessary machinery and organization and partly a lack of the necessary resources. In a number of recent instances, however, comprehensive programmes have been undertaken on a regional basis or in the development of new agricultural land. The opening up of previously unused public lands has often also been an important aspect of land reform policy; such land has frequently been used in resettlement programmes to aid landless farm workers. Extensive land settlement programmes have been undertaken in many countries. Under these programmes, government institutions have provided assistance of various types, including road construction, water resource development, technical guidance, machinery, credit and marketing facilities.

192. Comprehensive measures on these lines, frequently referred to as the community development approach, have been adopted in a number of countries. This has helped to make available several basic services and facilities over large areas, brought about greater awareness among the rural population and stimulated local effort. However, they have frequently failed to provide resources and personnel on a large enough scale to permit intensive agricultural development, especially in areas which have a high potential for achieving rapid increase in agricultural production. This limitation, inherent in general community development programmes, is sought to be overcome in such countries as India, Indonesia and Pakistan by undertaking to provide a broad range of resources in particular districts selected as focal points or project areas for intensive agricultural development. Thus, in India, to begin with, one district in each state has been taken up under the Intensive Agricultural District Programme. In addition, selected areas have also been taken up for more intensive effort to increase the production of such crops as rice, cotton and oil-seeds. With the entire countryside being now equipped with the minimum extension and community development services, the intensive area approach is being increasingly adopted. In selected districts of West Pakistan, the concentrated application of resources has also been adopted as a means of raising output. Agricultural development corporations have been set up in each area as an instrument for making available material inputs, extension services and supervised agricultural credit. Eventually these functions will be taken over by co-operatives at the village level.

193. Implementation of all programmes of agricultural development presents complex problems of organization and resource mobilization. For the possible benefits to be realized fully, there has to be effective co-ordination and dovetailing of operations as between

different agencies as well as in relation to local communities and individual farmers. Extension methods and techniques must be constantly adapted to the needs and conditions of different areas and improved steadily in the light of actual experience. Such changes are facilitated through current evaluation on a continuing basis of different aspects of agricultural and rural development. In India, for instance, significant modifications in rural development programmes and policies have resulted from the objective and independent appraisals undertaken over the past decade by the field staff of the Programme Evaluation Organization of the Planning Commission.

5. IMPLEMENTATION OF INDUSTRIALIZATION PLANS

194. In the industrially developed private enterprise countries where economic planning has been increasingly adopted as a means of stimulating growth, the targets which have been established for the public sector refer not only to education, infrastructure or health services, but also to the publicly controlled industries. In addition, goals have been set for private industry as a whole as well as for a number of industrial branches. Considerable attention has also been devoted in this connexion to the location or the regional development of industries. The industrial goals for private industry are derived from careful studies of the available resources and of the expected levels of internal and external demand for goods and services. They are not compulsory but derive their value from their indicative character resulting from their mutual consistency, the quality of the analysis in general and the process of consultation with entrepreneurial organizations and trade unions on which the plans are based. In addition to this, governments often supplement the establishment of industrial targets with appropriate policy measures, such as taxation and subsidies, designed to assist in attaining the aims of the plans.

195. In many under-developed countries industrialization has been an important policy objective over a number of years and, in fact, measures to foster the establishment of industrial enterprises have often been put into effect prior to the adoption of comprehensive plans. In countries in which programmes of industrialization form part of over-all development plans, as is now more common, experience has borne out the importance of implementing industrial programmes in the closest possible co-ordination with programmes in such related sectors as transport, power and manpower planning. The interdependence of different sectors of the economy and the need for rapid expansion in agriculture and social services, at the same time as industrialization programmes are undertaken, have also been emphasized.

196. The means by which governments have endeavoured to implement plans for industrial growth have taken two main forms. One is the assumption of direct responsibility for the execution and operation of industrial projects; these activities have been mentioned above

in the discussion of public investment policies. The other type of measure consists of assistance to the private sector in the form of providing scarce resources and of incentives to stimulate industrial investment. In practice, governments have frequently sought to implement industrial plans along both lines. Apart from a few countries where public ownership of certain industries has been advocated as a matter of principle, the establishment of some public or semi-public industrial enterprises has been provided for in the plans of almost all under-developed countries in order to assure the production of certain key commodities. On the other hand, even those countries which have favoured public ownership on grounds of national policy have left certain branches of industry for development by the private sector.

197. In contrast to public sector programmes for industry which, in most cases, have been built around fairly specific investment and output targets, the development goals set for private industry differ a great deal in comprehensiveness and in detail, from country to country and from sector to sector, even among the industrially developed countries. In many of the latter, governments have relied primarily on the response of the private sector to such indirect measures as monetary and fiscal policy. Financial control over capital outlay, and financial assistance in the form of official credits or subsidies have at times played an important role, especially in the modernization of high-cost industries or in the expansion of industries considered to be in the national interest.

198. In the under-developed countries, governments have limited the use of direct controls over the private sector to the application of certain licensing provisions. Their principal reliance has been placed on measures aimed at providing incentives to investors, creating conditions conducive to the expansion of domestic industries, providing needed resources, and eliminating obstacles in the way of the execution of desirable projects. Government action has taken the form chiefly of foreign trade and exchange policies designed to foster the expansion of domestic industry, financial assistance to investors and the granting of fiscal benefits. In addition, some countries have given special attention to the development of small-scale industries and to training of managerial personnel.

199. Governments have generally resorted to a combination of these measures, the emphasis depending on the stage of development, institutional factors and the nature of obstacles to industrial growth. In general, allocations of foreign exchange and financial assistance have proved the most effective policy instruments. Except in the industrially more advanced under-developed countries, fiscal measures, such as incentive rates of taxation and accelerated depreciation allowances, have of necessity been limited in their scope, since their effectiveness presupposes that entrepreneurs have sufficient resources for investment and that market prospects are sufficiently favourable to induce them to reinvest their profits within the industrial sector.

200. Industrialization programmes have in general sought to promote industries producing substitutes for imports and those utilizing

domestic materials. To achieve this objective, foreign exchange and trade policies have been used to provide a protected market for domestic industries and to conserve scarce supplies of foreign exchange required for the financing of capital-goods imports. Most under-developed countries have exercised some control over the use of foreign exchange. The measures employed include quantitative import restrictions, exchange control, and multiple exchange rates. Usually more than one of these measures have been resorted to, although the use of multiple exchange rates has become less prevalent in recent years. Tariff protection, the traditional instrument for sheltering domestic industries from foreign competition, has frequently also been applied, but in most countries it has played a secondary role in view of the wide-spread use of direct controls on trade and payments.

201. While such measures have generally been influential in fostering production for the domestic market, it should be noted that the scope for import substitution tends to narrow as domestic output expands. At an early stage of industrialization the progressive elimination of competing imports of basic consumer manufactures provides a strong impetus to the expansion of domestic manufacturing industries. In the industrially more advanced of the under-developed countries, however, domestic industry has already been expanded to the point where it is able to supply the bulk of the market for basic consumer manufactures. In these circumstances, the impact of import restrictions on the expansion of domestic consumer industries has tended progressively to weaken; continuation in the growth of consumer industries has depended instead upon increases in domestic demand. At the same time, the increasing diversification of the economy has given rise to the need for expanding capital goods industries.

202. Since resources for financing private investment are generally inadequate in the under-developed countries, most governments have undertaken to supply public funds to assist in the financing of industrial investment. In providing public loans, governments have often created specialized credit institutions, such as development corporations and industrial banks. Some of these institutions have not only served as channels for the disbursement of government funds, but have also been authorized to raise additional funds from the banking system or other financial institutions, or in some cases through public bond issues. In a number of instances, such specialized institutions have also been instrumental in obtaining and disbursing foreign credits for specified purposes. The interest rates charged by these institutions have been significantly lower than the market rates. Most of them have also participated in the establishment and operation of individual enterprises, supplying technical expertise and managerial skills as well as capital. In the case of high-priority projects requiring large capital outlays, some countries have established mixed public-private enterprises with direct financial participation by the national government. In countries restricting foreign ownership of domestic enterprises, participation by governments in foreign investment pro-

jects either directly or through specialized institutions has become increasingly common.

203. In some under-developed countries in which the development of domestic industries producing capital goods and durable consumer goods has taken place, a problem of financing the sale of these goods has arisen. At an earlier stage of domestic development, where such industrial equipment is imported, the necessary medium-term credits to finance its purchase are provided through foreign sources. Since the failure to find local financing for the purchase of domestically produced capital goods may inhibit the development of capital-goods industries, it is important that policies aimed at implementing development plans include provision for adequate financing facilities and institutions.

204. A relatively new form of government assistance, recommended in the recent plans of several countries, is the government guarantee of private credits to industry. Often as a matter of monetary tradition, and sometimes because of a lack of familiarity with industrial operations and because of the relatively high risks involved in the establishment of industrial enterprises, commercial banks have confined their loan activities to short-term commercial credits. In these circumstances, government guarantees can serve to lower the cost of borrowing by reducing the risk factor, and they can be of assistance in overcoming the reluctance of banks to tie up funds in long-term industrial loans.

205. Financial assistance has sometimes also taken the form of subsidies for the purchase of industrial equipment. Such subsidies have, for example, been granted in connexion with regional development plans, as an incentive to entrepreneurs to locate industries in backward areas. Small and medium-sized enterprises have often been favoured in the allocation of such subsidies, especially where their establishment is encouraged in connexion with programmes for the absorption of unemployed workers in depressed areas.

206. Although public financial assistance has provided an important stimulus to industrial development, the allocation of such assistance has often proved less effective than hoped for. As has already been stated in chapter 1, the fact that the prevailing prices of the factors of production do not reflect their relative scarcities may lead to a choice of industries for development which are uneconomical from the national point of view. This danger becomes even larger when factors are made available at prices well below the prevailing ones. Hence the availability of cheap credit may lead and in fact has led to the introduction of too capital-intensive techniques. This remark does not refer to the cost of capital only; it pertains to all cases where prices differ from their "shadow" levels. It is particularly true for the price at which foreign exchange is made available. Here, too, because of the various policy devices, the actual price to the user of foreign exchange is below the market rate, which itself may be far below the price reflecting the scarcity of foreign currency. It also needs to be pointed out that these factors have occasionally fostered

the expansion of capacity beyond the point where it could be effectively utilized, owing to insufficient demand or lack of qualified staff to operate it.

207. The third main type of government action to assist private industry has taken the form of various fiscal benefits. Tax concessions have served to attract private funds into the industries to which they apply and to increase the resources available to entrepreneurs for investment purposes. Tax incentives have been widely used as a policy instrument in the industrially advanced private enterprise economies. Although of less practical importance, such incentives have also been widely employed in the under-developed countries. A common form of incentive taxation which has been generally applied in these countries is the partial or complete exemption from taxes of certain types of new investment for a limited period. Some countries have allowed new enterprises to average profits over a number of years for the purpose of tax assessment. Provisions for accelerated depreciation, which have been widely used as an incentive to investment in the industrially advanced countries, have recently also been introduced or proposed in some under-developed countries. In a few cases, governments have proposed to provide high priority projects with guarantees of tax stability for a limited period.

208. The impact of fiscal measures should not be over-emphasized. Tax rates in the under-developed countries have not been so high as to discourage profitable investments, while the effect of tax concessions on profit margins has been insufficient to attract capital into essential projects yielding only moderate returns before this. The effectiveness of tax concessions as a stimulus to industrial investment has depended only partly on the suitability of the particular type of means chosen. It has also been determined to an important degree by the success of governments in developing new investment patterns and by the strength of the enterprise sector. To the extent that industrial investment has failed to become a self-perpetuating process, fiscal benefits granted to industrial enterprises have often simply subsidized entrepreneurs, while contributing little to the purpose for which they were intended. Moreover, where proper safeguards have not been applied, they have tended to encourage inefficiency.

209. Special tax benefits have sometimes been offered to foreign investors in selected industries. In combination with appropriate foreign-exchange policies, they have, in a few cases, been utilized in securing the participation of foreign enterprise in the process of industrial development and diversification. It must be emphasized, however, that in spite of increased efforts on the part of governments in some capital exporting and importing countries, private capital has tended to concentrate upon export-oriented industries rather than manufacturing industries producing for the domestic market.

210. A number of countries have given an important place in their plans to the development of small-scale industries in view of their contribution to employment, the diffusion of industry and a more balanced rural economy. By virtue of the advantages arising from

specialization, they can provide a much needed complement to larger industrial organizations; they can provide a wide variety of components and services which may be produced with equal or greater advantage by separate specialized firms than in completely integrated complexes. But small firms operate under peculiarly heavy disadvantages in the under-developed economies. They frequently cannot afford to supply their own power, transport and other facilities; they do not have as ready access to credit, to foreign exchange, and to licensing and authorizing agencies of government as larger firms; they can seldom do their own training, maintenance, and repair; and they need a wide variety of advisory services not normally available in the under-developed countries. To overcome these disadvantages a number of devices have been used, including special government bureaux to advise and assist small-scale enterprises, special credit and training institutions, suitable purchase policies, supply of equipment and raw materials, and in some countries the formation of industrial estates. These last are areas set aside for small-scale production where government supplies such facilities as plant, transport, and power, as well as technical and marketing advice, credit and other assistance.

211. In a number of countries at the early stages of development, one of the serious limitations on the rate of industrialization has been shortages of trained and experienced managers, administrators and technicians for both public and private enterprises. In the developed private enterprise countries, there has been increasing recognition in recent years that both pre-career and mid-career management training can greatly improve the capacity of managers to apply rational and logical analysis to their own managerial problems. Management training facilities are being established in a number of the under-developed countries to relieve this critical shortage.

Centrally planned economies

212. In the centrally planned economies, the problem of implementing national economic plans differs in many important respects from that in the private enterprise countries or in countries with a mixed economy. In these economies, state organs, which have most economic activities under their direct management, play a key role in organizing the execution of plans. The plan targets, brought down to the level of individual enterprises, specify in detail not only the aims set for each economic unit but also the means required for achievement of these aims. These aims, expressed in the form of directives, usually give the planned figures for output, material input, investment, labour force, wage bill, average wage rates by industry and other important indicators. It should be noted that national plans contain only broad targets for sectors and industrial branches; they do not specify the tasks assigned to each individual enterprise. These broad indicators are split into enterprise targets by ministries and economic administrations. The degree of detail or comprehensiveness of the

indicators contained in national plans is not the same in all centrally planned countries; in some countries, for instance, the list of items produced and materials supplied is restricted to a few hundred comprehensive groups, while in other countries a much more detailed list is prepared. This is true of other indicators too, which may be more or less comprehensive in character. On the basis of these indicators, enterprises draw up their own detailed plans containing targets, for example, for output, material inputs, employment, output per man, wages, cost reductions, sales, profits and their distribution, and investment and its financing.

1. BASIC METHODS AND INSTRUMENTS OF PLAN IMPLEMENTATION

213. Since the plans of enterprises and other economic units have an obligatory character, the direct supervision of enterprises by the higher administrative authorities plays a basic role in the implementation of over-all plans. Principal among the important instruments in the implementation of plans are the negotiation of inter-enterprise agreements — which, once concluded, become obligatory — the use of material incentives, credit and bank policy, and price policy. The functioning of these instruments is rendered possible by the fact that each enterprise exists as a separate legal entity working on the basis of economic accounting. This means that each enterprise, being provided by the State with fixed assets and working capital, has to cover its current expenditure out of its revenue and to earn profits. Within the limits of the plan, enterprises are, to some degree, free to exercise their discretion on operational matters.

214. The plan targets assigned to enterprises presuppose mutual links between them with regard to output and supplies; these links are established either directly between them or through supply and purchase organizations. On this basis and in the light of their own more detailed plans, enterprises conclude contracts with one another to ensure that all output is produced and marketed in accordance with the proportions fixed in national plans. The entire plan thus becomes a system of mutual obligations which have legal force. Fulfilment of these inter-enterprise contracts is ensured by detailed provisions, which may include penalties; there is also a court of arbitration for the settlement of disputes.

215. Another important instrument in the fulfilment of plans is the application of the principle of material incentives. In fact, despite the directive character of plans, enterprises do not merely execute orders relating to the tasks included in their plans. The degree to which enterprises fulfil their targets for output, cost reductions, savings on materials, innovations and even modernization of equipment depends to a large extent on the initiative of their managements and staffs. The obligation to fulfil the plans and the administrative directives of the supervising authorities are therefore supplemented by systems of incentives designed to encourage the fulfilment or

over-fulfilment of plans. The role of these incentives is important even at the stage of plan formulation because the planning authorities have, to rely to a large extent on the information and requests of enterprise managements which may be influenced by the incentive system.

216. The principle of material incentives, which plays an important part in the implementation of the plans, is used in the centrally planned economies in various forms. Apart from wages and salaries which are related to the productive performance of their recipients and which constitute the main form of remuneration in the centrally planned economies, there exist supplementary incentives in the form of bonuses granted to managing, engineering and technical personnel for raising output in conformity with, or in excess of, the planned quotas, for improving the quality of the products, for reduction of unit costs and so on. In addition, bonuses may be paid to the whole staff of an enterprise which lightens work or releases labour resources. In most cases, such bonuses are awarded only if the productmix of enterprises is in accordance with plans, if the targets set for a rise in output per man have been reached and if enterprises have fulfilled their obligations with respect to the delivery of specific goods to other enterprises. One of the incentives used to encourage efficient work by each enterprise is the establishment and use of a factory fund designed to raise the standard of living of the workers and to improve output. These funds are accumulated as and when the plan is fulfilled or over-fulfilled with respect to the volume and range of output, cost reductions, or profits.

217. Funds for the payment of bonuses are formed in different ways in different countries; they are either fixed directly by the immediately superior organization, or are dependent on the quality of the work of the enterprise, measured, for example, by the growth of profits. The rules for the distribution of these funds are also laid down by the immediately superior organ, so that only a certain part of the bonus funds remains at the disposal of the director of an enterprise.

218. Along with the rewards for the fulfilment or over-fulfilment of plans, there are also various penalties for non-fulfilment of plans and commitments, for breaches of credit regulations or of economic arrangements between enterprises or organizations, and for production of poor-quality goods. For instance, a penalty is imposed for the non-observance of contractual obligations or for not meeting the necessary quality requirements. Moreover, when credit conditions are not observed, the state banks usually apply to the supervising organization for guarantees, which result in stricter control and the adoption of appropriate measures by the supervising organization with respect to the enterprise concerned.

219. The actual way in which bonus systems are arranged or enterprise funds utilized differs from country to country. Moreover, it is being modified and improved in the course of developments within each country. This process of improvement is directed towards finding methods of stimulating the initiative of enterprises as far as

possible and of directing this initiative towards the general state of interest as expressed in national economic plans.

220. As a rule, the basic form of incentive has been the amount of profits left at the disposal of enterprises. As the prices of inputs and outputs of enterprises are fixed, and their profits are planned, actual profits normally reflect the internal efficiency of enterprises. They are not, however, perfect indicators of the fulfilment of production plans since they reflect not only changes in output but also in costs. A profit plan may accordingly be exceeded without the fulfilment of production plans. It has therefore been stipulated that enterprises are entitled to retain a certain proportion of profits as bonuses for workers and management or for reinvestment and other funds only if they have fulfilled their plans for total output and its main components as well as for cost reductions and profits. In some countries, the share of profits retained by enterprises has been smaller for planned profits and greater for profits in excess of this amount. In others, this system has been rejected on the grounds that it induces enterprises to understate their potential outputs in the process of plan formulation in order to obtain greater benefit from over-fulfilment of plans. Various schemes have therefore been worked out which, on the one hand, relate the share of profits left at the disposal of enterprises with the increase in profits over the preceding year, and, on the other hand, give enterprises a share of the profits which is larger for planned profits and smaller for profits in excess of the planned levels. This gives enterprises an incentive to make their capacity fully known at the stage of plan preparation, and consequently creates the necessary conditions for more rational development during the planning period.

221. An important factor influencing the process of attaining plan targets is the system of prices, which are fixed centrally by state organs. The general price system includes wholesale prices and transport charges which are applicable to transactions between enterprises, state purchase prices for agricultural products, and retail prices. In the centrally planned countries, a turnover tax is usually levied, in the main, on consumer goods. In most cases, this tax represents the difference — after allowance for a standard trade change — between wholesale and retail prices, each of which is separately fixed by the state. The tax is not generally imposed as a fixed rate on the wholesale price. Wholesale prices are fixed, as a rule, on the basis of the costs of production plus a small profit margin, while retail prices are fixed so as to equilibrate the supply and demand of consumer goods.

222. Settlements of accounts between enterprises are based on the planned price system. The price at which an enterprise markets its output (the wholesale price of the enterprise) covers the planned cost of the product and guarantees a fixed profit to each enterprise operating under normal conditions. Wholesale prices are identical for a given product manufactured by different enterprises. However, the price is not fixed merely on the basis of average conditions, but in such a way as to stimulate improvement of production, while at the

same time avoiding as far as possible unprofitable operations by enterprises. In individual cases, when differences in the production conditions of enterprises in a given sector cannot be rapidly eliminated (for example, in the extractive industry and in some branches of heavy industry), differentiated prices are established for individual producing enterprises, but a single price for enterprises consuming the product concerned; the difference is usually equalized in the marketing organization of the sector.

223. Prices are actively used to regulate the range of output produced or consumed as well as to improve its quality. Prices of scarce materials are fixed so as to encourage the producer in increasing the output of such materials while at the same time limiting their consumption. Prices of interchangeable types of output are designed to stimulate the consumption of the more economical type. In order to encourage improvements in quality, high-quality products are sold at higher prices. Of special importance are the prices for new high-quality products. Prices for new products are normally established, after adjustment for quality differences, at the same level as those of similar existing products. Systematic measures are also being taken to change wholesale prices so as to ensure that they bear a closer relation to present production and trading conditions for individual commodities and to the goals which have been set for improving the material and technical base of industry.

224. In addition to fixing prices of products, other and related norms are also laid down centrally, establishing the conditions under which enterprises or other economic units should attain the targets of national economic plans. One of the most important of these norms is the classification of occupations and wage rates which relates payments to labour with the degree of skill and working conditions as well as with the importance attached to particular sectors in national plans. This has the result both of stimulating workers to improve their skills and of facilitating the allocation of manpower into the most important sectors from the standpoint of planned development.

2. DIRECT ADMINISTRATIVE CONTROL OF PLAN FULFILMENT

225. The measures adopted by state authorities impose certain conditions on the economic units in the process of fulfilling the plan. However, these elements do not automatically lead to the fulfilment of plans. Also, the conditions with regard to fulfilment of plans in one enterprise are dependent in many respects on the work of other enterprises. Furthermore, the conditions with regard to fulfilment of a given plan may change in relation to those assured in the plan itself. It is essential therefore that the administrative bodies at all levels undertake a careful and comprehensive verification of the progress in fulfilling the plan in order to ensure continuous maintenance or restoration of balance in the economy and the achievement of the general objectives of the plan.

226. This verification of plan fulfilment is organized on a comprehensive basis for all plan indicators and is carried out periodically by all bodies responsible for the fulfilment of plans, that is, by all levels of the administration in respect of the economic activities for which they are responsible. The frequency of this verification generally differs from one branch to another, depending on the variability of the conditions of work and on the importance of the particular branch to the whole economy. General analyses of the fulfilment process are usually made on an approximate basis once a month and in greater detail every quarter. The analyses are based on data regarding the degree of plan fulfilment, collected by the statistical and accounting system, and on data from the state banks (whose functions are described below).

227. The chief aim of the verification is to disclose factors impeding the successful fulfilment of plans or the need for additional resources, that is, over and above those taken into consideration originally. On the basis of an analysis of these factors and resources, appropriate steps are taken in the fields of financing, credit, imports and exports and material and technical supplies, in order to maintain balanced development.

228. An important factor in ensuring the ability of the central organs to manoeuvre in the process of plan fulfilment is the establishment of material and currency reserves in accordance with plans. These reserves are established centrally and are separate from the current production reserves of enterprises. Material reserves are of two types. First, there are the so-called state reserves of important raw and other materials which can be utilized only upon specific decisions of the government in case of necessity. Secondly, centralized plans for the distribution of raw and other materials provide for the so-called government operational reserve, which is distributed for current needs as required by progress in the fulfilment of the plan.

