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ECONOMIC PLANNING — POINTS OF SUCCESS AND FAILURE

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Low-income countries that seek economic growth can stand on the shoulders of the high-income countries in important respects. They can draw on the techniques and on the capital of those countries; and more important in the long-run, their people know that major economic advance can be achieved, whereas the people of Western Europe in, say, the 14th or 15th centuries did not.

But current data indicate that people in less developed regions — though there is wide dispersion for individual countries — are not catching up with those who started out earlier on the economic road. Gross rates of income rise are similar, and even by one calculation favor the low-income countries; but because population is swelling more rapidly in low income areas, rates of income rise per capita are lower for the low-income countries. And by a wide margin, dollars of income rise per year are lower in low-income areas. The standards of living of people of the less developed and developing regions are still diverging as they have been for several centuries.

There is considerable dispersion among the countries of each of these groups. Though economic planning has been more generally accepted as formal policy by the less-developed than by the developed countries of this group, the growth experience of the less developed countries as a whole is not significantly due to their planning. Planning

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has many definitions; there may be attempts to carry out the plans or they may not be taken seriously at all; economic planning has other aims than economic growth; and many special factors — notably prices of exports and internal disorder — have affected growth performance.

TABLE I

CURRENT GROWTH RATES OF INCOME AND OF
POPULATION, AVERAGES FOR DEVELOPED AND
LESS-DEVELOPED COUNTRIES

Per cent growth rates per year:	DC's	LDC's
of income	4.4	4.7
of population	1.3	2.4
of income per capita	3.1	2.3
GNP per capita	1,828	\$400 — 480
Growth of GNP per capita, in dollars a year	\$57	\$9 — 11

NOTES:

The average gross national product for 1957-58 is compared with that for 1963-64. Recovery from World War II and adjustment to post Korean War price changes were substantially complete by 1957-58. Hence the above figures are better estimates of the "normal" pattern than if the early years of the 1950's were included.

Indonesia, Algeria, and Congo (Leopoldville) are excluded from LDC's on grounds of inadequate data for calculating growth rates of income. Japan and South Africa are considered DC's.

Source of data: Agency for International Development (U.S.), Statistics and Reports Division: "Estimated Annual Growth Rates of Developed and Less Developed Countries", Ms., dated April 5, 1965.

Factors of 2½ and 3 are applied to LDC income levels as given by AID (based on exchange-rate conversion of income), in accord with Gilbert and Kravis, Hagen, et al. estimates of distortions introduced by exchange rate conversion. Income levels of both DC's and LDC's are for 1963.

The United Nations in its *World Economic Survey*, 1963 (Geneva, 1964) gave figures for a somewhat earlier period and difference grouping of countries.

Current Growth Rates, UN Estimates
1955-1960

Per cent Growth rates per year:	DC's	LDC's
of income*	3.3	4.3
of population	1.3	2.4
of income per capita	2.0	1.8
GDP per capita, 1960	