3. THE BANKING SYSTEM AND FULFILMENT OF PLAN TARGETS

229. The banking system in the centrally planned economies provides a flexible apparatus for preventive controls over enterprises, based on the flow of funds through banks. In view of their special functions, the banks are able to keep a continuous check on the activity of enterprises; and through their control over the finances of enterprises, they are able to forestall unauthorized deviations from plan targets. This is made possible by the fact that all money flows among enterprises, the state and its various institutions have to be transacted through the state banks. The enterprises, moreover, are required to keep virtually all their funds in bank deposits. In these conditions, the analysis of the bank accounts of enterprises enables the banking authorities to estimate the degree of fulfilment of various planned targets before the final data become available to the administrative authorities. On the one hand, prices, the rate of planned profits and their allocation to the central budget are predetermined;

and on the other hand, profits have to be transferred to the budgetary accounts of the banks on a pay-as-you-earn basis. Thus, changes in the flow of funds between enterprises and the banking system necessarily reflect changes in the output, material costs or wage bills of enterprises. Further, no enterprise is allowed to transfer its funds to the accounts of other enterprises without presenting the documentation to justify such transfers; if necessary, these transfers can be blocked to prevent enterprises from using funds in ways that do not correspond with the provisions of their economic and financial plans. Similarly, no withdrawal of cash for payment of wages is authorized without presentation to the banking authorities of evidence justifying these outlays. Thus, the administrative authorities can be immediately notified of deviations from plan stipulations.

230. No less important as a way of supervising the implementation of plans is the control exercised by banks over investment in fixed and working capital. The bulk of investment in fixed capital is financed by budgetary grants, which are handled by the banks. As the transfer of these funds is phased in accordance with the actual performance of the investing organizations or enterprises, the banks are continuously aware of the degree of fulfilment of plans and of new requirements arising in the process of implementation.

231. Bank credits, which are used almost exclusively for short-term working capital, are allocated by the banks in accordance with national plans. The credits bear an interest charge designed to encourage the effective use of funds by enterprises. If the performance of individual enterprises falls short of, or exceeds, plan targets, the amount of credits is correspondingly adjusted. As credits are made available for specified purposes and can be used only for settling accounts when documentary proof of the transfer of goods or services is submitted, the banks are able to control the flow of goods between enterprises and to prevent the unauthorized redistribution of materials and financial resources.

232. In addition to short-term credits, credits in some countries are granted for a term of two to three years, in respect of outlays for mechanization, modernization and progress in production technology, and for periods of up to one year for outlays needed to organize and expand the production and improve the quality of consumer goods. The basic requirement for the grant of a credit is that the action to be undertaken must be effective, and must ensure the repayment of the credit within the prescribed time limit out of the additional accumulation achieved. Long-term credits are also granted to assist enterprises in investments financed out of their own resources.

4. IMPLEMENTATION OF AGRICULTURAL PLANS

233. In principle, the methods of plan implementation are the same in all sectors of production where state enterprises predominate. In agriculture, however, the problems of plan implementation differ considerably from those encountered in other sectors. These differ-

ences arise partly because output is subject to the vagaries of climate and partly because agricultural enterprises are predominantly collective or private forms, and not state enterprises. As a consequence, plans for agricultural output are treated as forecasts rather than as directives to be distributed among individual enterprises. The state farms do receive directives from their supervising authorities relating to output of specific commodities and other aspects of their activities. But the collective farms are free to determine their output, utilization of manpower, volume of investment, and procedure and terms for the remuneration of labour. Apart from the payment of taxes and the statutory formation of depreciation and investment funds, their only obligation is the fulfilment of sales quotas for specific commodities assigned to them by the state; these quotas are either reached by agreement between the agricultural producing units and the state purchasing organizations in accordance with plans or are assigned to the former by the state. The sale of commodities is influenced by price movements. Through price and tax policy, the state influences the amount of revenue received by farms from the sale of various commodities and, thereby, the pattern of output and sales.

234. The purchase plans, as well as price and taxation policies, are supplemented by other measures for the implementation of agricultural plans. The state plans the development of production and supply of tractors, agricultural machinery, transport, chemical and mineral fertilizers and pest control preparations to agriculture, undertakes irrigation and land reclamation schemes, brings virgin and fallow land under cultivation, organizes the production of high-grade seeds and the breeding of high-productivity live-stock and their sale to collective farms, lays out a network of stock-breeding and veterinary institution, and carries out plans for the training and retraining of specialists and for the dissemination of advances in knowledge.

235. Unlike state enterprises, the collective farms do not receive any direct instructions with respect to current inputs or investment. In consequence, investment plans for the non-state sector of agriculture are based, on the one hand, on the evaluation of investment demand of non-state farms and, on the other, on the assessment of accumulation funds of the collective farms and of credits earmarked for this purpose by the government. The basic tools for controlling investment in the non-state sector of agriculture are thus the credit allocations and prices fixed by the government for agricultural investment goods, and also the plans for the delivery of equipment and other resources. Through these, the central authorities can regulate the volume of agricultural investment in accordance with the requirements of government policy.

5. IMPLEMENTATION OF FOREIGN TRADE PLANS

236. The implementation of plans for foreign trade, which is a state monopoly, is achieved by the use of methods similar to those applied in most other sectors. The over-all foreign trade plans are

translated into directives issued to state import and export agencies. They are also integrated with the purchase and allocation plans of various supply organizations and, frequently, with the production and sales plans of the enterprises producing for export. The fulfilment of these plans is safeguarded by the existence of the state monopoly of foreign trade and by the long-term trade agreements with other centrally planned economies. These safeguards, however, are not completely effective since trade with the private enterprise and mixed economies of the world is subject to fluctuations in external demand and prices, and this may influence the implementation of trade and other plans. On the other hand, the monopoly of foreign trade ensures that the differences between domestic prices and the prices on the foreign market are evened out and that, consequently, price fluctuations on the world market do not have a direct effect on production enterprises. Furthermore, the fluctuations in the sales and purchases of goods in the world market can also be offset by the reserves of the state foreign trade organizations and government currency and material reserves.

237. Although the state monopoly of foreign trade and long-term bilateral agreements are powerful tools in the implementation of foreign trade plans, their effectiveness depends on the ability to implement production plans. In view of the monopoly of foreign trade, the failure to fulfil production plans need not always affect the implementation of plans for foreign trade. But, more often than not, the implementation of foreign trade plans is, in fact, considerably affected by the deviations of output from the planned quotas. This is obviously most pronounced in cases when a large proportion of a given output is earmarked for exports. Since such departures from the planned volume and composition of imports and exports are under governmental control, they have not necessarily resulted in any significant deviations from the planned balance of payments. As the bilateral agreements provide for only limited swing credits, the failure to fulfil export plans has generally been accompanied by reductions in import targets unless additional long-term credits could be secured.

6. IMPLEMENTATION OF OVER-ALL PLANS

238. Since the over-all targets of plans, such as the growth rates of total and sectoral output, the distribution of national income between accumulation and consumption, and the sectoral allocation of investment are obligatory, it is obvious that the implementation of the production and financial plans of individual enterprises and institutions is broadly synonymous with the fulfilment of over-all plans. In consequence, implementation policies are basically concentrated on the direction and supervision of the activities of enterprises through the application of the measures already described. As a rule, few additional measures of global character are required for the implementation of plans. They are, in fact, necessary only in areas

not directly covered by the plans of enterprises and institutions. In other words, they deal mainly with the problem of the disposable income of the population and its uses. Even here, however, the need for special measures is very limited so long as the financial and production plans of enterprises are closely adhered to.

239. In view of the absence of private profits and the general provision by the state of social insurance and old-age pensions, savings out of private incomes represent only a relatively small fraction of total saving. This reduces considerably the need for additional measures to mobilize resources for investment from sources other than enterprises. It also accounts for the fact that personal consumption approximates disposable income. The volume of retail sales is planned in accordance with consumer demand, which is determined by the planned wage bill, the incomes received by the population out of the state budget, and the money incomes of the rural population. Domestic market equilibrium, both as a whole and for individual commodities, is achieved with the aid of planned retail prices. If need arises, the material and financial reserves provided for in national plans can be drawn upon.

7. IMPLEMENTATION OF PLANS IN YUGOSLAVIA

240. As indicated in the preceding chapter, changes in the planning system in Yugoslavia have radically altered the methods of plan implementation. Self-management in enterprises and social services, as well as broad autonomy of regional authorities, has been associated with a large decentralization of financial resources. As the aim of planning in Yugoslavia is the establishment of over-all targets and proportions in the structure of economic development, reliance has ceased to be placed on the issuance of detailed directives to individual enterprises. These targets and proportions are realized through a system of general conditions and rules for economic activity of enterprises, supplemented by policy measures. The system of these conditions and measures may be so adapted as to display a higher or lower degree of differentiation in the treatment of various sectors or various phenomena of economic development.

241. A major element in this system is the set of regulations covering the distribution of income of enterprises. Enterprises are obliged to place at the disposal of the community a portion of their earnings in the form of dues, contributions and taxes which represent the main source of revenue for budgets, investment and other funds of the Federal Government and its agencies, the republics and the communes. An important part is played by interest on capital paid by the enterprises and taxes on value added in industrial enterprises according to fixed scales and criteria. The rest of the income is left at the free disposal of enterprises, to be distributed among such items as their wages and salaries fund, their investment funds and their reserve funds. Enterprises are permitted to increase the remuneration of their

staff in accordance with the increase in labour productivity and the improvement of their general business success. In calculating their wage-bills, enterprises use certain recommended indicators, such as the realized increases of value added per worker and per unit of capital. Thus, the system exercises considerable influence on the distribution of income between investments (the investment funds of various bodies and enterprises), social expenditure (finance set aside for government budgets, social insurance and similar purposes) and personal consumption (wages and salaries). Through this system the question of the centralization or decentralization of the funds placed at the disposal of various bodies is also regulated. It would be a mistake, however, to think that the impact of the system is predominantly fiscal. A number of instruments not only have the purpose of influencing the distribution of income, but they also serve as economic incentives or economic criteria for evaluating and influencing the decisions taken by the self-governing bodies.

242. In addition to the general regulations affecting income distribution and legal norms defining the status of enterprises and the framework for rights of self-managing organs, there are in Yugoslav planning practice specific features of long-term and short-term policies relating to credit, prices, foreign trade and exchange which are used as active instruments for the realization of planned targets. For instance, the largest part of investment funds for long-term credits is allocated by the banks according to certain rules and regulations. The centralized investment resources are allocated to sectors according to plan provisions. The allocation within the sectors is made by the banks on the basis of competitive bids between a number of projects. However, in practice, there are cases where decisions on the allocation of investment credits for large projects (railway and highway projects or large land reclamation projects), or projects requiring considerable foreign financing, are taken by the Government. The national plan also includes special provisions for the volume and structure of investment allocations from the central fund for the under-developed regions of the country over and above their own resources. These take the form of grants to appropriate regional or territorial organs. In addition to long-term credits for the expansion of productive facilities, short-term credits are employed as a means of maintaining desired levels of production in various branches and in trade, being used in a highly selective manner. Mention should also be made of price measures which include the imposition of ceiling prices for some basic intermediary products, of guaranteed prices for most important agricultural commodities, and of price controls over certain important consumer goods if market conditions justify them. However, for a larger part of production, prices are formed freely on the market, though the turnover tax is used to influence the level of prices for finished goods. In contrast, administrative regulations with regard to foreign trade and foreign exchange are still significant, as the balance-of-payments position has not so far permitted greater flexibility.

243. Unlike those in other centrally planned economies, individual enterprises in Yugoslavia are autonomous units which are not bound by any individually specified obligations to the authorities with regard to their productive activities. Each enterprise is free to decide its own output, sales, prices and investment policy. It is assumed that the self-interest of managements and workers' councils will lead them to adjust their activities to the requirements of the economy as reflected in the market situation. The national authorities, however, can bring considerable influence to bear on the decisions of enterprises through the manipulation of fiscal, credit and price policies. While the general aim has been to avoid the use of selective measures and to limit state intervention to the application of general measures, both general and selective measures have, in practice, been employed. Different policies, in other words, have been applied to the various industrial branches or to specific products in order to bring the activities of enterprises into conformity with national plans. Indirect taxes imposed on specific products have, for instance, been varied to modify demand and induce enterprises to adjust their output. Similarly, the rate of taxation applied to specific industries has been varied. Also, short-term credit policy has been manipulated on a selective as well as on a general basis to stimulate or restrain the current activity of enterprises. Until recently, another important instrument was the system of multiple exchange rates for imports and exports.

244. While main reliance has been placed on these indirect measures to bring the activities of enterprises into conformity with the national plans, regional and other economic organizations have also played some part in affecting the decisions of enterprises. Though the governments of the communes and republics have no legal power over the enterprises located within their territories, their views cannot be entirely neglected by the enterprises, particularly since they exercise control over the allocation of credit supplies out of their own funds, as well as over certain taxes. The communes and republics, moreover, are obliged to conform their economic plans and policies to national plans; and they are therefore an additional link through which the activities of enterprises can be brought into relation with national plans.

245. In contrast to the extensive decentralization of decisions affecting the current activities of enterprises, governmental authorities have, to a very large degree, continued to determine the level and distribution of investment throughout the economy. It is true that the authorities have been in a position to influence the investment decisions of existing enterprises only in the event that the latter have required loans to carry out their plans. However, it is an important feature of the system that existing enterprises have largely confined their investment decisions to the modernization and expansion of existing facilities. In practice, new projects have been generally initiated by the regional authorities, particularly the communes. These governmental bodies have a financial interest in the creation of new

enterprises within their territories, since this, in time, augments their revenue. But more important, the creation of new enterprises forms an important part of their general responsibilities; and since these bodies are guided by the same general political and economic considerations as those of the national authorities, they tend to conform their investment activities to national plans. Investment plans have, in fact, contained targets for each of the basic sectors of the economy, though not detailed targets for specific investment projects or for regions.

246. Savings have been mobilized mainly by the federal, republican and local authorities. In recent years, for example, about a third of total investment has been financed by the federal investment funds and another third by the investment funds of the republics and communes; only the remaining third has been financed from the funds left at the disposal of enterprises. The revenue of the federal, republican and communal investment funds has been derived mainly from taxes levied on enterprises.

247. Again it is true that the proportion of retained income which enterprises save is not decided by governmental authorities but is autonomously determined by the workers' councils. The councils determine the allocation of profits between remuneration of employees and funds earmarked for investment or collective consumption, observing the general regulation that the increase of wages and salaries should be in accordance with the increase of productivity and revenue of enterprises. In practice, however, since remuneration depends on net revenue, both staff and management have an interest in increasing the efficiency of their enterprises, through modernization or renovation of plant and equipment. Their decisions are, moreover, also affected by fiscal and credit policies. Apart from other taxes, the amounts earmarked for enterprise investment funds and for wage funds are also subject to differential rates of taxation, and variations in these tax rates may influence the allocation decisions of enterprises.

248. The task of implementing plans for the allocation of investment has fallen mainly on the banks which administer the investment funds of the federal, republican and communal authorities. In contrast to enterprises in the other centrally planned economies, those in Yugoslavia do not receive capital grants from the state budget, but have to finance their investments from their own funds or with loans from the investment funds. In order to induce enterprises to economize on capital outlays, loans have carried an interest charge.

249. The policy of the banks in allocating loans among sectors or industries has been largely guided by the investment plans of their respective regional administrations, and these have, in turn, been prepared in conformity with national plans. In the process of implementation, the federal investment fund is able, by an appropriate reallocation of its credits, to compensate for sectoral deviations from a given national plan arising from the autonomous decisions of the regional investment funds. Similarly, the republican and local invest-

ment funds, in shaping their credit policy, take into account the investment decisions of the enterprises located in their territories.

250. The federal authorities, however, have also been able to exercise more direct control over the sectoral allocation of investment by means of the federal investment fund. While this centralized fund accounts for only one-third of the total financial resources available for investment, the initiation of new projects has, more often than not, been dependent on the ability to borrow some of the finance from the federal fund; in fact, the general pattern of about three-quarters of productive investment has been adapted to the national plans in this way. The investment bank administering the federal fund has stipulated that economic organizations seeking to borrow from the federal fund should be able to finance a certain proportion of the investment requirements from their local sources. The participation required of the borrower has ranged from 5 to 80 per cent of the cost of the project in accordance with the priority attached in the national plan to investment in the different sectors of production. The manipulation of these participation requirements has been an important tool utilized by the central authorities to mobilize decentralized funds for the achievement of national investment targets. This method of implementation has not been watertight, and investments financed exclusively from decentralized resources have sometimes deviated from plan objectives. However, the magnitude of these deviations, while occasionally giving rise to temporary imbalance, has not been such as to impair significantly the implementation of national plans.

251. Recent developments in the investment system of Yugoslavia show a further decentralization of investment resources, as well as an increased role of banking funds and funds of enterprises. This evolution is a part of the tendency for further relaxation of state control of economic management and of the process of investment which is emphasized in the new constitution of Yugoslavia.

CHAPTER 3

ORGANIZATION AND MANAGEMENT OF PLANNING

252. The main elements of the planning process consist in the evaluation of possibilities and objectives, the formulation of plans and policies for their realization, the preparation of specific programmes of action, the execution of plans and their periodic review and adjustment. The nature of the machinery established to perform these planning functions varies considerably from country to country, reflecting such factors as the importance of the role assigned to planning, the stage of development, the nature of the political and economic system and the existing structure of government.

Private enterprise and mixed economies

253. In some of the private enterprise and mixed economies, responsibility for performance of the various planning functions has been given to existing government entities, while in others it has been assigned to newly created bodies. The functions of plan preparation and policy recommendation have generally been performed by the national planning agency and its governing council. Responsibility for implementing policies designed to carry out the plan has generally fallen on the various ministries or autonomous agencies of government. The task of co-ordinating policy has been undertaken by individual ministries within their own spheres and, where the policies are interrelated or bear on one another, by the planning agency itself, acting under the general authority and direction of the cabinet or the council of ministers. Similarly, appraisal of progress has been undertaken by individual ministries in their appropriate fields and, on a more general plane, by the planning agency. Within the planning agency, the main responsibility for appraisal has necessarily been undertaken by the technical secretariat.

1. MACHINERY FOR FORMULATION OF PLANS

254. The planning agency in private enterprise and mixed economies has usually consisted of a high-level board and a technical secretariat. The board is the senior advisory organ of the agency. It has usually been concerned with the preparation of draft plans and the formulation of policies for recommendation to, and approval by, the highest political authorities. In some countries, the planning agency has two boards concerned with policy recommendations, a higher council concerned with the delineation of broad targets and

major policies and a larger subsidiary council concerned with more specific issues.

255. The technical work involved in plan preparation has usually been divided between the secretariat of the planning agency and the various ministries; the former has been primarily concerned with the elaboration of the plan as a whole, the latter with its specific components. This work consists of the various economic, statistical, engineering and other analyses which are required for formulation of the development plan. The technical secretariat, working within the framework of objectives set forth by the government or parliament, not only formulates the draft plan, but also frequently analyses the various policy alternatives for its implementation so as to facilitate the decisions and recommendations of its governing council.

256. As mentioned earlier, an important aspect of plan formulation is the machinery for consultation with various groups outside the national planning agency; their co-operation is needed in order to obtain their specialized advice with respect to the soundness of proposed plans and policy instruments. This consultation has been accomplished through the national legislature, through advisory bodies representing various private economic interests, or through non-government entities, such as various technical and research institutes. Some planning agencies have also established panels of experts to offer advice in particular fields. Among countries where regional development or planning agencies exist, such agencies have, in some cases, been an integral part of the national planning machinery and have thus participated directly in the formulation of national plans. In others, such agencies have been autonomous bodies. In some such instances, the effective organizational link between the national and regional planning agencies has been provided through a separate unit of the governing council of the national agency. But the problem of achieving the permanent co-ordination of the activities of regional and national agencies has not yet been satisfactorily solved everywhere.

2. ADMINISTRATIVE ARRANGEMENTS FOR IMPLEMENTATION AND APPRAISAL

257. In countries undertaking development plans, public responsibility for their implementation has invariably been shared among the various ministries. Co-ordination of their activities, both with each other and with the planning agency, has usually been sought through inter-departmental committees; in some countries, separate planning units have been established within each of the ministries in order to improve co-ordination with the central planning agency. Ultimately, however, the extent to which the ministries have directed their activities in accordance with the national plan has depended on the emphasis given to implementation of the plan at the highest political level. It may also be noted that reforms in public administration, particularly in regard to budgetary procedures and practices,

have often proved to be necessary for the effective implementation of plans.

258. While practice has varied from country to country, responsibility for implementation of plans has generally belonged, at the highest level, to the council of ministers. Under the direction of the council, individual ministries have had responsibility for executing their own plans. In countries which also have regional or state governments and administrations, these have been responsible for carrying out their own plans. The task of co-ordinating implementation in its wider aspects and on a continuing basis has generally been undertaken by a designated authority under the council of ministers. This may be the ministry of finance, equipped with a special unit for planning, or it may be the planning agency itself. Often the over-all targets for saving and investment have been proposed by the planning agency and the ministry of finance in consultation with each other and submitted for approval to the council of ministers.

259. The ministry of finance, whether or not directly responsible for planning, has usually played an extremely important role in the implementation of the plan. This has included responsibility for specific measures and policies for realizing saving and investment targets and for safeguarding the external balance. Besides being directly responsible for fiscal policy, the ministry has usually co-operated closely with the central bank in the determination of monetary policy; either the central bank has, by convention, consulted with the ministry in framing policy or it has, by law, taken its instructions from the ministry.

260. The ministry of finance, through its traditional role as custodian of the national treasury, has frequently exercised control over public investment programmes, whose implementation is the direct responsibility of other ministries. Further, in countries with foreign exchange control, final authority for the allocation of foreign exchange has often been vested in this ministry, though the executing agency has usually been the central bank.

261. Most of the other ministries in governments have had responsibility for the implementation of plans within specific sectors of production, such as industry, agriculture or transport and communications. In some countries, the responsibilities of these ministries have been mainly confined to the execution within their own sectors of public investment programmes or current expenditure programmes of a developmental nature. In most under-developed countries, however, where investment or current productive activity in the private sector has been subject to licensing of one kind or another, these ministries have usually administered the issue of licences. In a number of countries, for example, construction of a new industrial project has been conditional upon the approval of the ministry of industry. Some countries have even established committees of representatives of industry and other interested groups to review projects prior to their submission for approval to the ministry. Such a licence, approving initiation of a project, has had to accompany applications to obtain

licences for the purchase of rationed domestic materials, such as cement, or to secure a permit for imports of machinery. Further, the development banks have entertained requests for loans only on condition that the project has been approved by the ministry; likewise, without such approval, it has not been possible to issue securities on the domestic capital market.

262. The effective supervision, co-ordination and evaluation of plan implementation have required the continuous review of progress both towards the realization of over-all targets and towards the completion of new projects or specific tasks. To meet the need for over-all review, some countries have found it useful to undertake broad plan appraisals both at yearly intervals and on completion of the plan. These appraisals have usually been carried out either by the national planning agency or by special *ad hoc* commissions. An important aspect of the yearly appraisals is the opportunity which they offer to put forward revisions in plan targets or in the scale of priorities assigned to the various parts of the current plan.

263. The supervision and evaluation of progress towards the completion of specific projects or tasks have, in the first instance, necessarily been the responsibility of the ministries or other bodies entrusted with the implementation of programmes. They have also frequently been required to submit progress reports to the planning agency on the state of the projects assigned to them.

264. In addition, periodic inspections of project execution have been undertaken, either by project supervision units of the planning agency or by independent bodies, external to the agency, which have been specially constituted to examine the progress of particular projects. Among the essential elements in such appraisals are checks on progress in relation to completion schedules, on actual expenditures in relation to cost estimates, and on estimates of economic and financial returns in cases where projects have been completed. The transmission to the national planning agency of both the periodic progress reports and the evaluations of projects under way has enabled the agency to identify particular problems and to ascertain the relative stage of completion of the various parts of the plan so as to permit its synchronized progress. It is important that such information be complete, accurate and timely if corrective action is to be taken so as to prevent the occurrence of bottlenecks and delays in the implementation of plans. If available financial resources fall short of expectations, for example, the most appropriate adjustments can be more easily perceived if planners possess a comprehensive and current view of the state of progress of the various parts of the plan.

265. In addition to following up the progress of projects and undertaking periodic appraisals of the working of the plan, it has been found necessary in some countries to institute special arrangements within the government or the planning agency to obtain reports and information at short intervals, such as a month or a fortnight, on critical aspects of important projects. These may include movement of raw materials and finished products, supply of power, availability

of scarce materials, and utilization of allotments of foreign exchange. The object of such arrangements is to assist in anticipating difficulties and bottlenecks or in taking or suggesting timely action as soon as such problems come to light. More generally, it can be said that as planning develops and the operations of the economy become more complex, plan management itself calls for a wider range of such techniques and institutional arrangements.

3. ADMINISTRATIVE LOCATION OF THE PLANNING AGENCY

266. While the planning agency is invariably an advisory body, its location in the hierarchy of government and the extent to which its activities are effectively co-ordinated with other governmental and private entities have considerable influence on plan formulation and implementation. The establishment of the agency with sufficient status and its general acceptance as an important instrument of government have been necessary conditions for the development of effective planning activity.

267. In some countries, the planning agency has been placed within a particular ministry, such as the ministry of finance or of economic affairs. The rationale for locating the agency in the finance ministry is that this department is often charged with mobilizing the financial resources required for public-sector investment, as well as with the execution of monetary and fiscal policies which influence investment decisions in the private sector. In other countries, special ministries or boards for development planning have been established. It has frequently been observed that satisfactory results are obtained when the planning agency is incorporated in the office of the prime minister. Execution of plans has often been impaired where the institutional structure of the government has hindered implementation of the plan. It is important to ensure that changes in the plan proposed by different ministries are in line with the plan objectives and with the financial resources available for its realization.

268. In many countries, the provision of adequate authority and of effective administrative links with other government agencies has been accomplished through establishment of the national planning agency within the office of the chief executive or with the chief executive at its head. In this way, the planning agency has had access to the executive ministries through existing administrative channels. Often, in fact, the executive council of the planning agency has drawn some of its members from, or has been a subcommittee of, the national cabinet. This facilitates the co-ordination of sectoral plans. Co-ordination may also be furthered by establishing consultative links between the technical staffs of the several ministries and the staff of the planning agency. In many instances, and especially in Latin America, the important policy-making and advisory roles of the central bank have been recognized by nomination of the chief officer of the bank as a member of the executive council.

269. In view of the need for adequate statistics for plan formulation and progress appraisal, special efforts have been made in many countries to link existing statistical services with the planning agency. In a number of countries where dissatisfaction has arisen because of the divergence between the services provided by the central statistical office and the needs of the planning agency, the statistical office has been brought administratively into the planning agency. In other countries, both the statistical office and the planning agency have been placed within the same ministry in order to ensure close consultation and co-ordination. In some countries, maintenance of the statistical office as a separate entity has been preferred on the grounds that this office, in its role as a reporting unit, should be independent of other bodies concerned with policy-making.

Centrally planned economies

270. In the centrally planned economies, where the basic means of production belong to society in the form of state and co-operative property, the management of economic activities and the over-all development of the economy are integrated to a far greater degree than elsewhere. While differences in planning machinery do exist among these countries, they are generally far outweighed by the similarities. Yugoslavia, however, presents one notable exception; as will be observed later, the planning machinery introduced there in the nineteen fifties differs substantially from that in other centrally planned economies.

1. SYSTEM OF PLANNING AGENCIES

271. The highest state organs which decide and organize planning, subject to the approval of the parliaments, are the councils of ministers. The jurisdiction of the parliaments embraces the approval of the national economic plan and state budget, the periodic review of the progress of the plan, the establishment of legislative norms regulating the economic life of the country, the designation of the structure of administrative and planning agencies, and the adoption of principles for the management of enterprises as well as of the monetary and credit system.

272. The councils of ministers have responsibility for the execution and fulfilment of national economic plans and for their modification from time to time in accordance with changed circumstances. The councils examine the state economic plans and the state budgets and submit these for approval to the parliaments; they organize the supervision of their implementation; they adopt measures to strengthen the credit and monetary system; and, in general, they render decisions on important matters concerning the development of the economy.

273. The central planning agency has invariably been responsible to the council of ministers. The over-all directives of the council of ministers have provided the guide-lines for the preparation of plans, although, in practice, such decisions have taken into account suggestions of the planning agencies as well as those of various committees of the council. This interchange of views, which is a continuous process throughout the preparation and implementation of plans, has been greatly facilitated by the direct participation of members of the government in the work of the planning bodies. The machinery for planning, in fact, has extended far beyond the central planning agencies. Each economic administration, including not only the central government but also the industrial ministries, central industrial boards, regional and local administrations and the individual enterprises, has had its own planning unit.

274. The planning agencies at each level are, in principle, conceived as advisory bodies subordinated to their respective administrations. All the members of the ministerial, regional and local planning boards are nominated by their administrative bodies; these bodies direct their work and approve their plans before submission to the higher administrative authorities. The planning organs at the lower levels are thus not formally linked to the planning boards at the higher levels; they are not legally responsible to the planning boards at higher levels and are not a part of a single integrated system of planning units. In practice, however, the lower planning boards have worked in close and direct co-operation with the planning agencies of the higher administrative bodies. As all specific plans have to be integrated into a single plan for each region and industry, and finally, into a national plan, direct co-operation and consultation between the planning agencies at various levels have been established.

2. FUNCTIONS OF THE PLANNING AGENCIES

275. The basic functions of the planning agencies are the preparation of plans, the control of their execution, the reporting on their fulfilment, and the provision of advice to the executive bodies on policy questions arising in the process of formulation and implementation. The implementation of plans and the management of the economy are functions of the central governments, ministries, and subsidiary industrial boards as well as of regional and local administrations. The central planning organs have not, as a rule, had executive powers. They have, however, received from the government the authority to introduce secondary changes in the plan or to reallocate material reserves in the process of implementation of the plan. As a rule, this has related only to decisions which do not alter the basic lines of the national plan.

276. In the Soviet Union, the organization and the function of the planning agencies have been considerably influenced by the size of the country and the fact that it is composed of several republics. The

distinctive characteristics of the system of planning and implementation in the Soviet Union have been considerably accentuated by changes which have been taking place in the last few years. Accordingly, in the following paragraphs, the systems in the Soviet Union and in the other centrally planned economies are described separately.

277. The system of planning organs in the Soviet Union comprises:

(a) The general planning organs of the central, republican and local authorities which deal with over-all planning in their respective territories;

(b) The planning organs of ministries and departments which deal with economic activities under their supervision;

(c) The planning organs of *sovnarkhozy* and those of agricultural production boards which are responsible respectively for industrial and agricultural production in their territories;

(d) Planning units of the enterprises.

278. Since 1957, important changes have taken place in the functions of the various bodies dealing with over-all planning. The most significant has been a substantial increase in the responsibilities of the republican planning commissions, known as the Union Republic *Gosplans*. Whereas these *Gosplans* previously planned mainly for that part of industry in the republics which produces consumer goods, building materials and timber, they now prepare plans covering the development of all industrial branches. Thus, conditions have been established for planning the integrated development of the economy and the fullest possible utilization of each republic's natural and labour resources.

279. Concurrently with these changes, new bodies concerned with the administration and planning of industry have been set up at the level of the economic administration areas. These are the territorial Economic Councils or *sovnarkhozy*. In regions where industry is not sufficiently highly developed, *sovnarkhozy* have not been established. The *sovnarkhozy* operate exclusively within the framework of the state plans evolved by the republican and central planning organs. The supervision of construction activities was also initially assigned to the *sovnarkhozy*, but this task was later transferred to the republican state construction committees which are responsible to the state construction committee of the USSR.

280. The plans for the *sovnarkhozy* and union republics are drawn up in the light of the tasks for the country as a whole as defined in the unified economic development plan approved by the USSR Government. The Union Republic *Gosplans* work in close contact with the *sovnarkhozy*, the republican ministries and departments and the lower regional and local planning organs.

281. An important role is also played by the planning units attached to the governing bodies at each level in the hierarchy of administrative areas within the union republics. The co-operation of these planning units is enlisted by the republican *Gosplans* for work on matters of general economic interest, such as the preparation of the

power balance for the entire region or territory, the formulation of draft plans for production of all industrial enterprises in the region or territory, and the establishment of the manpower balance.

282. The plans for those general areas of economic activity, such as finance, foreign trade or transportation, which are not exclusively or directly the responsibility of the union republics, are prepared by the ministries of the USSR and other central bodies. With the assistance of their planning divisions, the ministries prepare such draft plans for submission to the USSR *Gosplan*.

283. The financial and credit organs play an active part in economic planning. Every year, in conformity with the targets set in the annual national economic plan, the Ministry of Finance of the USSR prepares and submits to the Government a draft state budget of the USSR. The State Bank of the USSR likewise prepares draft credit and cash plans. The Ministry of Foreign Trade draws up a draft annual report and import plan and a draft foreign currency plan for foreign trade transactions. These plans are reviewed by the USSR *Gosplan* from the point of view of their co-ordination with the annual national plan, and its comments thereon are submitted to the Government. While the financial plans are originally based on national economic plans, their analysis may indicate the need for certain alterations in the latter.

284. In 1962 and 1963 the administrative structure of the management of the national economy underwent a further change affecting the organization of the planning agencies. A newly created Higher National Economic Council, directly responsible to the Council of Ministers, is now in charge of the management of industry and construction and of over-all planning. Management of agriculture rests with a separate committee, which is also directly responsible to the Council of Ministers. The Higher National Economic Council has under its supervision the State Planning Committee, the National Economic Council of the USSR responsible for the management of industry, the State Construction Committee of the USSR, the State Committee of Co-ordination of Scientific Research and state production committees dealing with a limited number of selected industries.

285. The main purpose of the Higher National Economic Council is to co-ordinate the work of these bodies. It has the right to adopt binding decisions with respect to the execution of plans. The National Economic Council of the USSR is in charge of the implementation of national economic plans other than those relating to agriculture and construction. It pursues its activities through the republican and inter-republican economic councils which in turn direct the activities of the territorial *sovnrarkhozy* wherever several such units exist in a republic. The Council also pursues its activities directed towards the implementation of the economic plans through the ministries and departments of the USSR. At the same time, it performs certain planning functions, largely in the field of supply allocation, within the framework of annual plans. The State Construction Committee of the

Council of Ministers of the USSR is responsible for the administration of capital construction. The state production committees, most of which are directly subordinated to the Higher National Economic Council, deal with the management of enterprises in a few specific industries placed under direct supervision of the Higher National Economic Council.

286. The *Gosplan* of the USSR and the National Economic Council of the USSR work in close co-operation with the state industrial committees, the chairmen of which are members of their governing bodies. The basic functions of the state industrial committees are to elaborate projects for the development of a unified technical policy and to prepare plans for scientific research and experimental work. They bear full responsibility for seeing that new machinery and technology are promptly introduced into production.

287. The *Gosplans*, National Economic Councils and state construction committees of the union republics work under dual control; they are responsible both to their counterparts at the level of the Central Government and to the governments of the republics. The *Gosplan* of the USSR is responsible for the preparation of long-term and medium-term plans and for their division into annual plans; it is also responsible for correcting annual plans in the light of experience and of the proposals put forward by the *Gosplans* of the union republics.

288. In other centrally planned economies, although the organizational links between the various planning bodies have been very similar to those of the Soviet Union, their planning machinery has differed in many respects. These differences have been due largely to dissimilarities in the organization of management. While in the Soviet Union the management of the economy through central ministries was replaced by management through territorial units, in other centrally planned economies the central ministries have as a rule continued to direct the activities of the enterprises. In consequence, the planning agencies next in rank to the central planning boards are ministerial planning organs dealing with specific industrial branches; these are followed in descending order by planning units of enterprise associations and of individual enterprises.

289. Plans of the enterprises under the jurisdiction of central ministries have been prepared under the supervision of ministerial planning agencies. In the Soviet Union, all enterprises located in a given territory are under the jurisdiction of territorial units; in the other countries, regional and local planning boards deal mainly with the planning of activities of local interest such as housing, public utilities and production to meet local requirements. In some countries, however, the prerogatives of the local and regional boards are somewhat greater. This separation of functions is not, however, absolute. As the enterprises under ministerial jurisdiction sell part of their output locally, use locally produced materials and recruit local labour, their activities are never entirely independent from the plans and

policies of the local authorities. Consequently, the regional and local planning units have not simply incorporated into their plans the tasks fixed by the ministries for the enterprises under their jurisdiction, but have prepared regional or local plans in direct co-operation with individual ministries and with the central planning agency.

3. INTERNAL STRUCTURE OF PLANNING AGENCIES

290. The internal structure of the central planning agency has been basically the same in all the centrally planned economies. The agency has been invariably composed of a commission and its secretariat. In some countries, its daily work has been directed by a presidium composed of the chairman and vice-chairman of the commission; in others, as in the Soviet Union, heads of agency departments have also been members of the directing body. The secretariat has been divided into two main groups of departments: branch departments which deal with the preparation of plans for specific sectors and industries; and functional departments which are responsible for the co-ordination of branch plans and their integration into global plans. The number of branch departments has varied with the degree of aggregation in centrally determined targets as well as with the importance attached to specific industries.

291. Planning activities in the centrally planned economies, however, have not been confined to the work of the planning agencies. They have also embraced a considerable number of research institutes which engage in economic analysis, studies of methodological problems and technical studies of industries. Some of these institutes have been directly subordinate to the planning agencies. But the planning organizations are also authorized to request assistance from autonomous institutions such as the research institutes of the Academy of Sciences, of the universities, and the institutes attached to ministries or to large enterprises. The all-embracing character of planning and the subordination of all research institutions to the state authorities facilitate the mobilization of all available expertise for the solution of technical and economic problems encountered by the planning boards.

4. PLANNING MACHINERY IN YUGOSLAVIA

292. In Yugoslavia, the organizational framework of planning has differed substantially from that of the other centrally planned economies. This has been directly related to the specific methods of planning and management in Yugoslavia which were described earlier. The most immediate consequence of this method of planning has been the absence of strong administrative and hierarchic links between the planning agencies and the productive enterprises. However, there is considerable consultation and co-operation between planning agencies at various levels, as well as between enterprises — either singly or

collectively — and also between trade unions on the one hand and planning agencies on the other.

293. The highest planning body in Yugoslavia is the Federal Planning Office. This has been responsible for the preparation of the federal plan submitted to the Government and to the legislative assemblies. The Office is entirely without any executive powers and acts only as an expert and advisory body. In addition to preparing long-term and annual plans, the Office has analysed the development of the economy and its future potentialities, prepared policy recommendations for the implementation of plans, and elaborated planning methods. Territorial planning agencies exist in the republics, the districts and the local administrative units known as communes. The less developed communes, however, do not possess separate planning agencies and their planning has been performed by planning sections of the economic administration. The planning agencies of the republics have prepared the plans for their territory in a way similar to that of the Federal Office, submitting them for approval to the republican authorities.

294. The planning agencies of the republics closely co-operate with the Federal Planning Office in the process of formulation of plans. At the same time, consultations on planning policy proceed at the political level, that is, in the Federal Government where republics have permanent representatives. In this manner, although republics are not under any legal obligation to submit their plans for approval by the higher authorities or planning agencies, their plans are elaborated on the same policy basis as the federal plan. Similar procedures for co-operation exist between communal and republican planning agencies, as well as between communes and enterprises. Thus, at various stages of elaboration of the plans, government bodies are consulted about the general concepts, main targets and instruments of development policy. Such co-operation ensures that, in the process of formulation of plans, mutual agreement is achieved on the most important problems and goals of economic development, as well as on the aims and instruments of economic policy. Once the general line of economic policy has been fixed by the federal plan and approved by the Parliament, it becomes a framework for plans of all lower bodies.

CHAPTER 4

NATIONAL PLANS AND INTERNATIONAL POLICIES

295. The intensification of interest in planning is doubtless a reflection of the universal desire for rapid economic growth, for improved standards of living, for diversified economic structures and higher levels of productivity. In the under-developed countries, planning has been undertaken and has in fact emerged as a principal means for harnessing all available resources for economic development, for reconstructing economic and social institutions and for meeting the deep-rooted challenge presented by wide-spread poverty. The precise patterns of growth which countries have delineated for themselves are inevitably influenced by their individual circumstances, needs and aspirations. With the adoption of planning by a growing number of countries — under-developed as well as developed and countries with market as well as non-market economies — there is greater recognition of interdependence of nations and of the need to devise ways and institutions by which such interdependence will be expressed more concretely and definitely to the advantage of all nations. The keen awareness of the role and possibilities of international economic co-operation has found expression in all world forums and at regional levels. The expanding range of activities of the United Nations and its specialized agencies in numerous fields and other recent developments unmistakably attest to this.

296. In seeking to eradicate poverty and to reconstruct their economic and social structures, the under-developed countries have entered upon a long-drawn-out, uphill undertaking. Although the nature of the task ahead differs according to the nature of conditions in each country — in particular, its size, population, natural and human resources, institutional structure and the stage of development — certain problems are common to most under-developed countries. These include, for instance, the urgent need for new skills and knowledge, for capital equipment, and for markets for primary and other products. As they endeavour to implement their plans — plans which are in fact modest in relation to needs — the under-developed countries find themselves under increasing compulsion to accelerate their economic growth and to meet rising demands in all directions, demands frequently exceeding their present capacity to save. Their need for foreign exchange resources is both pressing and of crucial importance and, in addition, from time to time they may be confronted by short-run balance-of-payments problems. Moreover, under the prevailing conditions of world trade, the demand for their primary products on the part of the developed nations fluctuates widely in price and volume and such manufactures as they are able to produce and make avail-

able for export prove difficult to sell. The effect of all this is to increase the uncertainties of foreign trade for the under-developed countries, to reduce their own ability to earn foreign exchange and, by placing them in a situation of greater dependence, to make it more difficult for them to fulfil their plans of development. In other words, for the national plans of the under-developed countries to succeed in their objectives and for the process of development and reconstruction to be speeded up to the utmost extent possible, national plans need to be supported by a series of enlightened policies and measures at the international level and on the part of all nations. Successive economic surveys by the United Nations and other studies have revealed the world-wide dimensions of the problem of poverty. Economic developments of the past decade suggest a widening of disparities between the rich and poor nations, such as can only serve to intensify and prolong the struggle in which the under-developed nations are engaged. To reverse this trend and to create the social, economic and other conditions for rapid development in the under-developed countries has therefore been rightly viewed as a foremost aim of the United Nations Development Decade and a common goal for all nations.

1. TRENDS AND INSTABILITY IN FOREIGN TRADE

297. The incorporation of foreign trade into national plans and the implementation of plans in the light of developments in foreign trade have been among the most difficult and important tasks of planning in the private enterprise and mixed economies. Fundamentally, this is because trends in foreign trade are difficult to anticipate, being dependent, not solely on domestic circumstances, but also on economic conditions and developments in other countries. In the centrally planned countries, foreign trade plans have been an integral part of national plans and, more recently, growing economic co-operation between these countries themselves, as well as between these and the under-developed countries, has exerted greater influence on the size and pattern of foreign trade and on corresponding plans.

298. It may be noted in this connexion that medium-term trade agreements have been an important feature of the economic relations between the centrally planned countries and mixed or private enterprise economies, particularly the under-developed countries. On the one hand, such agreements have permitted the centrally planned economies to integrate their trade with other countries more closely into their medium-term plans; on the other hand, these agreements have, in many respects, yielded benefits also to the under-developed countries both in terms of the stability of their trade and in terms of the implementation of their development plans.

299. In almost all countries, foreign trade absorbs a significant proportion of domestic output and is similarly an important source of domestic supplies; accordingly, despite the difficulties, national planning cannot be realistically pursued without careful account being

taken of foreign trade. If this is true of the developed private enterprise economies, it applies with even greater force to the under-developed countries. It is not only that, in many of these countries, the level of external demand conditions the rate of domestic economic growth by virtue of the large size of the export sector. Of more general importance is the fact that in most under-developed countries, at their present stage of development, by far the greater part of investment goods is not produced domestically but is purchased from the advanced countries. Some progress has undoubtedly been made in a number of countries towards increasing the domestic production of investment goods, but the requirements of these countries have also been rising rapidly. In general, the relative dependence on imported goods for capital formation has not diminished; in many instances, it has even increased. The need for foreign exchange has also been mounting in order to meet some of the essential current requirements; for example, full utilization of available capacity has often been contingent upon the supply of some imported raw materials or replacement parts for machinery. Thus, irrespective of whether the share of exports in total economic activity is large or small, the supply of foreign exchange has been a principal constraint on the rate of planned economic development in the under-developed countries.

300. It is in recognition of this constraint that a number of the under-developed countries have placed the prospective trends in supplies of foreign exchange in the foreground of their economic planning. Substantial weight has been given in the preparation of plans to the aim of releasing an expanding supply of foreign exchange for development uses, such as imports of investment goods and essential raw materials. Investment programmes have given priority to new import-substituting or export-promoting industries. While these policies have been effective to an extent, the unfavourable trends in their export trade have remained a matter of serious concern to the under-developed countries. Over the past decades, the structure of world demand for their export products has undergone a profound change. The demand for most foodstuffs has a rather low income elasticity and its growth has therefore been considerably less rapid than the rise in incomes in the advanced countries. At the same time, technological changes have resulted in a more economical use of industrial raw materials and have also led to the creation of synthetic substitutes. Under the combined influence of these forces, the demand for traditional exports from the under-developed countries has proved to be sluggish. On the other hand, production capacities for many of these commodities were greatly expanded as a result of shortages in earlier years. This in turn has contributed to increasing the gap between the movements of the world prices of primary products and the prices of manufactured goods. The declines in terms of trade, by reducing the capacity to import, have thus compounded the difficulties encountered by the under-developed countries. Some of the industrially more advanced of the under-developed countries, on the other hand, have

been giving increasing attention to the need for expanding the exports of manufactures to compensate for these unfavourable trends.

301. Over and above the sluggish long-term growth in foreign demand for their traditional exports, the under-developed countries have been confronted with a marked short-term instability in their export earnings, which has placed a further heavy burden on their ability to adapt plans to rapidly changing circumstances. Some countries have sought to lessen the impact of external instability on the domestic economy by channelling exports through marketing boards, others by means of variable export levies. Where exchange control has been applied, the use of foreign exchange budgets, which are subject to revision every few months in the light of current balance-of-payments situation, has also helped to ensure that supplies are adjusted to requirements in an orderly manner. Through several national policies, attempts have been made to mitigate the harmful effects of such instability, but there are serious limitations to what can be accomplished through the individual actions of the under-developed countries. Successful instances can be observed where an under-developed country has been able to reach a long-term contract with its most important customer country for the sale of a fixed quantity of a major export product at a guaranteed price. But such instances are few. It is in recognition of this fact that a number of international commodity agreements, involving multilateral contracts for purchase and sale, export quotas and buffer stocks, have been concluded in the post-war years and that forums for international discussions and consultations have been provided in commodity councils and study groups. But, at an operational level, progress has been rather slow, and there is also the question whether an individual commodity approach is adequate, in itself, to meet the requirements of comprehensive economic development. In this connexion, the new arrangements introduced by the International Monetary Fund for providing assistance to member countries encountering temporary shortfalls in their exports has been noted with satisfaction by the Economic and Social Council along with the fact that the whole subject of compensatory financing would be on the agenda of the forthcoming United Nations Conference on Trade and Development.

302. It is not only as regards its level and stability that foreign trade has presented particularly difficult problems in the under-developed countries. As discussed in an earlier chapter, the integration of foreign trade into national plans has also required decisions about the particular kinds of export-promoting or import-substituting industries which it would be most advantageous to develop. During the earlier stages of development, plans have tended to concentrate upon balanced growth within the confines of domestic markets, largely because of the limited possibilities for international specialization. There are, of course, exceptions, such as countries which, by virtue of their special resource endowments, are able to produce intermediate industrial goods at a scale far surpassing their current

domestic requirements. In the long run, however, the process of economic development is bound to bring about shifts and modifications in the traditional structure of foreign trade. As countries reach higher stages of development, it becomes increasingly desirable and even economically necessary to give attention to the possibilities of accelerating growth through specialization in new fields of production. This is all the more important because, as already noted, many under-developed countries have experienced difficulty in expanding their raw-material exports in the face of limitations of foreign demand. In some cases, moreover, under the impact of economic development and rising domestic incomes, the exportable surpluses of raw materials have been reduced by the growing domestic demand for these products. Changes in the structure of foreign trade do not, however, come about without certain problems and difficulties during the period of transition. Considerable difficulties have to be overcome before an under-developed country is able to compete in the world markets for manufactured products. In recent years, the search for markets in the advanced countries has risen for some of the manufactured goods which some under-developed countries have become increasingly able to export; this has emphasized the need for more liberal policies on the part of the advanced countries in easing access to their markets. Opinion has also been voiced in favour of deliberate reservation of markets in the advanced countries for the manufactured goods which the under-developed countries are able to produce efficiently.

2. THE NEED FOR FOREIGN CAPITAL

303. It is apparent that, among the under-developed countries, even the most intensive efforts to expand supplies of foreign exchange through export-promotion and import-substitution have not been sufficient in themselves to yield supplies required by plans. Plans have, in fact, generally been predicated on the assumption that the supplies of foreign exchange earned through exports or released through import-substitution would be augmented by an expanding flow of foreign capital, both private and public. Such foreign capital, moreover, is often accompanied by an important flow of technical skill and knowledge, which, too, are scarce in the under-developed countries.

304. Given the need for foreign funds, the under-developed countries have generally adopted a wide range of measures to obtain an enlarged flow of these funds. They have sought the collaboration of foreign private capital with private as well as public enterprises. The tendency of foreign private capital in some cases to limit participation to the private sector has tended to diminish its role in the implementation of development plans of the under-developed countries. As a matter of general policy on the part of international agencies and the capital exporting countries, a broader approach in line with the national plans is therefore to be hoped for. In order to attract for-

eign private capital, most countries have provided assurances with regard to property rights as well as to the remittance of profits and the repatriation of capital; in addition, various kinds of tax incentives have been offered to foreign investors. Despite these measures, foreign investors are often deterred by the political risks they fear to be connected with projects which otherwise may look attractive. Various proposals have been made to overcome these difficulties. Possibilities of a multilateral insurance scheme covering the risks involved have been investigated. However, because these risks are very hard to estimate, there are great practical difficulties in implementing such a scheme. One other possibility which seems to offer better prospects might be the setting up of a widely acceptable code for international investments, stipulating rules for the mutual relations between the public authorities of a country and the foreign investors. These rules would outline the general conditions governing foreign private capital and would refer to the same type of assurances presently given by many countries on a bilateral basis. They would, moreover, stipulate the conditions to which investors ought to subject themselves — for example, the conditions with respect to publicity and auditing procedures. Rules might even cover joint ventures of foreign private capital with domestic capital of private or public origin of the type referred to above. The institutional framework for the reconciliation and arbitration of disputes arising between public authorities and foreign private investors would have to be agreed upon. Although the code would not be binding on the negotiating partners, its existence is likely to facilitate negotiations and to reduce the uncertainties which at present often impede positive results.

305. It must be recognized, however, that even the most efficient regulations for the international flow of private capital will not prevent an uneven distribution of this flow. Private capital has been and will mainly be attracted to those countries endowed with resources for which world demand is buoyant. Several countries are even suffering from the fact that their national private savings are leaking away. An efficient foreign-exchange control might not always be sufficient to check this movement. These characteristics have led some observers to suggest that the governments of the capital-exporting countries themselves should actively formulate measures to encourage a large flow of private capital which could be tailored to suit the plan requirements of the under-developed countries. The International Finance Corporation might further expand its efforts as a sponsor to stimulate substantial flows of private capital and relate these efforts to a greater extent to the development plans of individual countries. Suggestions have also been put forward to the need for encouraging floatations of loans in the capital markets of the advanced countries by appropriate financial institutions in the under-developed countries. These suggestions need to be given more concrete form through the efforts of international agencies and the developed countries, and an early and substantial beginning should be made to facilitate access to the major capital markets by governments and institutions of the

under-developed countries engaged in the planned development of their economies.

306. In the face of uneven distribution and uncertain flows of private capital, however, official economic assistance has played a growing role in speeding economic growth in the under-developed countries. This includes assistance from international agencies as well as assistance made available on a bilateral basis both by the developed private enterprise countries and the centrally planned economies. Official grants and loans have, as a rule, tended to offset the marked concentration of private capital flows. Indeed, without official assistance, plans of many countries which have received little or no part of the international flow of private capital in recent years would have greatly suffered. On the other hand, as the pace of development increases through more extensive efforts on the part of the under-developed countries and through greater external assistance from other governments and from international agencies, flows of private capital may also be stimulated.

307. Bilateral external assistance from the developed private enterprise countries has played a large role in assisting the development of many countries and may continue to do so for several years to come. That such assistance has considerable value and is needed on a still larger scale is widely recognized. On the other hand, in recent years certain limitations inherent in the present methods of an approach to bilateral economic assistance have become more apparent, and there is now wide-spread expression of a strong preference for a growing proportion of economic assistance to be given on a multilateral and international basis. Assistance from one country to another has tended increasingly to limit purchases to the donor country; this has, on the whole, tended to raise the costs of development. The balance-of-payments problems of individual donor countries have been frequently reflected in the terms and conditions on which their credits have become available for the under-developed countries. Through the limiting of aid almost exclusively to specific projects in need of capital equipment, there has been a certain degree of rigidity in the use of foreign-exchange resources, and the current balance-of-payments situation in many recipient countries has thereby become more difficult. It may even be said that excessive emphasis on bilateral assistance may have tended to delay a co-ordinated approach to the balance-of-payments problems on the part of the developed countries; this has been a disadvantage to the under-developed countries. Moreover, it cannot be gainsaid that bilateral assistance can lend itself readily to the influence of non-economic considerations and policies.

308. In the circumstances, efforts made by the International Bank for Reconstruction and Development to assist donor countries to co-ordinate their economic assistance through consortiums and consultative groups for a multilateral approach to aid for the under-developed countries and to broaden the scope of its own loans and those

granted on easier terms through the International Development Association are to be welcomed and are deserving of greater support from member countries. Also, the United Nations Special Fund constitutes an important beginning for a wider scheme of international economic assistance through the United Nations such as has been urged for many years by and on behalf of the under-developed countries. While certain adjustments will be needed in this field for a period, there is little doubt that the extension of multilateral and international arrangements for economic assistance to the under-developed countries is calculated to enhance the effectiveness of aid and to speed the development of these countries and even to assist in the solution of important problems as between the developed countries themselves. Moreover, without a considerable degree of international action in relation to economic assistance, the terms and conditions of aid to the under-developed countries may remain excessively burdensome and it may be difficult to develop an integrated and sustained approach to individual national plans as a whole.

309. The growing economic potential of some centrally planned economies during recent years has also allowed them to grant an increasing amount of investment credits to a number of the under-developed countries. A characteristic of such credits has so far been that they have almost always been linked to the delivery of equipment from the creditor country; arrangements for repayment of such credits have usually been in the form of deliveries of commodities from the recipient country. Up till now, the rate of interest on such credits has been considerably lower than the prevailing rates on capital markets. The period for which these credits are provided is not uniform. In broad terms, it is longer than the duration of loans from commercial lending institutions but shorter than the duration of loans provided by certain international financial organizations.

310. The importance of terms and conditions of economic assistance being so determined as to facilitate development to the greatest extent possible is now being increasingly recognized and has been especially stressed in the organs of the United Nations itself as well as in its specialized agencies, particularly the International Bank for Reconstruction and Development. The main considerations urged are, first, that in "tying" credits to specific projects, plan priorities may sometimes be distorted, and the current needs of an economy for components and raw materials, more especially for securing the fullest utilization of existing capacities, may be neglected. Secondly, opinion in the under-developed countries is unanimous that achievement of their planned targets of investment and output would be greatly facilitated if external assistance were assured to them as far as possible for their plan periods and sufficiently in advance rather than from year to year and with considerable delays as has been the situation so far. In recent years, the mounting burden of service payments on foreign loans has given rise to a strong need for a larger flow of grants as well as of loans on developmental terms as regards both

interest rates and amortization periods. In each successive plan, under present conditions, the burden of repayments of capital and interest becomes larger and leaves less free foreign exchange for development. In this background, the replenishment of the resources of the International Development Association now being considered is an essential step forward in the balanced economic growth of the under-developed countries. In connexion with the long-term development of the under-developed countries, the role of food surpluses of some countries has been already significant and further bilateral and international efforts outlined under the World Food Programme could make a contribution of great value to the intensification of development, especially in relation to agriculture, social programmes and the further utilization of manpower resources.

311. Heavily dependent as the economic development plans of the under-developed countries are on expanding supplies of foreign exchange, through export earnings as well as through external assistance, it is important to make a careful assessment of the prospective foreign-exchange requirements implicit in these plans. Yet, as noted in earlier chapters, by no means all countries have been in a position to overcome the difficulties connected with such an assessment. This is due to various reasons. Even if all the necessary data were available, it is a difficult and time-consuming task, since it entails detailed analysis of the composition, as well as of the level, of domestic output and expenditure. But very often the necessary data are lacking to a large extent. Information about the development during the pre-planning period forms a rather weak basis as it does not reflect the impact of new projects on foreign-exchange requirements. It is difficult to calculate this impact separately, dependent as it is on the exact time shape of the investment connected with the projects, on the part of it which can be supplied domestically, on the unpredictable changes in the price level of foreign investment goods and on many other uncertainties. It is even more difficult to estimate the indirect effects of the implementation of new projects. Nevertheless, the foreign-exchange requirements of programmes for domestic investment and output are of great importance for the success of these programmes in the under-developed countries, and hence it will no doubt pay to try to arrive at at least a rough estimate of their size. It is not only that targets for investment may not be reached if the requirements prove greater than expected. It is also that, if the requirements had been better assessed initially, this might have suggested a lower level and to a certain extent perhaps even a different pattern of domestic investment which would have placed less strain on the balance of payments. Where the scope of development efforts envisaged already represents the minimum essential in relation to needs, as may well be the case, a more accurate assessment of foreign-exchange needs could enable international agencies and the more developed countries to form a clearer appreciation of the size of the problem and, therefore, endeavour to assist in greater measure than they might feel called upon to do in the ordinary course.

3. MULTINATIONAL CO-OPERATION AND REGIONAL CO-ORDINATION OF ECONOMIC PLANS AND POLICIES

312. There has been a perceptible tendency in recent years for groups of countries, which are broadly at a comparable stage of economic development, to foster close trade and other economic relations among themselves. Thus, in the under-developed countries, the heightened interest in the advantages of specialization for orderly economic expansion has generated not only a search for markets in the advanced countries for manufactured products but also a broader movement towards exploration of the possibilities for expansion of trade among themselves. One important outcome of this movement has been the creation of the Latin American Free Trade Area and another has been the establishment of a common market among five Central American countries which has initiated the co-ordination of commercial policies in these countries. Among the member governments of the United Nations Economic Commissions for Africa and for Asia and the Far East, considerable discussion has also taken place about the possibilities of closer links to foster intraregional trade.

313. Concerted action by groups of the under-developed countries to foster their economic development and to facilitate national planning has by no means been confined to the field of foreign trade. Multinational co-operation has been sought, for instance, in the development of river basins falling within more than one country, integrated development of iron ore exports along with the development of port and other transport facilities and specialization in relation to selected agricultural commodities. Co-operation in the financial field has also led to the establishment of regional development banks. Furthermore, recently, action has been taken to create regional development institutes in Africa, Asia and Latin America in order to provide regional centres for the training of officials in planning methods as well as for research, dissemination of information and, in some instances, for assistance in the preparation of national plans. Further, there are indications of the growing awareness of the need for greater co-operation in the planning of new industrial capacity. Particularly in the economically small countries, where the size of the domestic market is too small to permit efficient levels of capacity, proposals for multinational rather than national planning of industries with a view to reaping the benefits of economies of scale are being examined. Such specialization need not lead to markedly different patterns of industrialization in the co-operating countries but may even be applied to different branches of a given industry. Work on co-operation of this nature has already begun among the Central American countries. These considerations suggest that forces are at work to pave the way for regional co-operation in all matters relating to economic planning.

314. Among the developed private enterprise economies, the Organisation for European Economic Co-operation (OEEC), set up shortly after the Second World War, was the first major example of

an organization designed to facilitate the co-ordination of economic policies among the western European countries. OEEC's first task was to assist in the allocation of foreign aid received under the Marshall Plan among the member countries in order to complete their reconstruction programmes and development plans. Subsequently, OEEC contributed substantially to a liberalization of the trade between the member countries and paved the way to a return to a fully multilateral payments system among them. In these and other ways, it played a key role in bringing about a large expansion in the trade among western European countries. Recently it was reorganized into the Organisation for Economic Co-operation and Development (OECD), with Canada and the United States as full members. OECD's new undertakings include efforts to organize multilateral aid to the under-developed countries and studies to serve as the basis for co-ordination of economic policies of the member countries. Among other things, these studies provide comparison and critical analysis of medium-term and long-term projections as well as, where they exist, of development plans. Such studies are of special help to the member countries engaged in some form of national economic planning, particularly in the field of foreign trade provisions.

315. By comparison, the European Economic Community (EEC) binds six of the member countries of OECD with much closer ties. First, EEC provides for an integrated market of all products and factors of production among the six countries through the elimination of all quantitative controls and customs duties on the intra-group trade, the establishment of one common tariff between them and the outside world, and the free mobility of manpower and capital within the group. Secondly, it calls for a common economic policy among the six countries with regard to full employment, control of economic fluctuations, long-term economic growth and the creation of equal conditions for competing enterprises throughout the group. The co-ordination of medium-term development policies is contemplated to be based on common projections. These would be drawn up primarily by using the projections already available in the member countries, but certain variants derived from alternative hypotheses would also be investigated; these projections would include the studies of the Community's foreign trade, and would be co-ordinated with the work undertaken by the United Nations at the world level. The common projections should be of help in the co-ordination of the development policies of the member countries, thus greatly increasing their efficiency.

316. The growing tendency for regional groups of countries to integrate their trade and investment policies raises the question of the influence of this trend on the volume and direction of world trade. There is no inherent reason why regional integration leading to a more rational allocation of resources among the countries of a particular region, such as is being attempted in the European Economic Community, in the countries of eastern Europe or in the Latin American Free Trade Area, should lead to any reduction of trade with other

regions. Indeed, such regional integration, by permitting more efficient exploitation of economies of scale, can lead to a better international division of labour for the world as a whole. It is, of course, true that regional groups may pursue policies which will inhibit their trade with other groups. Such policies would have unfortunate consequences especially for the under-developed countries which have particularly difficult foreign-exchange problems. It is to be hoped that regional agreements will be so structured as to avoid these undesirable effects.

317. The process of mutual consultation and exchange of information which has been evident at the regional level has recently assumed global importance following the action taken by the United Nations General Assembly. By resolution 1708 (XVI) of the Assembly which also called for the preparation of the present report, an Economic Projections and Programming Centre has been established at United Nations Headquarters with regional centres in the regional economic commissions. The Centre has initiated work on long-term growth models for the world economy which would, by examining the underlying economic relationships, aim at exploring the compatibility of national plans and programmes; this would assist national authorities in formulating appropriate policies within the context of an international framework. Similar functions would, in turn, be performed by the centres at the regional level. Work has also started on the preparation of studies dealing with the problems and techniques of economic planning under different economic and social systems. Not only would these studies be of value to national and regional institutes of economic development and planning, but the body of thought emerging from such work and the dissemination of information actively undertaken by the United Nations would go a long way in spreading the benefits of international research. The work of the Centre in providing substantive assistance to United Nations technical assistance operations in matters relating to economic planning would be yet another fruitful aspect of the new venture.

318. At present several international institutions, in particular those belonging to the United Nations family, are engaged in supporting the development efforts of the under-developed countries. This support takes different forms, such as technical assistance and transfer of funds. Since these different institutions approach the problems from different aspects, their actions are not always co-ordinated with the priorities and plans in the under-developed countries. A better gearing of these activities with the plans of the under-developed countries would therefore be of great importance.

319. In the centrally planned economies of eastern Europe, international co-operation and co-ordination of national plans have reached an advanced stage. Such co-ordination has been facilitated by the fact that all these countries have adopted a similar economic and social system, maintain close political ties and are engaged in long-term planning of economic development.

320. Economic co-operation and co-ordination in the centrally planned countries have gone through two distinct stages. In the first stage, lasting from the end of the Second World War to roughly the middle of the nineteen fifties, economic plans were prepared without any direct co-ordination with plans of other countries. During this period, the problems of international division of labour played hardly any part in the planning of economic development of individual countries and in their foreign trade policies. The development of the economies was co-ordinated only indirectly through foreign trade and credit relations. Indirect co-ordination was largely determined by bilateral trade agreements for specific goods, credit agreements, and agreements on scientific and technical exchange.

321. Since about the middle of the nineteen fifties, the international co-ordination of national plans in the centrally planned economies has been considerably broadened and strengthened. The substantial expansion of output and diversification of national economies in the countries in question have brought into being direct co-operation in production among the centrally planned countries of Europe. Unlike the first stage when the focus of its work lay in the sphere of foreign trade, the Council of Mutual Economic Assistance (CMEA) has expanded its activities to influence the preparation of national plans on the basis of such considerations as economies of scale resulting from mass production, and the reduction of production costs through specialization.

322. The process of co-ordination extends not only to production plans, but also to foreign trade plans, transportation, balance of payments and technical progress. On the basis of the co-ordination of national economic plans, the main directions of specialization and co-operation in production are established in interrelated branches of industry and in the joint utilization of raw materials, fuels and power; concerted decisions are taken concerning the joint construction of large economic inter-country projects; questions pertaining to the development and exploitation of various types of transport and communications are settled jointly; decisions are taken on the development of science and technology, including the initial and advanced training of personnel. In this way, a rational international division of labour is sought for the CMEA countries.

323. Co-operation among the centrally planned countries concerned in the development of these sectors of industry takes varied forms, including the granting of loans, the supply of equipment and the preparation of the necessary scientific and technical documents. Installations constructed on a co-operative basis are the property of the country in whose territory they are built. Accounts in respect of credits for these projects are as a rule settled by deliveries of goods produced at jointly constructed enterprises.

324. The tendency towards greater co-ordination of national plans has been associated with the trend towards the expansion of trade between the CMEA countries. Prominent among the measures to foster these developments has been the recent decision to introduce

multilateral settlements between the member countries of CMEA and to establish an international bank for the group.

325. The recommendations of CMEA for the co-ordination of national plans enter into force only after agreement with the member countries. The policies and procedures of CMEA in this respect were given formal expression in the "Basic Principles of International Socialist Division of Labour" adopted in June 1962. According to this document, CMEA aims at increasing the over-all efficiency of the economy of the group, but with due regard to the comprehensive and diversified economic development of individual member countries. Attention has also been devoted to the further narrowing and gradual elimination of differences in the level of development of these countries. Thus, the less industrialized countries in the group might be given preferential treatment in investment credits and in establishing favourable prices for certain exports during initial stages of production. The international co-ordination of plans based on these guidelines should, according to the "Principles", be applied to basic branches of industry and should be designed to achieve the comprehensive development of each country in combination with international interbranch specialization. The co-ordination should apply primarily to long-range plans in view of the time necessary to bring about the required structural and technical changes. The co-ordinated plans should constitute firm commitments for the participating countries, in order to prevent the emergence of imbalances.

326. In addition to the economic considerations pointed out in this chapter, it is important to recognize that the characteristics of world trade and of international economic relations in general are much influenced by certain non-economic factors, particularly those affecting the relations between the centrally planned countries, on the one hand, and the developed private enterprise countries, on the other. Experience has shown that the solution to this problem has to be sought to an important extent in the gradual reduction of the tensions which pervade the whole area of international relations. Some difficulties may also arise from the inherent differences in commercial techniques. There is no need to stress, however, that, in an improved world environment, the development of normal international economic relations would benefit the progress of all countries and strengthen the principles on which the United Nations is founded.

CHAPTER 5

SOME CONCLUDING OBSERVATIONS

327. In the preceding chapters a broad survey has been made of the methods and techniques adopted by countries with different economic systems for formulating plans and policies of development and securing their effective implementation. Differences in planning may arise from many sources; among the most important of these are the economic system, economic and social aims and values, the level of development and the kinds of problems with which each country is faced as a consequence of its historical circumstances, its size, population, and present economic conditions. In the midst of great diversity, a fact which stands out prominently is that most developing countries accept the necessity of planning, as a major instrument for achieving rapid economic growth. For these countries development plans may provide the basis for economic policies and programmes which are comprehensive, consistent and feasible, and may thus help to determine the correct order of priorities, due regard being paid to both short-term and long-term needs. Equally, the plans of developing countries may serve as a means by which the more developed countries can make a continuing and steadily expanding contribution to their development. From the point of view of developing countries, it may be desirable to recall certain broad aspects of planning experience which may be of special significance in their development effort, and to refer to some of the principal directions in which action on their part is especially necessary for ensuring the fulfilment of plans.

328. In the formulation of plans, especially in the initial phase of development, countries are often in a situation where the needs and priorities of development are fairly obvious, and could be singled out with sufficient accuracy without the use of refined analytical tools. But in the process of growth, such priorities usually become less obvious and more complex and the lack of adequate and accurate knowledge about available human, natural and other resources, as well as of basic statistical data concerning fundamental features of the economy, may become a serious obstacle to the realistic appraisal of development problems. Since it takes a considerable time to build up adequate statistical facilities, it is important that each country take systematic steps at an early stage in its development towards improvement of the statistical and other information needed in the process of planning.

329. The preparation of a plan of development is to be regarded as the first of a series of connected steps aimed at solving deep-rooted economic and social problems through rapid and sustained economic growth. The plan should, therefore, provide for the necessary eco-

conomic instruments of policy such as measures to raise the level of saving and to direct the utilization of resources, especially foreign exchange, towards the desired priorities; it should also provide for the administrative and technical apparatus through which its main objectives are to be attained. The realization of these objectives is necessarily spread over a considerable period, and there is, therefore, a need for continuity in planning. The goals set in medium-or long-term plans should be linked through annual plans with various policy decisions and the current management of the economy. At times, perhaps, detailed targets set for individual sectors cannot be adequately realized because of the difficulties arising in initial phases of growth. But under-fulfilment of some targets should not lead to disappointment and to a lack of confidence in planning. It is the process of development itself — as expressed in the creation of new institutions, the better utilization of human and other resources, the changes in outlook among large numbers of persons and the wide-spread participation on the part of the community — which is central to the concept of planning and constitutes its dynamic.

330. In recent years planning has been undertaken under such different conditions and so extensively that there is already a large fund of experience upon which developing countries can draw. Moreover, in all countries and especially in those with the longest record of planning, special efforts are now being made to adapt the techniques of planning to the requirements of changing and increasingly complex economies. Developing countries have, therefore, the opportunity to evolve methods of planning suited to their conditions and to apply them to the solution of their specific problems. In larger or smaller degree, their plans provide for the expansion of the public sector while seeking, at the same time, to avail themselves of the possibilities of development through private and corporate agencies. The experience of planning techniques adopted in both the centrally planned economies and some of the more advanced private enterprise economies has, therefore, considerable value for all such countries.

331. Even more than the devices by which plans are formulated and elaborated, success in planning depends on the methods and machinery through which plans are implemented and on the safeguards which are built into the administrative and political structure and into the various economic institutions and enterprises themselves against failures in plan fulfilment and execution. This aspect cannot be too greatly stressed. In this context, the importance of systematic and critical appraisal of progress and of relating the attainment of plan targets and goals to a continuing assessment of current economic conditions and possibilities should also be emphasized.

332. The main burden of development necessarily rests with countries which are under compulsion to raise levels of living for their peoples and to develop their resources and skills with the greatest possible speed. But for the national plans of developing countries to succeed in their objectives, enlightened policies and measures at the international level are equally essential. In particular, attention has

been drawn in this report both to the critical nature of foreign exchange supplies for assuring economic and industrial growth and to the formidable problems faced by many developing countries in expanding their foreign trade and augmenting their own capacity to earn foreign exchange.

333. In addition to their own efforts to mobilize resources, the plans of developing countries appropriately assign an important role to external assistance. Attention has been drawn in this report to the serious limitations surrounding the existing arrangements and, in particular, to continuing uncertainties in the availability of external resources, to distortions in plan priorities and other disadvantages arising from the "tying" of credits to specific projects and to specific currencies, and to the heavy burden of repayments which, in turn, greatly increases the strains on development. While recognition has been given to the value of bilateral assistance—in so far as it has been available—this report has pointed to certain problems inherent in such aid, and it has urged the extension of multilateral and international arrangements for economic assistance to the under-developed countries. It is believed that this would enhance the effectiveness of the aid received by them and would speed their development by promoting more satisfactory terms and conditions for all concerned as well as a more integrated and long-term approach to individual national plans as a whole. An expanding international system along the lines envisaged would also facilitate the greater flow of private capital from the developed to the under-developed countries under conditions which would be conducive to the best long-term interests of both. Some directions in which such capital movements might be stimulated have also been indicated.

334. The integration of foreign trade into national economic plans presents difficult problems to which reference has already been made. Important questions relating to market conditions for primary commodities and the possibilities for absorption of imports of manufactured and semi-manufactured commodities from the developing countries are at present the subject of close study and will be considered more fully in the international forum provided by the United Nations Conference on Trade and Development to be held in 1964. In addition to stressing the urgency of practical and extensive action on these and allied matters, reference may be made here to two other considerations. First, problems of trade and development should be viewed together, both within countries and at the international level. Thus, it should be the deliberate objective of the developed countries so to formulate their own plans and policies that certain promising possibilities of production and trade would, as it were, be marked out for the benefit of the developing countries. Correspondingly, developing countries should design their own development plans so as to take full advantage of these and other possibilities. Secondly, since the realization of these possibilities would demand sustained action through national plans, and by way of programmes for investment and technical development, the developed countries should endeavour

to evolve measures and policies, in the context of the Conference on Trade and Development and otherwise, to make available the necessary economic and technical assistance to the developing countries in order to enable them to carry through these plans during the coming years.

335. It is now apparent that the problems with which under-developed countries are confronted are in fact far more complex and difficult than was commonly assumed some years ago. There are serious limits to the progress that may be achieved without far-reaching changes in policies and approach at the international level. To state this is not to underestimate the importance of the efforts which the under-developed countries must themselves make or to fail to recognize the contribution which international agencies and the more developed countries have already endeavoured to make. The essential fact is that the scale and tempo of the developmental efforts, now being undertaken, both at the national and international levels, are far from adequate, and larger endeavours on the part of individual countries must be supported much more fully by bold and far-sighted measures and policies at the international level. In particular, in relation to the United Nations Development Decade, it should be urged that the various international agencies within the United Nations family might consider afresh how the programmes now under way and the policies being pursued could be better integrated with national development plans so as to secure the more speedy fulfilment of their high priority goals and accelerate economic and social progress generally.

ANNEXES

ANNEX I

Terms of reference

EXTRACT FROM RESOLUTION 1708 (XVI) ADOPTED BY THE GENERAL ASSEMBLY
AT ITS 1084th PLENARY MEETING ON 19 DECEMBER 1961

PLANNING FOR ECONOMIC DEVELOPMENT

The General Assembly,

Convinced of the urgent need of the less developed countries to establish and implement national, all-inclusive and well-integrated development plans to build up their societies in accordance with their own individual precepts,

Realizing that to this end it is necessary to advance further the development of planning techniques that can be adjusted to the specific needs and problems of various countries,

Taking into consideration the growing trend towards the use of different forms of planning in the economic policies of developing countries,

...

III

1. *Invites* the Secretary-General, with the assistance of a group of experts composed with due regard to their familiarity with various planning techniques under different economic systems and in co-operation with the appropriate institutions of different countries, to prepare a study summarizing the experience gained and the techniques in use in the planning of economic development by different countries, and at the same time expresses the hope that the Governments of Member States will help to carry out that study;

2. *Requests* the Economic and Social Council to examine the study at its thirty-sixth session and to submit to the General Assembly at its eighteenth session its recommendations concerning the utilization of experience of economic planning in the interests of developing countries;

3. *Further invites* the Secretary-General to prepare a special chapter on questions of economic development planning in one of the forthcoming issues of the *World Economic Survey*.

ANNEX II

Draft relating to chapters 1, 2, 3 and 4 submitted by Professor M. Z. Bor

CHAPTER 1

THE FORMULATION OF PLANS

SOCIALIST COUNTRIES

FORMULATION OF PLANS TO ACCELERATE PRODUCTION AND CONSUMPTION AND THE TRANSFORMATION OF THE ECONOMIC AND SOCIAL STRUCTURE

1. Increased rates of economic growth, the primary objective confronting the less developed countries, cannot be successfully achieved merely by analysing the pattern of demand and the conditions in which available resources may be most fully utilized. The solution lies in the creation of conditions in which the rapid growth of these productive resources can take place, which presupposes radical changes in their structure and the priority development of those elements of this structure which would stimulate the over-all rapid growth of production and consumption. These objectives can only be attained by means of a combined economic and political approach.

2. Objectives of this kind have been attained before and are being attained today above all by the socialist countries, which in the process have accumulated a wealth of experience in planning methods. This experience comprises a series of elements and approaches which may be successfully used by other countries, particularly the less developed countries of the world.

3. In the preparation of plans, a careful study is first made of the needs of the economy and population for material goods and services, education, health services and so on. At the same time, depending on the level of development attained and in the light of the country's possibilities, are determined the resources necessary for the satisfaction of these needs.

4. The rapid and balanced development of the economy presupposes the co-ordinated, deliberate activity of all sectors of the country's economy and the consistent observance of the principles of democracy, which ensure that the economic tasks are in full accord with the interests of the people and win the unconditional trust of the people in the state authorities elected by them and in the economic directives issuing from those authorities.

5. *The combination of centralized state management with the free exercise of creative initiative by local authorities and groups of undertakings* makes for the unity of the planned targets of the state as a whole, which comprise the main guide-lines for economic development, and of the planning projections of undertakings, districts and regions. In these projections, all potentialities and resources for the further increase of

production and construction are taken into account from every point of view. At the same time the local authorities must take care, in drafting their plans, to preserve the national economic approach and give first place to the interests of the State as a whole.

6. The most important principles of national economic planning are *correct and rational location of industry*, the proportionate development of all branches of industry, wide-spread specialization and co-operation. It is particularly important that the economies of the districts should develop in concert, with rational specialization between them.

7. Two basic methods are used in the USSR in preparing national economic plans:

(a) *The method of technical and economic estimates*, geared to the targets fixed by the plan. In working out these estimates, extensive use is made of the deductions and general conclusions of such disciplines as statistics, accounting and practical economics. Mathematical procedures which rely on modern electronic computing techniques are acquiring increasing importance in the preparation of technical and economic estimates;

(b) *The balance method* for the co-ordination of all divisions and indicators of the plan. Such co-ordination ensures that the proper inter-relationships are maintained in the development of the individual branches and sectors of the economy, in all the links in the chain of planning, and at all stages of the preparation and execution of the plan and of the supervision of its implementation.

8. All projections of production growth in the individual branches are based on detailed technical and economic estimates both of demands for a given type of product and of the quantities in which it can be produced.

9. Technical and economic estimates are primarily based on planning standards. These are worked out by careful scrutiny of the results achieved by enterprises which operate at above the average level and especially by advanced enterprises. Furthermore, in order to make the standards sufficiently differentiated and realistic, all enterprises, collective farms, construction projects and so forth are divided into groups according to similarity of operating conditions.

10. The planning standards form the link between the method of technical and economic estimates and the balance method of planning. On the one hand, technical and economic standards are used to determine the requirements of the national economy for particular types of products, particular operations and services, and the scale on which each is produced; on the other hand, material balances are used to co-ordinate requirements with resources. Lastly, the planning standards from which requirements and resources are calculated are themselves the outcome of engineering and economic estimates.

11. Thus, the targets set for the basic operations of branches of the national economy (production, construction, transport, etc.) are based on technical and economic estimates of productive capacity, estimates of the rate of supply of industrial materials, and estimates of the labour force and its productivity. Particular importance is attached to ensuring that production targets are soundly based from the standpoint of financial resources.

12. Among the various technical and economic estimates used in the process of national economic planning, estimates of the economic effectiveness of introducing new techniques, mechanization and automation into production processes hold a special place. Estimates of this type are

made at every stage of projection and planning. They make it possible to determine the most effective lines for the technological development of industrial production, to establish the sequence of operations, to determine the annual saving, and to show the effect of these operations on the indicators of the national economic plan.

13. The solution of the problems involved in estimating economic effectiveness is based upon a comparison between the indicators of the variant to be introduced and an initial base. The correct choice of this base largely predetermines the accuracy of the estimates of effectiveness, which must provide an answer to two questions: firstly, how much of an advance does the measure in question represent, and is its adoption possible? Secondly, what effect will its adoption have on the national economy?

14. In order to answer the first question, we take as the initial base the indicators of the best examples of domestic and foreign technology, and in order to answer the second question, the indicators of the technique which is to be replaced. If the examples to be introduced are in wide-spread use, the indicators chosen as the initial base for calculating the economic effect may be those of the technique in most general use in the branch concerned.

15. The basic indicator of the economic effectiveness of measures for the introduction of a new technique is the annual economic effect.

16. In choosing variants, use is also made of such indicators as the specific capital investment per unit of new capacity, the change in the rates of raw material, fuel and power consumption and of expenditure of labour, and the utilization of equipment and production space calculated per unit of output or of work completed.

17. The expression *balance method*, as used in planning, statistics and stock-taking, means the *combination of devices used for the purpose of co-ordinating and reconciling interdependent indicators*. However varied the indicators may be, these devices have only one purpose: to "strike a balance"—in other words, to achieve concordance among these interdependent indicators.

18. In planning the national economy, the balance method is used to ensure maintenance of the necessary proportions and growth rates in the development of the economy, the mobilization of domestic resources and the building up of reserves.

19. In order to avoid any interruption of the production process, care must be taken to correlate the demand for means of production by some branches with the volume of their production by other branches. This is another purpose for which national economic balances of various kinds are prepared.

20. The system of balances includes:

1. Balances of the material components of production, consumption and accumulation;
2. Manpower balances;
3. Financial balances.

21. The balances of the material components of production, consumption and accumulation comprise:

- (a) Balances of natural resources;
- (b) Balances of productive capacity;
- (c) Balances of fixed assets;
- (d) Material balances.

22. The *balances of natural resources* show the state of, and the changes in, the most important natural factors of social production. The balances of land, arable and other agricultural areas and water resources provide the starting-point for working out long-term plans of agricultural development, while the balances of ore and non-metallic mineral reserves, timber, etc. serve as the basis for planning the development of the extractive industries.

23. The *balances of productive capacity* show the state of productive capacity by branch of the national economy and changes in that capacity over the period covered by the plan; they provide a means of co-ordinating productive capacity with the requirements of the national economy for the most important types of industrial products, and of co-ordinating generating capacity with the economy's demand for power.

24. The *balances of fixed assets* show the country's basic productive and non-productive assets by branch of the national economy. They provide the answer to questions concerning the manner and rate of renewal of fixed assets, concerning their depreciation, concerning the relationship, by branches of the economy, between the portion of fixed assets consumed and the portion newly brought into operation, etc.

25. *Material balances* are divided into balances of means of production, and balances of consumer goods. The first group includes:

(a) Balances of industrial products for use in current production: metals, coal, oil and petroleum products, chemicals, electric power, etc.;

(b) Balances of machinery and equipment: lathes, turbines, generators, ships, locomotives, automobiles, tractors, combines, metallurgical and chemical equipment, etc.;

(c) Balances of industrial products for use in construction: cement, roofing-felt, slate, bricks, lumber and other building materials;

(d) Balances of agricultural raw materials for industrial transformation: cotton, flax, wool, other raw materials of animal origin, oil-seeds, beets, etc.;

The second group includes:

(a) Balances of industrial products for public consumption: fabrics, footwear, garments, sugar, preserves, confectionery, etc.;

(b) Balances of agricultural products for consumption by the population: meat, milk and dairy products, potatoes, vegetables, fruit, etc.

26. The classification given is, of course, an arbitrary one. Various industrial products and agricultural raw materials are at one and the same time used in current production and in construction (metals and lumber) or belong both to the category of means of production and to that of consumer goods (milk, meat, sugar, vegetables, fruit, etc.).

27. Depending on their scope and content, material balances may be classified as (a) national economic, (b) district, or (c) individual.

28. *Manpower balances* are extensively used in drawing up national economic plans. In order to fulfil the production programme and reach the quantitative and qualitative targets set by the plan, a branch of the economy must have the appropriate productive labour force, possessing the appropriate skills.

29. Manpower balances make it possible to co-ordinate and reconcile the requirements of individual branches of the national economy and districts of the country with the supply of skilled and unskilled labour. The system of manpower balances includes, firstly, balances of labour reserves, which show the state of these reserves and how it changes during the period covered by the plan, and, secondly, manpower balances

proper, which establish labour requirements, co-ordinate those requirements with resources, and lay down the distribution of labour in accordance with the specific economic and political objectives for a given period.

30. The third and last main group of balances used in the national economic plan is that of *financial balances*. These are used to achieve all-round co-ordination between, on the one hand, the production, distribution and circulation of the output of the national economy in its natural, physical form and, on the other, the formation and use of the incomes of enterprises, collective farms and the population.

31. The main financial balances are the state budget (the country's principal financial plan); the income and expenditure balances of enterprises, departments and ministries; the cash and credit plans of the State Bank and the special banks; the balance of the monetary income and expenditure of the population; and the aggregate financial plan of the State.

32. Most of the under-developed countries have begun their plan formulation with the construction of aggregates in order to provide a broad framework of targets for total output and its distribution between consumption, investment and exports. As a preliminary to the planning of resource allocation, some initial estimates have been made about the potential rate of increase in total output and imports, about the proportion of additional income to be saved and invested and about the rates of increase in consumption and exports. Where comprehensive planning has been vigorously pursued, however, and where physical and financial plans have been elaborated in detail, it has often been found necessary to alter substantially the initial targets derived from the aggregate model. Thus, the task of planning at the aggregate level has been less to construct models from which the requisite changes in the composition of output and resource allocation could be derived than to test the consistency and over-all feasibility of sectoral production plans.

33. It could be argued, in formal terms, that this difference in the role of aggregate models is only one of degree; a practical purpose of an aggregate model in an advanced private enterprise economy, after all, has also been to indicate the changes in policy required to sustain high and rising levels of activity. But at the operational level, the difference looms large indeed. Estimation of the aggregative relations, in effect, cannot be geared so closely to past experience but has to be built upon detailed analysis of future changes in the structure of the economy and, even more important, upon the intent of governmental policy. An increase in the level of saving, for example, which is a common aim in under-developed countries, generally is heavily dependent on the prospective trend in public saving. Governments have therefore to make decisions about the fiscal and current public expenditure policies which they propose to pursue. Indeed, a particular value to be gained from the exercise of constructing an aggregate model is that it helps to indicate concretely the extent to which policies would have to be changed in order to realize any particular increase in saving; governments can weigh the longer-run benefits ensuing from an increase in saving against the shorter-term costs in terms of higher taxation or limitations in current expenditure. To estimate the prospective level of total saving, under-developed countries have therefore been required to engage in detailed projections of public revenue and expenditure as well as in some analysis of private saving and of their capacity to secure and service foreign capital. By no means all countries have, in fact,

undertaken such detailed work, but the need has been obvious. Only from such studies and on the basis of governmental decisions about fiscal and budgetary policies has it been possible to arrive at some realistic estimate of the aggregate level of investment that might be supported. Similarly, reliable estimates of the aggregate capital-output ratio or of the import function have rested, not merely on past trends in these relations, but on detailed analysis of the capital and import requirements implied by the prospective composition of domestic output and demand.

34. The process of working out a plan involves: (a) analysing the *de facto* state of the economy and culture; (b) determining the real potentialities (i.e., resources and requirements) for their development; (c) setting the basic aims of the plan, and (d) selecting the methods of solving planning problems.

35. The main purpose of an analysis of pre-plan economic conditions is to bring to light new economic reserves whose utilization will make it possible to speed the pace of economic development. The process of analysing the relative rates of development of the various economic sectors and determining trends is a complex one, since the development of each sector or region is studied in the light of the interests and needs of the economy as a whole and of the results achieved in related and interdependent sectors and regions. The aim of this analysis is to ensure that available resources are utilized with a view to meeting the specific requirements of each region or sector and of the country as a whole—essentially, in other words, to determine the extent to which production is geared to consumption.

36. The analysis of economic development entails study of the interrelationships within each economic sector, between related sectors within the various republics and economic regions, and between the economic regions. Among the pivotal economic interrelationships subjected to careful analysis is that between the rates of development of production of the means of production and production of consumer goods, the relative developments of industry and agriculture, the correlation between the extractive and the processing industries, etc.

37. The analysis of economic interrelationships calls for weighing not only the material factors in production. The wages fund and other personal income are examined in relation to the volume of consumer goods' production, the market fund, and the volume of paid services provided to the public. The volume of capital works is examined in relation to the appropriations made to finance them. The volume of production is studied in conjunction with the volume of capital construction, of construction of personal and community facilities, and of housing construction, with total goods turnover, and with budget estimates.

38. The analysis of economic interrelationships makes it possible to determine over-all and specific trends in economic development and facilitate efforts to influence those trends in desired ways—for example, in order to intensify the development of particular branches of heavy industry, agriculture or consumer goods' production, to raise the economic level of particular regions at a swifter pace, etc.

39. Of great importance is the comparative analysis of interdependent indicators of production operations in related economic sectors and at similar enterprises, as well as the exploration of new ways of improving the utilization of productive capacity, raising labour productivity, and achieving savings in raw materials and fuel.

40. The analysis must not, of course, be limited to the examination of average indicators, average results, average actual rates, etc. Separate analyses are made of groups of enterprises and construction projects of a given type, groups of co-operatives, and so forth. The experience of pace-setting enterprises which have achieved superior results is carefully studied with a view to using progressive indicators in the preparation of the new plan. Extensive use is made, in this connexion, of the "grouping" method and of the comparative analysis of economic indicators for similar enterprises. Analysis of the dynamics of economic processes extending over a number of years is helpful in determining patterns which must be taken into account in the preparation of economic plans.

41. Of great importance in fixing plan targets for industry, construction and transport is the analysis of those maximum production levels which were consistently maintained.

42. The analysis of pre-plan economic conditions ends with a general evaluation of the country's level of economic development and of the living standards of the population. This evaluation is based on the country's actual natural-resource and economic potential and on comparison of Soviet indicators with comparable ones for other countries—as a rule, the economically more advanced countries. The evaluation of potential, for example, involves comparing available raw materials and other natural resources with the extent of their utilization, productive capacities with the level of demand for the products concerned, and available supplies of goods with the level of consumption. The other phase of the evaluation entails the comparison of absolute figures for volume of production and of other economic indicators. Similar comparisons of volumes, rates and interrelationships carried out at later stages in the planning process make it possible to fix more precise criteria and optimum limits for various plan targets.

DETERMINING ECONOMIC DEVELOPMENT POTENTIAL

43. In preparing a workable plan for economic development, the next step after analysis of the level of development already achieved is to determine the objective potential for continued development. The factors that go into this determination include population growth, changes in population structure, the supply of skilled labour, existing and potential reserves of basic equipment, raw materials and other natural resources, and possibilities for raising labour productivity.

44. The ultimate purpose of all economic planning is to satisfy society's needs as fully as possible. Hence, its objective must be to ensure the fullest and most efficient possible utilization of the country's human resources and a steady rise in living standards.

45. Population growth and changes in population structure play an important part in determining a country's economic development potential. In that connexion, the following objectives must be kept in mind:

- (a) Full employment of the entire able-bodied population;
- (b) Proper distribution of manpower resources among the various economic sectors and geographical areas;
- (c) A steady rise in the general productive and technological level of the population.

46. Analysis of the country's manpower resources is designed to determine what the total extent of those resources will be during the plan

period, to find out what possibilities exist for increasing the total in absolute and relative terms, and to ensure that the available resources are distributed among the various economic sectors in accordance with the needs of society.

47. The long-term analysis of population trends, as regards both the general population and that part of it which is employed in the national economy, and of the most important interrelationships in the nation-wide distribution of manpower resources provides the basis for projecting possible absolute and relative increases in manpower resources during the plan period and for determining the general trend in the distribution of those resources by occupational categories, economic sectors and social groups.

48. In order to ensure proper allocation of labour and the most effective possible utilization of the country's manpower resources, consolidated plan balances of manpower resources are prepared.

49. The balance also reflects the distribution of manpower resources by main types of employment (actual distribution during the period covered by the balance and anticipated distribution during the plan period).

50. The plan balances of manpower resources are prepared for the Soviet Union as a whole and also separately for the individual administrative and economic regions.

51. As we have pointed out above, a country's potential for economic development is determined not only by its manpower resources but also by its material resources (equipment, raw materials, etc.) and by the possibilities for increasing labour productivity.

52. In order to determine the extent to which the country's productive capacities will permit it to increase production, we must know (*a*) what productive capacities are at present being utilized, (*b*) the extent to which capacities at operating enterprises can be expanded through the introduction of new technology and the improvement of existing technological processes, and (*c*) the extent to which new capacities can be created through the construction of new enterprises and the expansion of existing ones.

53. The most important tool for preparing an industrial production programme is the balance of productive capacities for the most important branches of industry.

54. The balance of productive capacities is prepared on the basis of a predetermined set of production items (cast iron, steel, sheet metal, coal, oil, etc.) and includes indicators for existing capacities at the start of the period, for capacities brought into production and de-activated capacities, for capacities expected to be in use at the end of the period, and for mean capacities employed throughout the period.

55. In economic planning, productive-capacity computations are used primarily as the basis for industrial-production planning, as well as for capital-investment planning, for preparing equipment-distribution balances and plans, for planning economically desirable types of specialization, and for planning expanded intra-district and inter-district co-operation.

56. The planning and construction of new enterprises and the expansion of existing ones call for the creation of a suitable raw-materials base. Hence, the national economic plan fixes targets for the development of a mineral-and-raw-materials base and for the creation of essential proved reserves of minerals.

57. Plans for supplying industry with minerals are based on the needs of industrial enterprises which are already in operation, under construction or scheduled for construction during the plan period.

58. The nature and scope of search and survey operations in connexion with any given mineral are determined by the following basic factors: (a) the long-range requirements of the national economy for the mineral in question, (b) potential geological resources, and (c) economic conditions in the areas which are being surveyed.

59. The long-range requirements of the economy for a given mineral are computed on the basis of data on designed capacities of enterprises, on total proved reserves, and on the anticipated level of production of the mineral at the beginning and end of the plan period.

60. The development of agriculture, like that of industry, depends to a very great extent on the material and technological base, the primary factor in which is the availability of arable and other economically exploitable land.

61. The aggregate figure for sown land areas is determined on the basis of the balance of economically exploitable land, which provides an over-all picture of the state of land use in the country. Analysis of this balance makes it possible to estimate the possibilities for further improving the utilization of economically exploitable land and for putting unoccupied areas, virgin land, temporarily marsh-ridden areas, etc. to agricultural use.

62. In addition to the availability of arable and other economically exploitable land, live-stock and poultry reserves, and other natural factors, the availability of tractors, agricultural machinery and other equipment is an extremely important element in any determination of the possibilities of expanding agricultural production.

DETERMINING THE MAIN ECONOMIC AND SOCIAL GOALS TO BE REACHED DURING THE PERIOD COVERED BY THE PLAN

63. Analysis of the actual state of the country's economy in the period preceding that of the plan and detection of possibilities for economic development pave the way for determining main economic and social goals.

64. In the development process of the socialist countries the main goals of economic planning have been technological and economic independence of the country, high growth rates of production and consumption, maximum expansion of the public socialist sector in all branches of economy, prevention of imbalances in the economy and accumulation of reserves for the effective fulfilment of all tasks. In each country, certain goals are set depending on the particular stage of development.

65. For example, the Soviet Union's long-term plan for 1961-1980 aims at:

- (a) Creating the material and technological basis of communism;
- (b) Leading the world in per capita production, increasing the volume of the national product by approximately 5 times, of national income by approximately 5 times, industrial output by more than 6 times, agricultural production by 3.5 times;
- (c) Achieving the world's highest rates of labour productivity;
- (d) Attaining the highest standard of living in the world for the whole population, increasing per capita real income by 3.5 times.

India's third five-year plan (1961-1966) has the following aims:

- (a) To secure an increase in national income of 5 per cent per annum;

(b) To achieve self-sufficiency in food grains and increase agricultural production to meet the requirements of industry and exports;

(c) To expand basic industries such as steel, chemicals industries, fuel and power, and establish machine-building capacity so that the requirements of further industrialization can be met mainly from the country's own resources;

(d) To utilize to the fullest possible extent the manpower resources of the country;

(e) To bring about reduction in disparities in income and a more even distribution of economic power.

66. Under any conditions the most important objective of planning, very broadly speaking, will always be to bring about that disposition of available productive resources and manpower which would best ensure the expanded reproduction of the country's productive forces with a view to the maximum satisfaction of society's needs at minimum expense.

67. An important goal of planning rates of economic development is the attainment of a higher rate of industrial development as compared with the growth rate of agricultural output, and, within industry, an accelerated expansion of the progressive branches: power production, engineering, chemicals. No prosperous economy is possible in any country without a highly developed industry.

68. Maximum exploitation of a country's total industrial potential creates the objective conditions for full utilization of manpower resources and a rapid rise in material and cultural levels of living.

69. The magnitude of the broad targets of a plan for a given period is at present determined in socialist countries with the help of the planning balance of the national economy. This balance reflects:

(a) Expanded reproduction of the national product on the basis of the more rapid development of heavy industry relative to the rest of the economy;

(b) Expanded reproduction of the labour force on the basis of a constant rise in the standard of living of workers and a numerical increase in skilled personnel;

(c) Expanded reproduction of socialist production relationships.

70. The balance of the national economy is worked out first as a reporting balance. On this basis a planned balance is formulated which is used in determining the general level and growth rates of social production during the period of the plan, and in working out the proportionate relationships between the state sector and the collective-farm and co-operative sectors and between branches and sub-divisions of production needed by society in the light of the requirements of economic laws and particular goals of economic construction. The main structural sections of the new balance are:

1. A consolidated section, which contains a composite table, balances of reproduction for the main sectors of production, balance of fixed capital, table of magnitudes, comparative magnitudes and rates of development of the national economy;

2. Balance of production, distribution and utilization of the national product, along with balances of the means of production and consumer goods;

3. Consolidated balance of production, distribution and final utilization of the national income, along with a balance of the standing of accounts between the State, co-operatives, collective farms and individuals, and a balance of the money income and expenditure of the population;

4. Balance of manpower resources.

71. The experience acquired in socialist countries in the preparation of reporting and planning balances makes it possible to work out a provisional balance of the national product and, with the help of this, tentatively to determine the most important indicators of the process of expanded reproduction for the period in prospect. The provisional planning balance of the national product is based on the indicators in the reporting balances, on analysis of the ratios and interrelationships that have actually developed, and on a careful inventory of unused reserves and possibilities (primarily those which are associated with technical progress, increased productivity of social labour and more efficient allocation of manpower resources).

72. After the main indicators of the plan are replaced by the "draft plan", in other words, when the material, manpower and financial balances have been prepared and the indicators of the production and distribution of the output of the various sectors have been determined on the basis of technical and economic computations, the balance of the national economy, and particularly the balance of the national product, takes on a new role. The balance then serves as an instrument of verification and correction of the plan's internal relationships.

73. The key to the practical problems that arise in determining the real possibilities for economic development is basically found in the counter-measuring and balancing of demands and potentials.

(a) *Means of production*

74. Preferential expansion of the production of means of production may be achieved at various levels above the growth rates of sub-divisions 1 and 2 in paragraph 70. The indicator in question therefore determines only the direction of change of the correlation between the two sub-divisions of social production. The actual correlation must be established at the level where it aids to the greatest extent in accelerating the rate of growth of production and consumption.

75. In addition to being divided into production of means of production and production of consumer goods, social production is further divided into two large groups of productive branches: extraction and processing. The first group covers the extraction of industrial raw materials, the production of primary agricultural commodities and the production of power resources, among which the fuel-extracting branches are of decisive importance; in the second group are all the remaining branches which process raw materials.

76. The correlation between the extractive and processing branches is one of the main proportions in material production. In generalized form it expresses the sum of specific branch proportions in extraction and processing.

77. The first matter that is determined in ascertaining the public requirement for means of production is the volume of their output by industry.

78. In this connexion account is taken of the requirements for equipment, power, fuel and materials both in industry itself and in other sectors of the economy, that is, in capital construction, agriculture, transport, trade, and various branches of social and cultural development.

79. Determining the economy's needs for industrial produce is a highly complex matter, since in the process of reproduction the different branches of industry are connected and interdependent.

80. A correct assessment of these many-sided connexions, and their correct reflection in economic plans, may be achieved by applying the principle of the basic link. This means that in preparing a plan, the group of basic, leading branches of industry is set apart, and for them a set of preliminary plans is made, after which connected plans are drawn up for all other branches of industry. Naturally, in the course of work on the over-all plan, and in the effort to ensure its total integrity, the preliminary plans may be materially altered. Since the main factor for the growth of all industry is an increase in the productivity of social labour—and this occurs mainly as a result of the growing technical arsenal at the disposal of labour—planning throughout the field of production of means of production concentrates on the more rapid increase in the supply of labour tools and, generally, of all the basic means of production. Since, moreover, the most decisive of all labour tools are those meant for the reproduction of new labour tools, the production of machinery designed to produce machinery is planned at particularly rapid rates.

(b) *Consumer goods*

81. A particular feature of planning for consumer goods' production is that, not only is the steady and rapid growth of such production sought (that is, rates exceeding population growth rates), but a specified correlation is established between the structure of such production and the structure of popular demand. Since the structure of this demand, at the root of which lies the variety of man's requirements, is exceedingly complex, the most general rule in planning consumer goods' production is to establish the proper relationships for the development of food and non-food production. The fastest growth rates are now being set for the production of non-food commodities, and in this category the relative importance of commodities for cultural and personal use is increasing with particular speed.

82. As a nation's productive forces develop, the structure of popular demand changes fundamentally. Some demands are fully met, others only arise. This demands a steady rise in the output of consumer goods and constant structural adaptation. The structure of consumer goods' production must also ensure the maintenance of a certain balance, particularly between contiguous and interrelated sectors (the sewing and textile industries, the agricultural processing sector and agriculture itself, etc.).

83. The purchasing fund of the population is calculated with the aid of the balance of personal income and expenditure. The latter provides a means for ensuring the necessary co-ordination of the purchasing fund with commodity resources and the commodity circulation plan, and it also helps in the determining of necessary measures for the expansion of paid services rendered through the system of domestic services establishments, community and transport undertakings, cinemas, theatres and communication agencies.

(c) *Agricultural produce*

84. The problem of determining demand in this area is central to the planning of agricultural production. On its correct solution depends the satisfaction of the population's consumer goods' needs, the balance between

industry and agriculture, the development rates of the individual branches of agriculture and the correlations between those branches.

85. Agricultural produce is used, as is known, for personal consumption, as raw material for industry and for productive consumption in agriculture.

86. The volume of demand for agricultural produce that goes directly to satisfy the personal needs of the population, and into the production of consumer goods, is determined on the basis of norms. The determination of demand for produce entering industry as raw material for the production of consumer goods is marked by the fact that at first, based on the norms, popular demand for industrial products (fabrics, footwear, etc.) is determined, and afterwards the volume of agricultural raw material necessary for the production of these commodities is established. The demand for agricultural raw material is computed on the basis of norms for the expenditure of raw materials in the production of the particular consumer goods, or norms for the yield of finished goods from the raw materials.

87. The amount of agricultural produce required for purposes of production in agriculture itself is determined from the data on the area under crops and the number of cattle, on the one hand, and the standard rates for the consumption of seed and feed, on the other.

88. In order to determine what agricultural produce the economy needs and to co-ordinate its requirements with production possibilities in agriculture, and also in industry, balances are drawn up for the most important kind of agricultural produce.

(d) *Freight*

89. The transport needs of the economy are expressed in terms of the freight turnover, which is measured in ton-kilometres.

90. The freight turnover is the most important indicator of the transport plan, since it is the main determinant of the country's requirements as regards rolling-stock, fuel, length of track and road, and so on. The freight turnover in its turn depends, first, on the volume of goods carried and, secondly, on the distance they are carried.

91. The planned volume of freight depends on the volume of output in industry and agriculture. This dependence, however, is not a direct one. The volume of freight is influenced by the structure of production and by the freightage coefficients of the various types of goods.

92. Any estimate of the volume of freight based on its relation to material production is, of course, approximate. It can be of practical value only in those cases when great accuracy is not necessary — for example, in the initial stages of the preparation of the freight plan. It must be borne in mind, however, that even approximate estimates must be reasonably realistic. The current transportation coefficients, therefore, cannot be applied by a process of mechanical extrapolation. They can be used successfully only if they have been carefully analysed and corrected on the basis of the reproduction indicators for the plan period.

93. The basic method for determining the economy's freight requirements is the balance method. In order to determine the amount of goods to be carried, both for individual types of goods and for output as a whole, it is necessary to draw up material balances for those types of goods which represent a significant proportion of the volume of freight.

94. The volume of goods to be carried is determined most accurately from the regional balances of production and consumption for the different types of goods. An important task in this connexion is that of determining the optimum variant for the co-ordination of the consumption with the production sector.

95. The main tool for determining the quantity and range of commodities to be produced, and also for planning commodity deliveries, is the thorough and systematic study of commodity demand. The most varied demands for goods are today being made by the millions of Soviet purchasers. The trading organizations are called upon to determine the volume of demand for different commodities to generalize their findings and bring them to the knowledge of the establishments producing consumer goods, to use the facts of the demand study when drawing up orders and for the appraisal of supplied goods in terms of styles, colours, patterns, sizes, packaging, etc.

96. The comprehensive assessment of popular demand for goods is one of the vital conditions for the proper distribution of commodities among the country's republics, regions and districts.

97. Planning for the volume of retail commodity circulation begins with the determination of the size of the population's purchasing fund (its financial means used or intended for use in the acquisition of commodities). This is done with the help of linear programming methods, and with due regard to the factors (taken either separately or in the aggregate) of shortest distance, prime cost and price of freight carriage.

(e) Development of new techniques

98. Technical progress and capital investment, the two being directly linked, are the main means of increasing and improving output and are important elements in the production programme of the economic plan.

99. The basic purpose of the technical plan is to ensure that social labour is economized in every possible way, that it is made easier and that in this way high rates of growth of social product are achieved. To this end a great number of measures of different kinds are taken every year in industry, construction, agriculture and transport. They can all be classified in a few groups, each of which represents a particular line of technical development—namely, mechanization, automation, electrification and chemification of productive processes. In recent years, other lines of technical development have become more and more prominent, such as applied electronics and jet and atomic technology.

100. The state plans set specific tasks in each of these lines of technical progress.

101. The decisive influence of technical progress on the volume and proportions of social production makes it necessary that the plan for the development and introduction of new techniques should be co-ordinated with the production and construction programme, with the manpower plan and with other important sections of the plan.

102. The links between the plan for the development of new techniques and the production programme of the over-all plan are two-way. The indicators of the technical progress plan (improvement of machine design, introduction of new types of equipment and more modern technological methods) determine to a large extent the technical-economic standards for the use of raw and other materials, fuel and power and equipment. On the basis of the technical plan, the range and classes of goods to be produced

are determined, standards are reviewed, and higher requirements are set for the quality of output.

103. At the same time, it is a most important condition for technical progress that priority should be given to the development of such branches as mechanical engineering and instrument making, electronics, power, and the production of synthetic materials, resins and plastics.

(f) *Labour*

104. The number of manual and non-manual workers employed in the different branches and organizations, which are given targets for volume of work and productivity of labour, is determined on the basis of those targets.

105. In branches and organizations concerned with the cultural and everyday needs of the population and with the provision of services, for which no labour productivity growth target is set, the number of workers is determined on the basis of the plan for the development of the corresponding system of institutions and organizations, taking into account the times when they are to start functioning, the volume of work and quotas of services required of them on the basis of the authorized standards and the existing vacancies in the system.

106. For example, the number of workers at health institutions and organizations is determined on the basis of the provisions of the plan regarding the number of hospital and sanatorium beds, the number of places in children's institutions and the standard number of staff per 100 beds (or 100 places), taking into account the number of vacancies in the existing system, the number of doctors and auxiliary medical personnel being graduated and the coefficient of pluralism, that is, the extent to which personnel hold more than one position. The number of teachers at schools of general education is determined on the basis of the planned number of classes and the curriculum.

107. In planning the number of workers, it is necessary to study the actual composition of the skilled labour force and consider how far it will be able to meet the demands placed on it. Plans are made to achieve a more efficient use of labour, to simplify the structure of the different organizations and to further reduce the number of managerial staff.

108. The labour force estimates also cover the need for workers in auxiliary fields, in transport and the movement of goods within enterprises, in the maintenance of equipment, in tool-making, in technical control, and so on. There are great opportunities for increasing the productivity of labour as a whole by increasing that of auxiliary workers.

109. As a result of the industrialization of the country and the rise in the technical level of social production, a considerable change is taking place in the distribution of manpower by branches of production, and the proportion of workers in industry is rising appreciably, concurrently with a fall in the proportion in agriculture.

110. At the same time the programmes undertaken to improve the welfare of working people and to satisfy the cultural and everyday needs of the population more fully have resulted in a considerable rise in the number of workers in education, health, housing and municipal services, and cultural and other services.

111. Suitable plans are being worked out to simplify vocational education and attract young people into industry.

(g) *Specialists*

112. The training of specialists in the different fields of economic and cultural life is planned in accordance with the demand for such specialists in each branch of the economy. In estimating this demand, account is taken of the existing proportion between specialists with higher and secondary qualifications and the fact that the proportion between them must vary in accordance with the requirements of the economy.

113. The annual intake of students into higher and secondary specialized educational institutions is fixed, by field of training, on the basis of the additional requirements of the different branches of the economy and the different fields of cultural activity. These requirements are calculated in annual terms.

114. The additional increases needed in the numbers of specialists are established on the basis of the long-term plans for the development of production and of the various branches of non-productive activity. Such factors as the rise in the technical level of production, changes in the technology and structure of production, the increase in the amount of design work and so on, are taken into account.

SYSTEM OF ORGANIZING THE FORMULATION OF THE PLAN

115. The preparation of a plan for the whole economy requires a combined effort by all of the planning system. The plan must be thoroughly substantiated in all its parts and indicators, both as regards determination of the needs of the economy and as regards the meeting of these needs out of material, financial and labour resources.

116. Work on plan formulation proceeds almost simultaneously in all sections of the planning system. Planning is based on long-term plans, the tasks of which are apportioned in terms of single years, individual branches, economic regions, enterprises and construction agencies. Current annual plans are based on the targets fixed in the annual break-down of the long-term plan, in the light of the progress of plan implementation and changes in the requirements of the economy and in the economic links.

117. The state plan rests upon plans prepared by the enterprises, construction agencies, *sovnarkhozy*, ministries and departments. The procedure and time-limits for the preparation of national economic plans are set in advance by decisions of the policy-making organs.

118. Work on a plan may be divided into the following stages:
 Working out of the form of the tables, plan indicators and relevant methodological instructions;
 Summing up and implementation analysis of the plan for the current (base) period;
 Drawing up of directives (control figures) for plan formulation;
 Drawing up and approval of the plan;
 Transmission of the state plan targets to those directly responsible for their fulfilment — enterprises, construction agencies and so on.

119. In practice it is very often difficult to separate one stage from another. For example, in the analysis of plan implementation over the preceding period, the basic indicators for the period being planned are projected; but in thus working out the plan indicators, the totals expected to result from implementations of the plan for the preceding period are at the same time made more precise.

120. The working out of the form of the tables, plan indicators and relevant methodological instructions ensure the uniformity of plan formulation throughout the system of planning organs.

121. Standard forms, plan indicators and methodological instructions enable the plans to be drawn up in a comparable and summary form for all branches of the economy (the same applies within each branch) both for the country as a whole and for individual territories.

122. For enterprises, the plan forms and indicators are drawn up in such a way that they may be readily summarized in the draft plans of ministries, departments, union republics, *sovnarkhozy* and in the single state plan as a whole.

123. After the plan forms, indicators and methodological instructions have been drawn up, direct work on the plan is organized. The initial stage of this work is a summing up and implementation analysis of the plan for the current (base) period.

124. Since work on the plan is already in hand before the end of the current planning period, the anticipated level of plan implementation must be determined. For this purpose, use is made of the figures relating to the preceding period, while the anticipated level of plan implementation for the time remaining is determined on the basis of thorough analysis and scientific forecasting.

125. Direct formulation of the national economic plan begins with the preparation of directives, or control figures, for the planning period. These set forth the objectives of economic development in terms of individual branches, determine which basic areas are to enjoy priority in the fixing of targets for the planning period, and also indicate the most important measures for their fulfilment. The draft control figures are prepared by the central planning organs with the help of the republics, ministries and departments, and in the light of analysis of plan implementation figures for the preceding period. At the same time, wide use is made of the system of economic balances in order to ensure the co-ordination of all sections and indicators of the plan at the control figure stage. Control figures approved by the governing organs of the country are fundamental to the formulation of a detailed draft plan.

126. The directives (control figures) of long-term plans are issued in the form of yearly installments.

127. In addition to the draft control figures, the central planning organs work out and present for the approval of the Government draft aggregate balances in respect of ferrous and non-ferrous metals, fuel, oil products, electric power, chemicals, timber and construction materials, the most important types of equipment, and also agricultural materials and the main products of light industry and of the food industry.

128. On the basis of the control figures, draft plans are worked out in all sectors of the planning system. For example, the work is carried out in the USSR as follows:

129. Enterprises and construction agencies draw up plans, taking the control figures as their point of departure and bearing in mind the direct economic links already established and their further development. The plans are discussed by collectives of enterprises and construction agencies and enter into force after their approval by the *sovnarkhozy*.

130. Taking into account the direct links with other economic regions, the *sovnarkhozy* draw up aggregate long-term plans area by area. The Councils of Ministers of the republics check the *sovnarkhozy* plans to see that they correspond to the control figures and approve the aggregate

plan on the republican level. Plans formulation proceeds in much the same way in all parts of the economy, whether they come under the jurisdiction of the Union, union republics, republican ministries or republican departments.

131. The central planning organs check the correspondence of the plans of republics, ministries and departments with the approved control figures, and decide how far any proposed deviations from the control figures are justified, and then draw up an aggregate plan for the USSR as a whole which they submit to the Government for its approval. An investment list of the most important construction projects is submitted for approval at the same time. The volume of capital investments and construction and assembly work required for each construction project is also fixed for the whole period of construction, and provision made for the corresponding material requirements.

132. When the draft plans of republics, ministries and departments are being considered, particular attention is given to securing the correct inter-republican links in individual branches.

133. As regards agriculture, there are certain peculiarities in the way collective-farm production plans are formulated. It is left to the collective farms to determine the extent of the sowing areas to be devoted to each crop, likewise the productivity of cattle-breeding and the number of cattle of each breed to be raised, basing themselves on the targets assigned to them for sale to the State of the products of husbandry and cattle-breeding and taking into account the demand of the collective farm workers' agricultural products.

134. The draft plans for the sowing of different crops and for the development of cattle-breeding are discussed and approved at general meetings of state farm workers, after which they are approved by the territorial collective farm-state farm production boards, which recommend any changes which may be necessary.

135. For the purpose of controlling and securing implementation of the plan for the production and state purchase of farming and live-stock products, the correct distribution of machinery, electric power, capital investments and other resources, the central planning organs analyse the agricultural development plans submitted by the union republics.

136. Any differences of opinion that may arise in the course of work on the plan are settled when the plan is considered and approved by the Government.

137. It must be emphasized that the single draft state economic plan is not a mechanical compilation of departmental and republican plans. In the course of work on the plan, the draft plans of ministries and republics are checked, corrected and thoroughly co-ordinated. In order to make sure that they accord with the over-all interests of the State, *Gosplan* USSR draws up a preliminary draft plan which it uses as a yardstick in appraising the plans of republics, ministries and departments. The same procedure is observed by republican and local organs in checking the plans of organizations subordinate to them. Co-ordination of the plans of ministries, departments and republics, as parts of a single national economic plan, is carried out with the help of the system of balances, including the aggregate balance of the national economy.

138. When the targets are set, provision is at the same time made in the plan for the basic conditions and measures to ensure their fulfilment in the individual branches of the economy and of culture.

139. The Council of Ministers of the USSR and then the Supreme Soviet of the USSR consider and approve the national economic plan, on the basis of which the ministries, departments, union republics, *sovnarkhozy*, and also the local organs and the enterprises immediately concerned clarify their own plans.

140. When the annual plans are drawn up, corrections are made in the targets of the long-term plan which are rendered necessary by the disclosure in the course of plan implementation of new reserves and possibilities, the appearance of new needs, changes in the economic links, etc.

141. The state plan indicators are set for each enterprise in the light of its actual working conditions: its productive capacity and the extent to which it is used, the time required for the introduction of new capacity, the provision of raw and other materials, fuel, electric power, personnel, etc.

142. On the basis of the targets they receive, enterprises draw up detailed production plans. At state enterprises these plans are approved by the directors. On collective farms, the production plans and accounting estimates are approved by general meetings of *artel* [brigade] members.

143. The transmitted targets to enterprises and the detailed plans drawn up on the basis of those targets must correspond to the over-all targets of the state plan.

144. On the basis of the approved plans economic agreements are concluded between suppliers and consumer enterprises. These agreements set forth the concrete obligations of supplier and consumer and specify the precise quantity of product to be supplied, its degree of completion, its range, the unit price of the product and the sum total of the supply, the accounting procedure and procedure for the imposition of sanctions.

145. Exact and timely fulfilment of contractual obligations is a most important pre-condition for the uninterrupted growth of production and the preclusion of disproportion and imbalances in economic development.

146. In order to secure the uninterrupted growth of production, socialist society creates and uses in the course of economic plan fulfilment the necessary material, labour and financial reserves. It is impossible to run a planned economy without reserves. Reserves of productive capacity and the accumulation of reserves of grain, raw materials, goods, and money offer a reliable means of surmounting the difficulties which may be encountered in the country's economic development, and help to obviate temporary and partial disproportions and to ensure the unremitting work of enterprises under all conditions and the steady upsurge of the economy.

147. The co-ordination and integration of the development plans of undertakings, branches of the economy and economic regions ensure that the necessary unity is preserved in developing the entire economy on the basis of a single economic policy. In the absence of such co-ordination and integration, a planned economy on a country-wide scale would be unthinkable.

148. The process of co-ordinating and integrating the operations of mixed branches and economic districts means, in essentials, keeping the specific requirements of a particular district or branch, or of the whole country, in step with the resources available to meet them. In the last analysis, it is a matter of reconciling production with consumption, requirements with resources.

149. The proportions which must be preserved between the individual branches of material production are determined primarily by the social division of labour and the nature of the production links between branches.

The maintenance of the proper relationship between mixed branches further entails due proportion in productive capacity and in the distribution of manpower between them. It is essential that this chain of interrelationships among branches in the production process should be accurately predetermined in the plan, so that all undertakings may operate evenly, efficiently, smoothly and without stoppages.

150. Changes in the proportions of material production affect not only the branches directly concerned but the entire national economy.

151. The co-ordination of plans involves reconciling and integrating not only material and physical factors. The growth of wages and other individual incomes must be kept strictly in alignment with that of the production of goods for sale — that is, with market stocks — with the turnover of goods, and with the planned scale of miscellaneous paid services; the increase in the volume of capital works must correspond to the total appropriations made to finance them.

INTERRELATIONSHIPS BETWEEN ANNUAL PLANS AND THE BUDGET

152. Financial planning is an integral part of economic planning. Not only a state plan but also a state budget and the State Bank's credit plans and cash plan must be prepared and approved. The system of financial planning is based on the financial plans of the various economic sectors and enterprises and culminates in the consolidated financial plan, which covers all state revenue and expenditure.

153. The purpose of financial planning is to determine the funds required in order to implement the economic plan, to distribute them among the various economic sectors and different types of socio-cultural construction in accordance with the plan targets, and to bring about savings in materials and money.

154. The main component of the entire financial system is the state budget. The economic function of the state budget in the process of reproduction is that it serves as the principal means of setting up, on a planned basis, a general state financial reserve for implementation of the economic plan. The state budget is the main state financial plan and serves to combine the various financial plans into a unified system of financial planning. Its funds come from the various economic sectors and enterprises, which are linked with the budget through turnover-tax and profit-tax payments, through the financing of capital construction and through the replenishment of circulating capital. The credit plan draws on budget funds. The cash plan is linked with the state budget through the payment of wages to workers in the non-productive sector, of pensions and of allowances, through tax revenue and through various other types of payments. The state budget covers some three-quarters of all financial resources.

155. The state budget's main sources of revenue are income from the socialist sector of the economy (turnover and profit taxes), tax receipts (taxes levied on the population, income taxes levied on collective farms and co-operatives, and a tax on non-commodity operations), and state social insurance funds.

156. Planning of the volume of state budget receipts in the form of revenue from the socialist sector of the economy is based on the production programme, on plans for increasing labour productivity and reducing production costs, and on contemplated measures for achieving

greater savings and efficiency in the utilization of material and financial resources.

157. Some funds deriving from the general population (taxes, loans and savings bank deposits) are included in the state budget for the purpose of meeting general state requirements. The proportion of budget funds covered by tax payments by the general population is being steadily reduced; within a few years, the increase in socialist accumulation in the USSR will make it possible to cease levying taxes of any kind on the population.

158. The planning of state budget expenditure is based on plan targets for expanding production and construction, curtailing costs and increasing profits, on plan targets with regard to socio-cultural measures, and on administrative and defence spending.

159. Financing of economic activity under the state budget takes the following principal forms: financing of capital construction, which ensures expanded reproduction of fixed assets; provision of circulating capital to existing self-supporting enterprises and organizations and to new enterprises (funds for socialist enterprises and economic organizations used to accumulate stocks of production materials, finished and unfinished goods, and other supplies, and to meet other production and turnover requirements); expenditure on capital repairs in certain economic sectors; expenditure designed to assist new enterprises during the initial operating period. In addition to state budget funds, the funds held by individual enterprises and economic organizations are used to finance the various operations described above.

160. The planning of expenditure on public education and enlightenment entails the fixing of targets for expanding the number and enrolment of socio-cultural institutions and the establishment of quotas for the material expenditure required for the operation of such institutions. This expenditure is financed with state budget funds and from other sources. State budget revenue is also used to cover expenditure for workers' social insurance. In addition, a state social insurance fund is maintained from sums collected in the form of deductions by socialist enterprises, organizations and institutions.

161. State budget funds come from socialist enterprises. The financial plans of the various economic sectors reflect the output of state enterprises, their production expenditure, accumulation of funds in the form of profits and turnover tax receipts, and expenditure on capital construction, expansion of current stocks, etc.

162. The interrelationships between state enterprises and the financial system are reflected in budget revenue from payments to insurance bodies and interest on bank credits, and in budget financing of the replenishment of circulating capital, of capital construction, and of repair work.

163. The state's participation in the financing of capital investment by collective farms and co-operatives takes the form of credits.

164. The extension of credits makes it possible to utilize enterprises' surplus funds and uncommitted state budget funds in a planned manner.

165. Bank credit, as employed by the State, is an important instrument for controlling implementation of the plan and influencing the process of reproduction. Planning of the State Bank's operations takes the form of a credit plan, which is directly geared to the planning of production, supply services and commodity circulation. The expenditure section of the plan lists all credits by recipient (union republics, ministries, etc.) and by type (credits to be used to build up seasonal stocks of materials, advances

made to consignors of goods still *en route* pending receipt of payment, etc.). The credit plan is helpful in the preparation of monetary outlay balances for the socialist sector of the economy.

166. The State Bank's cash plan, which is directly tied in with the balance of personal income and expenditure, provides the basis for regulation of monetary circulation. In accordance with the economic plan indicators and the budget, the cash plan fixes the volume of cash receipts by the Bank from various sources, outlays for various purposes, and, where necessary, the amounts of money to be issued or withdrawn from circulation.

167. In order to co-ordinate the entire system of financial planning and ensure more complete control over the provision of funds for implementation of the national economic plan, a consolidated financial plan is prepared which covers all state income and expenditure during the plan period. This plan does not require direct government approval; it is a balance-sheet which is used in the preparation of the state plan and serves to provide a sound economic basis for financial planning.

168. The consolidated financial plan includes the following main items of income: turnover tax, profits, depreciation allowances, receipts from collective farms and co-operatives, state social insurance funds, funds accruing to the State from the general public, savings bank deposits, revenue from foreign trade, etc. The expenditure section of the plan covers outlays on capital works, capital repairs, expansion of the circulating capital of state enterprises and organizations, enlargement of the live-stock reserves of state farms and subsidiary plots, socio-cultural measures, expansion of state stockpiles of materials, defence, administration, replenishment of bank reserves, etc.

169. If the consolidated financial plan shows a deficit, that indicates that the economic plan targets for production, consumption and accumulation and the quantitative and qualitative indicators are inadequately co-ordinated with one another. In order to overcome the deficit, new means of increasing production or of curtailing state expenditure must be found. If the available funds exceed state expenditure, then measures can be taken, if necessary, to increase allocations of funds to banks.

CHAPTER 2

THE IMPLEMENTATION OF PLANS

SOCIALIST COUNTRIES

170. In the socialist countries, the problem of implementing plans is different in principle from that in private enterprise countries or in countries with a mixed economy.

171. No plan, of any description, can allow in advance for all eventualities in the development of the economy, or foresee all the difficulties which may arise while the plan is in execution. Since most economic activities are under the direct management of the State, a most important place in organizing the execution of the plan is reserved to the state authorities. Because activity is planned down to the level of individual enterprises, plans specify in detail not only the aims set for each economic unit but also the means required for achievement of these aims. The typical enterprise plan, for example, has contained targets not only for

output, but also for material inputs, employment, output per man, wages, cost reductions, sales, profits and their distribution and investment and its financing. Organizing the execution of the plan involves systematic checking on the plan's execution, the provision of incentives for better operational indicators, and the supply of equipment and of raw and other materials.

172. The purpose of systematic checking is to ensure that every sector of the national economy, every enterprise and every *sovmarkhoz* carries out the plan targets smoothly and in accordance with all quantitative and qualitative indicators, that state planning discipline is maintained and that narrow parochialism is avoided; to detect and exploit latent potentialities for production growth; to give wide publicity to the results of advanced new experience, and to apply that experience to refine and correct the annual targets of long-term plans; to avert any temporary or partial imbalances in the development of industries and economic regions; and to deal promptly with any production bottlenecks by suitable deployment of material and financial resources.

173. To be properly organized, the work of checking the execution of plans must be carried out systematically. This means that it must be performed according to a fixed and carefully worked out programme. Checks are carried out not only in industries and enterprises which for some reason have fallen behind schedule for the given period, but also in progressive industries and enterprises, with a view to the study and dissemination of advanced new experience.

174. In checking the execution of the plan, attention is focused primarily on the key sectors and industries on which the successful development of the entire national economy depends. The purpose of checking is to promote the fulfilment of the plan not only by the given economic or administrative region, *sovmarkhoz* or republic, but by every enterprise; for satisfactory average figures may sometimes conceal the fact that individual enterprises have failed to carry out the plan.

175. The purpose of checking at the enterprise level is to bring out the factors affecting progress in the execution of the plan. Great care is taken to make the checking effective and practical, and to follow it through, that is to say, the control process is completed by working out measures to eliminate any factors obstructing the successful execution of the plans.

176. In the socialist countries, checking the fulfilment of economic plans is the concern of the people as a whole. It is organized both by the central and republican planning authorities and by the state administrative authorities, *sovmarkhozy*, ministries and departments.

177. The form and method of checking vary according to the checking agency and the level of the economy at which the check is being carried out.

178. The central and republican planning authorities are mainly concerned with checking consolidated indicators of the state plans on the basis of the data supplied by the statistical organs and *sovmarkhozy* and through local checks. They make a careful check to see that the directives and orders issued by the Party and the Government are carried out, so that prompt action may be taken to deal with any individual sectors which may be lagging behind.

179. The planning authorities' and control authorities' work of keeping watch over the fulfilment of economic plans is shared by the financial organs, the banks and the state statistical authorities. The financial organs,

by keeping abreast of incoming revenues from socialist enterprises and the utilization of budgetary funds, manage to meet budgetary obligations and also expose gaps in the execution of production plans and in the attainment of production cost targets, as well as violations of the rules of economy.

180. An active part in the checking process is played by the local voluntary (Party and trade union) organizations, which keep a day-to-day watch over the progress made in the execution of plans.

181. The work of checking the execution of plans is shared by workers, engineering and technical personnel, clerical and administrative staff and collective farm workers. Acting through their party, trade union and Young Communist organizations, through the standing works conferences or through general meetings of collective-farm members, these expose weaknesses in the work of individual managers and production staffs and suggest remedies.

182. The execution of plans is checked in accordance with a fixed programme which covers the basic questions that emerge, and the additional questions that arise, while work is in progress.

183. The basic practical method of checking is to compare the plan figures with those in the return. In analysing the work of enterprises or *sovnarkhozy*, the normal procedure is to compare the factual indicators with the corresponding mean indicators for the whole industry and with the figures reported by leading enterprises.

184. The fulfilment of the plan is checked by analysis of returns and statistics and by direct surveys on the spot. These two forms of checking are complementary. The organization of the checking process is based on the actual day-to-day contacts maintained by the planning and economic authorities with enterprises, construction projects, collective farms and state farms; on the application, during the actual process of checking, of specific measures to ensure the attainment of production targets; and on the provision of assistance in efforts to carry out the plan.

185. The process of checking does not exhaust the organizational means available for ensuring the fulfilment of plans. The socialist States also make use of such powerful economic levers as the autonomous internal accounting system (*khozraschot*), wages and salaries, prices, credit, profits, etc.

186. A powerful tool in encouraging the fulfilment and over-fulfilment of production plans is the maximum use of the principle of material incentive.

187. The socialist State makes use of the material interest of workers at enterprises in the results of their labour by employing two types of material incentives: wages and salaries, which are the main form of remuneration for labour, and supplementary material incentives in the form of bonuses granted to engineering and technical workers and employees for the achievement of a certain level of production, in keeping with the needs of the national economy. In addition, bonuses may be paid to the whole staff of an enterprise for success in bringing into operation highly advanced equipment which lightens work or releases labour resources, for outstanding achievements in socialist competition, etc. One of the material incentives used to encourage good work by each enterprise is the establishment and use of a factory fund designed to raise the standard of living of the workers and to improve output.

188. However, material incentives are not the only means employed to stimulate the country's economic development. Along with them, and combined with them in various ways, considerable use is made of moral stimuli.

189. Bonuses are awarded to managers and engineering and technical workers and employees in industry for fulfilling or over-fulfilling the production costs reduction plan, and in some industries, also, for improving output quality while fulfilling the production (or construction or transport) plan over the scheduled range of items, for fulfilling the labour productivity plan or for achieving the targets assigned to them for delivery of their products to enterprises of other economic administrative regions.

190. In a number of industries — coal, petroleum, ore-mining, metallurgical, chemical, etc. — additional bonuses are awarded to managers and engineering and technical workers for over-fulfilling the production plan.

191. Incentives to the fulfilment of tasks relating to technological progress are provided by awarding bonuses to workers in industry who design and introduce into production new, technically improved and economically efficient machines, mechanisms, apparatus, devices and other items, or new types of raw materials and supplies, or who develop and bring into operation highly productive technological processes, or who successfully carry out theoretical research and experimental projects.

192. In order to raise the standard of living of workers and improve output, works funds are set up in all financially autonomous industrial units.

193. The works fund is accumulated as and when the duly approved state plan is fulfilled or over-fulfilled with respect to volume and range of output, production cost reduction, profits, or, in the case of enterprises planned to run at a loss, savings obtained by reducing production costs.

194. The works fund is administered by the director of the enterprise in agreement with the trade-union factory committee.

195. Along with the system of encouraging the successful fulfilment of plans, there are also various penalties for non-fulfilment of plans and contracts, for breaches of credit regulations or of economic arrangements between enterprises or organizations, and for putting out shoddy goods. Managers of enterprises are held responsible, both materially and administratively, for poor showings.

196. The principle of giving workers a material interest in their output is applied with the help of the autonomous internal accounting system, which is one of the basic economic levers of planning. This system ensures that the interests of society are correctly interwoven with the personal material interests of the workers of socialist enterprises. Outlays must be carefully balanced with production results, the enterprise's expenditure must be covered by its own earnings, and maximum results must be achieved with the minimum expenditure of materials, labour and funds. With this in view, state enterprises are provided with fixed and working capital and are allowed a degree of operational autonomy within the limits of the plan.

197. The autonomous accounting system encourages factory staffs and workers to use greater initiative in disclosing and exploiting new reserves; it stimulates the systematic reduction of production costs, the expansion of accumulation and the successful fulfilment of the plan.

198. Autonomous accounting calls for a system of contractual relations between enterprises. Contracts give concrete expression to the plan

and serve as an effective means of checking on its fulfilment. They specify the volume, range and quality of items to be produced, delivery dates, terms of settlement, and the liability of the supplier and the consignee for non-performance (fine, forfeit or other penalty).

199. One of the important demands made by the autonomous accounting system on an enterprise is profitability. This means that the funds obtained from the sale of its output must not only replace the cost of production but also leave a certain profit. To achieve profitability of operations by systematically reducing the cost of production is an important task of every enterprise.

200. Increases in the profitability of some enterprises must not be achieved at the expense of other enterprises but must be aimed at promoting the profitability of the economy as a whole.

201. One of the most important stimuli to the fulfilment and over-fulfilment of production plans is the correct administration of wage policy. Wage-rates are higher in the leading industries (coal, metallurgy, etc.) and enterprises situated in remote and under-populated regions. Naturally, qualifications, etc. are taken into account.

202. Of tremendous importance as an economic stimulus to plan over-fulfilment is the planning of wholesale, purchasing and retail prices and transport rates.

203. The pricing system in industry includes factory wholesale prices, industrial wholesale prices and retail prices. For certain types of industrial products, in addition, there are what are known as accounting prices and provisional prices.

204. The price at which a properly functioning enterprise sells its output (factory wholesale price) covers its planned cost of production and guarantees it the planned profit.

205. An enterprise which succeeds in reducing its costs below the planned level obtains profits in excess of the plan. As a rule, these profits prove to be large enough to permit the creation of funds of which part can be used to provide collective and individual incentives for the workers of the enterprise and part to expand production. In addition, a portion of any excess-of-plan profits is paid by the enterprise direct to the budget.

206. A characteristic feature of planned wholesale prices is that they are stable and free from market-economy fluctuations.

207. Another intrinsic feature of wholesale prices is that they are uniform for any given type of output regardless of the enterprise by which it was produced. The wholesale price system is closely bound up with the system of providing material incentives to workers to reduce costs and increase output.

208. Prices are also important in encouraging high output quality. High-quality products are sold at higher prices. In the chemical industry, prices of raw materials' deliveries vary according to their content of the required material. Of special importance are the prices for new high-quality products. Prices for new products are normally established, after adjustment for quality differences, at the same level as those of similar existing products. The difference between the temporarily higher costs of a new product and its price is covered from the new-production fund accumulated out of the enterprise's sales of all types of output.

209. Prices are actively used to regulate the range of output produced or consumed. Prices of scarce materials are fixed so as to interest the producer in increasing the output of such materials while at the same time

limiting their consumption. Prices of interchangeable types of output are designed to stimulate the consumption of the more economical type.

210. Similar problems arise in the regulation of retail prices.

211. Systematic measures are being taken to change factory wholesale prices so as to ensure that the prices of, and the price relations between, various commodities bear a closer relation to present production and trading conditions and to the goals which have been set for improving the material and technical base of industry.

CREDIT AND THE ACHIEVEMENT OF PLAN TARGETS

212. An important function in the successful fulfilment of economic plans is fulfilled by the credit system, through which temporarily free financial resources are available and used according to plan, subject to repayment on schedule to meet the needs of the economy.

213. Enterprises and economic organizations build up funds in their accounts at the State Bank as they sell their output and as their amortization payments, profits, and other deposits accumulate; and these funds are disbursed at definite intervals. Rising incomes of workers, which become available in the form of savings bank deposits, provide another source of substantial free monetary resources. At the same time, the temporary need experienced by enterprises and economic organizations for additional funds (to meet seasonal expenses, procure raw materials, build up production reserves, finance outlays for the production and movement of finished goods, etc.) can be met through credits extended by the bank.

214. *Gosbank* credits are granted for specific purposes and periods — usually on a short-term basis. This permits effective control to ensure that the time-limits for the turnover of working capital are adhered to, that output is sold on time and that production and goods turnover plans are successfully carried out.

215. The credit system includes provision not only for the loan of supplementary funds to enterprises for expansion, technological development, the award of bonuses and the improvement of the standard of living of workers, but also for the imposition of various penalties on enterprises failing to meet their production targets.

216. Any enterprise which fails to achieve its cost reduction targets or to fulfil its accumulation plans, which permits losses in excess of the plan figures and which fails to husband its own working capital can receive credits from the State Bank only on special conditions and terms of settlement. A short-term credit may not be granted unless the enterprise can obtain the guarantee of the superior organization. Failing such a guarantee, the State Bank cuts off its credit facilities and calls in previously granted loans ahead of time.

217. An enterprise which, within two or three months after having been placed in the special credit category, improves the economy of its operations, fulfils its accumulation plan, eliminates excess-of-plan losses and restores its working capital to the plan level is returned to the general credit category.

218. On the other hand, efficient enterprises which fulfil their accumulation plans, avoid excess-of-plan losses and maintain their working capital enjoy a number of privileges as regards temporary financial assistance.

219. The use of a differential system in the provision of credit to industrial enterprises helps the State Bank to keep a more effective check on

the economic activity of such enterprises, heightens the moral and material responsibility of workers for the fulfilment of prescribed production plans and stimulates efforts to discover new possibilities for raising labour productivity and improving the use of material resources.

220. In addition to applying this differential credit system, the State Bank grants credits for a term of two to three years, in respect of outlays for mechanization, modernization and progress in production technology, and short-term credits for periods of up to one year for outlays needed to organize and expand the production and improve the quality of consumer goods. The basic requirement for the grant of a credit is that the action to be undertaken must be effective, and must ensure the repayment of the credit within the prescribed time-limit, out of the additional accumulation achieved.

221. These credit arrangements ensure the speediest possible entry into production of the most productive equipment and the most advanced technological methods.

222. Thus the credit system ensures rational utilization of the resources of socialist enterprises, at the same time as greater and more profitable production.

223. An important part in the implementation of the plans is played by supply organizations. The enterprises acquire their supplies either from the warehouses of the supply organizations or from other enterprises to which they are directed by the supply organization. In cases where the enterprises have entered into direct commercial relations with each other, they have been bound to notify the supply organizations about their contracts or intended transactions; and these can, if necessary, be invalidated. The supply organizations enjoy a certain degree of freedom in implementation of their plans. A *sovnarkhoz*, for instance, is entitled to reallocate raw and other materials, etc., among enterprises under its jurisdiction. However, it cannot deviate from the allocation plan for enterprises under other *sovnarkhozy* unless it obtains the approval of the Government. Similarly, in the Soviet Union, supply agencies of the republics are not allowed to alter inter-territorial delivery plans without the approval of the central authorities. Moreover, the freedom of decision of supply organization in the implementation of allocation plans has not been the same for all products. At one extreme are goods in short supply for which the central allocation plans may be very specific and cannot be altered by any agency without the express approval of the central authorities; at the other extreme are goods in abundant supply which the supply agency can freely allocate to the producing enterprises in amounts exceeding the originally planned quotas if required.

224. The employment and wages policy of enterprises is laid down by the labour plan, which includes the targets for number of workers, labour productivity and wage fund. The planned targets for labour cannot be altered without specific authorization of the supervising authorities. The need for increases in wages in excess of the plan may arise, not only in the case of over-fulfilment of production targets, but also in the case of failure to attain the planned level of labour productivity. In both cases, the bank grants the necessary credit only upon direct instruction from the higher economic authorities.

225. The fulfilment of the plans for output per worker has been sought as a rule through piece-rate systems of wages and other incentives, the introduction of new techniques, etc. Use has also been made of the revision

of "norms" for pay per unit of output in order to stimulate increases in productivity.

226. In principle, the methods of plan implementation have been the same in all sectors of production where state enterprises predominate. In agriculture, however, the problems of plan implementation differ considerably from those encountered in other sectors. These differences arise partly because output is subject to the vagaries of climate and partly because agricultural enterprises are predominantly collective farms, and not state enterprises. The state farms do receive planning directives relating to output of specific commodities and other aspects of their activity. But the collective farms have been free to determine their output, utilization of manpower, volume of investment, and procedure and terms for the remuneration of labour. Apart from the payment of taxes and the statutory formation of depreciation and investment funds, their only obligation has been the fulfilment of sales quotas for specific commodities assigned to them by the State. The extent to which these compulsory sales have exerted an influence on production decisions of the collective farms has depended on the share of these sales in their total output. Other sales of output have not, as a rule, been planned but have been influenced by price movements. Through price and tax policy, the State has influenced the amount of revenue received by farms from the sale of various commodities and, thereby, the pattern of output and sales.

227. The purchase plan, as well as price and taxation policy, has been supplemented by other measures for the implementation of agricultural plans. The State plans the development of production and the supply of tractors, agricultural machinery, transport, chemical and mineral fertilizers and pest control preparations to agriculture, undertakes irrigation and land reclamation schemes, brings virgin and fallow land under the plough, organizes the production of high-grade seeds and the breeding of high-productivity live-stock and their sale to collective farms, lays out a network of stock-breeding and veterinary institutions, and carries out plans for the training and retraining of specialists and for the dissemination of advanced new experience.

228. Unlike state enterprises, the collective farms have not received any direct instructions with respect to current inputs or investment. In consequence, investment plans for the non-state sector of agriculture have been based, on the one hand, on the evaluation of demand of non-state farms and, on the other, on the assessment of accumulation funds of the collective farms and of credits earmarked for this purpose by the Government. The basic tools for controlling investment in the non-state sector of agriculture have thus been the credit allocations and prices fixed by the Government for agricultural investment goods; and also the plans for the delivery of equipment and other resources. Through these, the central authorities can increase or reduce agricultural investment in accordance with the requirements of government policy.

IMPLEMENTATION OF FOREIGN TRADE PLANS

229. The implementation of plans for foreign trade, which is a state monopoly, has been achieved by the use of methods similar to those applied in most other sectors. The over-all foreign trade plans have been translated into directives issued to state import and export agencies. They have also been integrated into the purchase and allocation plans of various

supply organizations and, frequently, into the production and sales plans of the enterprises producing for export. The fulfilment of these plans has been safeguarded by the existence of the state monopoly of foreign trade and by the long-term trade agreements with other centrally planned economies. These safeguards, however, are not completely effective since trade with the capitalist countries of the world is subject to fluctuations in external demand and prices; and this may influence the implementation of trade and other plans.

230. Although the monopoly of foreign trade and long-term bilateral agreements have been powerful tools in the implementation of foreign trade plans, their effectiveness has been dependent on the ability to implement production plans. In view of the existence of the monopoly of foreign trade, the failure to fulfil production plans need not always affect the implementation of plans for foreign trade. But, more often than not, the implementation of foreign trade plans has, in fact, been considerably affected by the deviations of output from the planned quotas. This has been obviously most pronounced in cases when a large proportion of a given output was earmarked for exports. Since such departures from the planned volume and composition of imports and exports have been under governmental control, they have not necessarily resulted in any significant deviations from the planned balance of payments. As the bilateral agreements have provided for only limited swing credits, the failure to fulfil export plans has been generally accompanied by a reduction in import targets unless additional long-term credits could be secured.

IMPLEMENTATION OF OVER-ALL PLANS

231. Since the over-all targets of plans such as the total and sectoral rates of growth of output, the distribution of national income between accumulation and consumption, and sectoral allocations of investment are aggregates of the obligatory production and financial plans of individual enterprises and institutions, it is obvious that implementation of the latter plans is broadly synonymous with fulfilment of over-all plans. In consequence, implementation policy is basically concentrated on the direction and supervision of the activities of enterprises. As a rule, few additional measures of global character have been required for the implementation of the plans. They have, in fact, been necessary only in areas not directly covered by the plans of enterprises and institutions. In other words, they have dealt mainly with the problem of the disposable income of the population and its uses. Even here, however, the need for special measures has been very limited as long as the financial and production plans of enterprises have been closely adhered to.

232. In view of the absence of private profits and the general provision by the state of social insurance and old-age pensions, savings out of private income have represented only a relatively small fraction of total savings. This reduces considerably the need for additional measures to mobilize resources for investment from sources other than enterprises. It also accounts for the fact that personal consumption approximates disposable income. The volume of retail sales is planned in accordance with purchaser demand, which is determined by the planned wage bill, the incomes received by the population out of the state budget, and the money incomes of the rural population.

CHAPTER 3

ORGANIZATION AND MANAGEMENT OF PLANNING

SOCIALIST COUNTRIES

233. In the socialist countries, where the right of ownership and the basic means of production belong to society in the form of state, collective farm and co-operative property, the planning and management of economic activities are interrelated to a far greater degree than elsewhere.

234. Differences in planning machinery do exist between the individual countries, but common features are considerably more numerous. Yugoslavia alone presents one notable exception. As observed later, the planning machinery in operation in Yugoslavia differs substantially from that in other socialist countries.

235. The highest organs of state administration and planning are the parliaments and the governments constituted by them—the council of ministers.

236. The jurisdiction of the parliaments embraces the approval of the national economic plan and state budget, the establishment of legislative norms regulating the economic life of the country, the adoption of principles for the management of enterprises in all sectors of the economy, the direction of the monetary and credit system, the designation of the membership of administrative and planning agencies, and so forth.

237. For the preliminary examination of drafts of the national economic plan and the state budget, the parliaments establish standing commissions.

238. The councils of ministers examine the state economic plans and the state budget and submit them for approval to the parliaments, organize the supervision of their implementation, adopt measures to strengthen the credit and monetary system, render decisions on important matters concerning the development of the socialist economy, and so forth.

239. In all the union and autonomous republics of the USSR planning is directed by the republic's Council of Ministers, and in territories, regions, towns and districts, by the local Soviets and their executive committees.

240. Directly engaged in economic planning are the various planning organs, which are the working arms of the corresponding executive organs of state power.

241. The system of planning organs embraces all economic and cultural elements. It comprises:

- (a) Central and local general-planning organs;
- (b) Planning organs of ministries, departments, *sovnarkhozy* and enterprises.

242. The national economic planning organ is the State Planning Committee of the Council of Ministers (the *Gosplan*).

243. The *Gosplan* is responsible for preparing state plans for the development of the national economy. It is also responsible for ensuring the continuity of planning and of plan targets and the further improvement of planning based on the scientific generalization of the experience of communist construction.

244. The general planning organs of the union republics in the USSR are the State Planning Commissions of the Council of Ministers of the Union Republics (the union republic *Gosplans*).

245. A Union Republic *Gosplan* is composed of a chairman appointed by the republican Supreme Soviet and of vice-chairmen and members

appointed by the republican Council of Ministers. It is assisted in the performance of its duties by an organization consisting of general and branch sections and sectors. The vice-chairmen of the republican *Gosplans* and the heads of the main sections may be ministers and members of the Council of Ministers of the union republic concerned.

246. Since 1957 the work of the union republic *Gosplans* has been radically altered. Under the new system of administration their duties in regard to industrial planning have been substantially broadened. Whereas before these *Gosplans* planned mainly for the republican industry producing primarily consumer goods, building materials and timber, they now prepare plans concerned with the development of all industrial branches. Thus conditions have been established for the integrated development of the economy and for the fullest possible utilization of each republic's natural and labour resources.

247. The union republics now play a substantially greater part in planning the location of industry, as regards both the siting of new plant construction and the expansion of existing enterprises. The *sovmarkhozy* operate exclusively within the framework of the state plans evolved by the republican and all-union planning organs.

248. The plans for the *sovmarkhozy* and union republics are drawn up in the light of the tasks for the country as a whole defined in the unified economic development plan approved by the USSR Government.

249. The union republic *Gosplans* work in close contact with the *sovmarkhozy*, the republican ministries and departments and also with the *Gosplans* of the autonomous republics and with the regional (territorial) planning organs.

250. The general planning organs in the autonomous republics are the Planning Commissions under the Councils of Ministers of the Republics (the autonomous republic *Gosplans*), and in the regions (territories) they are the planning commissions of the regional (territorial) executive committees.

251. Regional and territorial planning commissions consist of five to seven members individually appointed by the executive committees of the Soviet of Working People's Deputies from among leading planners, scientists and specialists in industry, agriculture and other sectors of the economy.

252. The organizational structure of the local planning commissions is such that the planning done by the sectors embraces all branches in the area concerned.

253. Local planning commissions hold an important place in the system of Soviet economic planning organs. They are standing commissions of the executive committees of the Soviets of Working People's Deputies in the different administrative sub-divisions (autonomous SSR, territory, region, area, town, district). Their functions comprise not only planning but also co-ordinating the development of the entire economy of their sub-division.

254. The local Soviets administer schools providing general education, cultural, public health and social insurance institutions, housing and community facilities, local roads, trade, etc.

255. The co-operation of the local planning commissions is enlisted by the republican *Gosplans* for work on matters of general economic interest, such as the preparation of the power balance for the entire region, territory or autonomous SSR, the formulation of draft plans for production at all industrial enterprises in the region or territory, the establishment of the manpower balance, etc.

256. Towns and districts have town and district planning commissions which are standing commissions of, and directly responsible to, the town and district executive committees of the Soviets of Working People's Deputies. These commissions are composed of a chairman and four to six members appointed by the town or district executive committee. In addition to permanent employees, their staff includes specialists employed at various organizations, enterprises and institutions in the town or district.

257. An important role in economic development planning is played by the ministries and departments. With the assistance of their planning divisions they prepare the drafts of state plans for the corresponding sectors of the economy and sections of the national plan, and submit them to the USSR *Gosplan*.

258. The financial and credit organs play an active part in economic planning. Every year, on the basis of the targets set in the annual national economic plan, the Ministry of Finance of the USSR prepares and submits to the Government a draft state budget of the USSR. The State Bank of the USSR likewise prepares draft credit and cash plans. The Ministry of Foreign Trade draws up a draft annual export and import plan and a draft foreign currency plan for trade transactions. So that these plans may be co-ordinated with the annual national economic plan, the USSR *Gosplan* submits its comments on them to the Government.

259. The Ministry of Finance of the USSR and the State Bank of the USSR organize control over the execution of the national economic plan, ensuring that the most economical and appropriate use is made of material and financial resources.

260. At the level of the individual republics, regions and districts, the republican and local organs of the Ministry of Finance and the State Bank of the USSR draw up the corresponding financial plans and organize control over their execution.

261. Control over the execution of export-import plans is the responsibility of the Ministry of Foreign Trade.

262. New bodies concerned with the administration and planning of industry and construction are the economic councils or *sovnarkhozy*.

263. *Sovnarkhozy* have been set up at the level of the economic administration areas. In regions where industry is not highly developed enough, *sovnarkhozy* have not been set up; the industrial enterprises and construction units of union-republican importance located in these regions have been placed under the *sovnarkhozy* of neighbouring territories and regions.

264. By a decision of the November 1962 Plenum of the Central Committee of the CPSU, the *sovnarkhozy* were expanded to correspond to the increased size of the economic regions. This expansion of the *sovnarkhozes* will increase their flexibility with respect to production, improve the use of raw-material resources and extend the opportunities for application of the co-operative system in production. In the Russian Soviet Federal Socialist Republic twenty-four expanded *sovnarkhozy* were set up in place of the former sixty-seven, in the Ukrainian SSR seven *sovnarkhozy* in place of fourteen, and in the Central Asian Republics a single republican *sovnarkhoz* instead of four.

265. Major changes have been made in the management of agriculture since March 1962.

266. Territorial production collective farm-state farm boards (or state farm-collective farm boards, depending on the kind of farming predomi-

nant in the territory concerned) were set up in regions, territories and republics to direct agricultural production.

267. Territorial production boards are subordinate to regional (territorial) agricultural production and procurement boards, which have specialized departments to deal with matters such as live-stock and pedigree cattle-breeding, farming and seed growing, the mechanization and electrification of agricultural production and other matters depending on local conditions.

268. The regional (territorial) agricultural production and procurement boards are in their turn subordinate to regional (territorial) agricultural committees which exercise general control over the agriculture of the region (territory).

269. A Union Agricultural Committee was also established, the principal function of which is to organize operational verification of the execution of the agricultural directives of the Party and Government both centrally and locally, and to keep watch over the progress of production and the fulfilment of state targets for the procurement of agricultural products by republics, territories and regions.

270. As matters stand today, the basic unit of agricultural management is the territorial production collective farm-state farm (state farm-collective farm) board. The number of such boards created depends on the number of collective and state farms, the volume of production and procurement, and other economic and territorial factors.

271. The territorial production boards were made responsible for the following: control over the implementation of decisions by the Party and Government concerning agriculture, organization of production and fulfilment of the plan for state purchases of agricultural products, planning, accounting and reporting with regard to production and procurement, review of production and financing plans and annual accounts of collective and state farms, formulation and introduction of rational systems of farming and efficient sowing-area patterns, ensuring highly productive use of machinery, creation of a sound fodder base, organizational and economic strengthening of collective farm-state farm production and raising of its profitability, conclusion of forward contracts with collective and state farms for deliveries of agricultural products and raw materials, etc.

272. The following organizations have been widely adopted: public design and project bureaux, which formulate and introduce rationalizers' proposals and inventions and handle various complex technical problems; councils of innovators, which deal with many questions pertaining to the improvement of technology and the organization of production; workers' research institutes, which familiarize workers with experimental scientific and research work in techniques, technology, and the organization of production and labour; public economic analysis bureaux, which are concerned primarily with finding ways of effecting economies in the use of materials and labour, the best methods of planning and organizing production, etc.

273. Although there are no direct hierarchical links between the various planning organs in the socialist countries, they nevertheless represent a unified system which brings the whole of the national economy within the sphere of planning. The unity that they achieve in their work is due primarily to the fact that they are guided by the economic policy of the Communist Parties and consistently carry it out in practice. Their unity is further ensured by the fact that the planning of the country's economy is conducted on the basis of general planning principles and with the fullest

possible compliance with the principle of democratic centralism. All units employ the same methodology of plan formulation. The unity of the planning system is conditioned by the need to respect the unity of the state national economic plan.

274. In planning the national economy, the planning authorities enlist the help of the Academy of Sciences of the USSR, the Academies of Sciences of the Union Republics, the V. I. Lenin All-Union Agricultural Academy, the Academy of Building and Architecture, the Academy of Medical Sciences, the Academy of Pedagogical Sciences, scientific research institutes and higher educational establishments. In addition, a wide range of scientific workers and specialists from planning and design organizations, *sovnarkhozy*, ministries and departments are co-opted for work on specific problems. The results of scientific activity are reflected in the state economic plans.

275. In late 1962 and early 1963, the central planning authorities in the USSR underwent a reorganization. A Superior National Economic Council of the Council of Ministers of the USSR, a Union Republic National Economic Council of the USSR, a Union Republic *Gosplan* of the USSR, a Union Republic State Construction Committee of the USSR, state sectoral committees and state production committees have been established.

276. The Superior National Economic Council co-ordinates the activities of the *Gosplan* of the USSR, the Union Republic National Economic Council of the USSR and the *Gosstroy* of the USSR, directs all economic activity relating to industry and constructions, discusses problems relating to the development of these sectors and the execution of plans, and takes binding decisions on those problems.

277. The *Gosplan* of the USSR has become a union republic authority; as a result, the *Gosplans* of the union republics are now under dual control — that of the *Gosplan* of the USSR and that of the government of the republic concerned. The *Gosplan* of the USSR is responsible for the preparation of long-term and medium-term plans and for correcting annual plans in the light of the progress made in executing the plan concerned and the proposals put forward by the *Gosplans* of the union republics.

278. The basic function of the National Economic Council of the USSR is to ensure the implementation of the USSR economic development plans, securing the most rational and efficient utilization of material, labour and financial resources, the general growth of labour productivity, the reduction in cost and improvement in quality of production, and the discovery and utilization of idle economic resources.

279. The National Economic Council pursues its activities directed towards the implementation of the economic plans through the republican and inter-republican *sovnarkhozy* and the ministries and departments of the USSR.

280. At the same time the Council performs planning functions in several fields.

281. The State Construction Committee of the Council of Ministers of the USSR is responsible for improving the administration of capital construction, achieving a more efficient utilization of investments, ensuring the introduction of new productive capacities according to schedule, carrying out a uniform technical policy in construction and securing a substantial improvement in the quality of construction work.

282. The state committees for sectors of industry and state production committees are responsible to the *Gosplan* of the USSR, the Union Republic National Economic Council of the USSR, or the State Construction Committee of the USSR. Their heads are members of the governing bodies

of these committees and of the Union Republic National Economic Council.

283. The functions of the state committees are to draft plans for the development of the sector concerned, to pursue a unified technical policy and to prepare plans for scientific research and experiment. They bear full responsibility for seeing that new machinery and technology are promptly introduced into production.

284. The state production committees also exercise direct control over all the operations of the enterprises under their jurisdiction.

CHAPTER 4

NATIONAL PLANS AND INTERNATIONAL POLICIES

PRIVATE ENTERPRISE AND MIXED ECONOMIES

285. For private enterprise and mixed economies, both developed and under-developed, the incorporation of foreign trade into national plans and the implementation of plans in the light of developments in foreign trade are among the most difficult tasks of planning. Fundamentally, this arises from the fact that trends in foreign trade are dependent, not solely on domestic circumstances, but also on economic conditions in other countries.

286. In almost all countries, foreign trade absorbs a significant proportion of domestic output and is similarly an important source of domestic supplies; accordingly, despite the difficulties, national planning cannot be realistically pursued without careful account being taken of foreign trade. If this is true of developed, private enterprise economies, it applies with even greater force to the under-developed countries. It is not only that, in many of these countries, the level of external demand conditions the rate of domestic economic growth by virtue of the large size of the export sector. Of more general importance is the fact that in most under-developed countries, at their present stage of development, by far the greater part of investment goods is not produced domestically but is purchased from the advanced countries. Some progress has undoubtedly been made in a number of countries towards increasing the domestic production of investment goods, but the requirements of these countries have also been rising rapidly. In general, the relative dependence on imported goods for capital formation has not diminished; in many instances, it has even increased. Thus, irrespective of whether the share of exports in total economic activity is large or small, the supply of foreign exchange has been a principal constraint on the rate of planned economic development in under-developed countries.

287. It is in recognition of this that a number of under-developed countries have placed the prospective trends in supplies of foreign exchange in the foreground of their economic planning. Substantial weight has been given in the preparation of plans to the aim of releasing an expanding supply of foreign exchange for developmental uses, such as imports of investment goods and essential raw materials. Investment programmes have given priority to new, import-substituting or export-promoting industries. The more industrially advanced of the developing countries have, in fact, been giving increasing attention to the need for expanding the exports of manufactures to compensate for the sluggish

rate of growth of traditional exports and the deteriorating terms of trade of primary commodities in relation to manufactures.

288. As noted in earlier chapters, however, by no means all countries have endeavoured to make careful assessments of the prospective foreign-exchange requirements implicit in their plans. Undoubtedly, this is a difficult and time-consuming task, since it entails detailed analysis of the composition, as well as of the level, of domestic output and expenditure. On the other hand, the foreign exchange requirements of programmes for domestic investment and output are too important for the success of these programmes in under-developed countries to allow of neglect. It is not only that targets for investment and output may not be reached if foreign exchange requirements prove greater than expected; it is also that, if the requirements had been better assessed initially, this might have suggested a different pattern of domestic investment which would have placed less strain on the balance of payments.

289. It is apparent, however, that among under-developed countries, even the most intensive efforts to expand supplies of foreign exchange through export-promotion and import-substitution have not been sufficient in themselves to yield the supplies required by plans. Plans have, in fact, generally been predicated on the assumption that the supplies of foreign exchange earned through exports or released through import substitution would be augmented by an expanding flow of foreign capital. Given the need for foreign funds, the under-developed countries have generally adopted a wide range of measures to obtain an enlarged flow of these funds. In order to attract foreign private capital, most countries have provided assurances with regard to property rights as well as to the remittance of profits and the repatriation of capital; in addition, various kinds of tax incentives have been offered to foreign investors. Despite these measures, the distribution of the international flow of private capital continues to be highly uneven. Private capital is mainly attracted to those countries endowed with natural resources for which world demand has been buoyant. Also, private capital has been highly sensitive to political changes in the under-developed countries.

290. In such a context, intergovernmental economic assistance has played an important role in speeding economic growth in the less developed countries. Intergovernmental grants and loans have, as a broad rule, tended to offset the marked concentration of private capital flows. Indeed, without intergovernmental assistance, plans of many countries which have received little or no part of the international flow of private capital in recent years would have been jeopardized. In order to link economic assistance to the individual national plans as a whole, there has been wide-spread expression of a strong preference for co-ordinated aid either through multilateral channels of international organizations or through the consortium approach such as that adopted by contributing countries for aid to India and Pakistan. Further, opinion is almost unanimous in the under-developed countries that achievement of their planned targets of investment and output would be facilitated if external assistance were assured to them for their plan periods rather than from year to year as has been the practice thus far. Opinion is also unanimous that foreign loans or subsidies should not be tied to any political, military or ideological conditions, but should be granted solely on the basis of economic considerations. It is pointed out in the under-developed countries that, apart from the difficulty of obtaining loans, especially for any appreciable length of time, the high rate of interest and the obligation of repayment in other

than local currency represent serious difficulties for the economy of those countries.

291. The use of external trade to develop under-developed countries is fraught with serious difficulties. The rising trend of raw-material prices observable during the war and immediate post-war years did not last. In 1951 the prices of raw materials began to decline and those of industrial goods to rise, the terms of trade in raw materials deteriorated considerably in relation to those for finished goods, and there were serious fluctuations in the prices offered for, and the volume of trade in, particular raw materials. The policy of discrimination pursued by certain countries in trading with others has created serious difficulties for the under-developed countries. The market short-term instability in export earnings that confronts most under-developed countries places a heavy burden on their ability to adapt plans to rapidly changing circumstances. Some countries have sought to lessen the impact of external instability on the domestic economy by channelling exports through marketing boards, others by means of variable export levies. Where exchange control has been applied, the use of foreign exchange budgets, which are subject to revision every few months in the light of the current balance-of-payments situation, has also helped to ensure that supplies are adjusted to requirements in an orderly manner. Through several national policies, attempts have been made to mitigate the harmful effects of such instability, but there are serious limitations to what can be accomplished through the individual action of under-developed countries. It is in recognition of this fact that a number of international commodity agreements, involving multilateral contracts for purchase and sale, export quotas and buffer stocks, have been concluded in the post-war years and that forums for international discussions and consultations have been provided in commodity councils and study groups. But, at an operational level, progress has been rather slow, and there is also the question whether an individual commodity approach is adequate, in itself, to meet the requirements of comprehensive economic development. Support has, in fact, recently been emerging for complementary measures of a broader character, such as the system of compensatory financing under discussion in the United Nations and more extensive use of the resources of the International Monetary Fund.

292. It is not only as regards its level and stability that foreign trade has presented particularly difficult problems in under-developed countries. As discussed in an earlier chapter, the integration of foreign trade into national plans has also required decisions about the particular kinds of export-promoting or import-substituting industries which it would be most advantageous to develop. In earlier post-war years, plans for economic development tended to concentrate upon balanced growth within the confines of the domestic market and to neglect the advantage of international specialization. In more recent years, however, greater attention has come to be given to the possibilities of accelerating growth through specialization in particular fields of production. In part, this has given rise to a search for markets in developed countries for some of the manufactured goods which some under-developed countries have become increasingly able to export; this has emphasized the need for more liberal policies on the part of the advanced countries in easing access to their markets. But the heightened interest in the advantages of specialization has also generated a broader movement towards exploration of the possibilities for expansion of trade among the under-developed countries themselves. One important outcome has been the creation of the Latin American

Free Trade Area; and another has been the establishment of a common market among five Central American countries which has initiated the co-ordination, not only of commercial policies in these countries, but also of work with regard to regional distribution of individual industries. Among the member Governments of the United Nations Economic Commission for Africa and for Asia and the Far East, considerable discussion has also taken place about the possibilities of closer links to foster intra-regional trade.

293. Concerted action by groups of under-developed countries to foster their economic development and to facilitate national planning has by no means been confined to the field of foreign trade. Multinational co-operation for the development of river basins has, for example, been undertaken in several areas; the Indus, Mekong and Volta river schemes are among the larger projects which have been successfully initiated or completed. Co-operation in the financial field has also led to the establishment of regional development banks. And recently, action has been taken to create regional development institutes in Africa, Asia and the Far East, and Latin America in order to provide regional centres for the training of officials in planning methods and the collection and dissemination of information about planning.

294. While international co-ordination of national plans has been absent among the developed, private enterprise economies, commercial as well as other economic policies have been concerted to a significant extent by the European Economic Community countries and a wider forum for exchange of information and consultation on policies has been provided by the Organization for Economic Co-operation and Development. Recently this has extended to an exchange of forecasts and views that have a bearing on the plans of these countries.

SOCIALIST COUNTRIES

295. In the centrally planned economies of eastern Europe, international co-operation and co-ordination of national plans have reached an advanced stage. Such co-ordination has been facilitated by the fact that all these countries have adopted a similar economic and social system, maintain close political ties and are engaged in long-term planning of economic development.

296. Economic co-operation and co-ordination in the centrally planned countries have gone through two distinct stages. In the first stage, lasting from the end of the Second World War to roughly the middle of the nineteen fifties, economic plans were prepared without any direct co-ordination with plans of other countries. During this period, the problems of international division of labour played hardly any part in the planning of economic development of individual countries and in their foreign-trade policies. There was, in fact, an autarchic tendency in most of these countries as reflected in the simultaneous establishment of industries producing similar goods without sufficient regard for efficiency in production, the size of national markets and other factors influencing economies of scale. This policy was shaped by the need for economic reconstruction and for removing the post-war shortages faced by all these countries. Indeed, the post-war shortages of basic materials, semi-manufactures and finished investment goods were a powerful factor inducing governments to develop domestic production of all required materials.

The development of the economy was co-ordinated only indirectly through foreign trade and credit relations. Indirect co-ordination was largely determined by bilateral trade agreements for specific goods, credit agreements, and agreements on scientific and technical exchange.

297. Since about the middle of the nineteen fifties, the international co-ordination of national plans in the centrally planned economies has been considerably broadened and strengthened. The substantial expansion of output and diversification of national economies in the countries in question have brought into being direct co-operation in production among the socialist countries of Europe. Unlike the first stage when the focus of its work lay in the sphere of foreign trade, the Council of Mutual Economic Assistance (CMEA) has expanded its activities to influence the preparation of national plans on the basis of such considerations as economies of scale resulting from mass production, and the reduction of production costs through specialization.

298. Co-ordination of the national economic plans enables the economic development interests of each of them, their natural, economic and labour resources, to be given fuller and more correct weight. The process of co-ordination extends not only to production plans, but also to sales of output, transportation resources, the balance of payments of the socialist countries, and the trends of modern technical progress.

299. On the basis of the co-ordination of national economic plans, the main trends of specialization and co-operation in production are determined in interrelated branches of industry, in the joint utilization of raw materials, fuel and power resources; concerted decisions are taken concerning the joint construction of large economic interstate projects; questions pertaining to the development and exploitation of various types of transport and communications are settled jointly; decisions are taken on the development of science and technology, including the initial and advanced training of personnel. In this way, a rational international division of labour is established for the world system of socialism.

300. The co-ordination of development plans and all-round mutual assistance between the countries have given the under-developed countries considerably higher rates of development and have brought all the countries members of CMEA closer to a common level of development.

301. Co-operation among the States concerned in the development of these sectors of industry takes very varied forms, including the granting of loans, the supply of equipment, the preparation of the necessary scientific and technical documents, etc. Installations constructed on a co-operative basis are the property of the country in whose territory they are built. Accounts in respect of such friendly assistance are as a rule settled by deliveries of goods produced at jointly constructed enterprises.

302. Given the rational international socialist division of labour, interstate specialization and co-operation create the conditions for the gradual formation of complex production enterprises involving the co-operation of a number of States. In this connexion, account is naturally taken of their interests and of their natural resources and economic and transport conditions. (The "Friendship" oil pipeline is one case in point; a unified electric power grid is being laid for all the European countries members of CMEA; several countries are combining to set up coal and ore mining enterprises in Poland, a cellulose combine in Romania; and so on.)

303. The further development and intensification of the co-ordination of plans are reflected in an organizational strengthening and intensification of CMEA's activities. An Executive Committee of the Council has been set

up, consisting of the deputy heads of government of the countries members of the Council. An office has been established under the Executive Committee of CMEA to prepare preliminary draft plans and recommendations for joint adoption. The Charter of the Council has been amended to allow non-European countries which share the Council's purposes and principles to join it. Apart from the work related to specific industries, such as the standardization of output and specialization within industrial branches, CMEA has made arrangements for the co-ordination of plans for 1956-1960 and 1961-1965. The Council has also established principles and procedures for the co-ordination of subsequent plans up to 1980. Consultations have been carried out with regard to output targets of specific industries. This is to be followed by co-ordination of investment targets and over-all plans.

304. The tendency towards greater co-ordination of national plans has been accompanied by an equally significant trend towards economic integration in the CMEA countries. Prominent among the measures to foster these developments has been the recent decision to introduce multilateral settlements between the countries members of CMEA and to establish an international bank for the group.

305. Developments leading to greater co-ordination of plans and to economic integration have the same basic purpose of increasing productivity and raising the level of consumption through more rational division of labour among the CMEA countries. The ultimate goal in these countries is to create a single economy as well as to set up a single planning agency for preparing a common plan for the whole group of countries.

306. The national economic development plans of the countries members of CMEA are now co-ordinated in a different way.

307. Each country prepares a draft national economic development plan. The member countries of CMEA then hold multilateral consultations on their plans. Over-all resources and requirements are taken into consideration and adjustments are made in the draft plans. Appropriate recommendations are drawn up by the CMEA organs on matters requiring joint consideration.

308. These recommendations are adopted at annual sessions of CMEA, on the reports of the appropriate standing commissions.

309. To facilitate the process of co-ordination, solutions to a number of technical problems have been sought; important among these have been the problems of standardization of methods of price formation, the establishment of methods for international comparison of relative costs, and the elaboration of improved methods of evaluating effectiveness of investment.

310. The policies and procedures of CMEA in the field of co-ordination of national plans were given formal expression in the "Basic Principles of International Socialist Division of Labour" adopted in June 1962. According to this document, CMEA aims at increasing the over-all efficiency of the economy of the group, but with due regard to the comprehensive and diversified economic development of individual member countries. Attention has also been devoted to the further narrowing and gradual elimination of differences in the level of development of these countries. Thus, the less industrialized countries in the group might be given preferential treatment in the allocation of scarce materials or investment credits and in establishing favourable prices for certain exports during initial stages of production. Some sacrifice on the part of the more advanced countries, in other words, has been looked upon as an important element of pro-

moting economic development of all countries in the group. The international co-ordination of plans based on these guide-lines should, according to these principles, be applied to basic branches of industry and should be designed to achieve the integrated all-round development of each country in combination with international inter-branch specialization. The co-ordination should apply primarily to long-range plans in view of the time necessary to bring about the required structural and technical changes. The co-ordinated plans should constitute firm commitments for the participating countries, in order to prevent the emergence of imbalances.

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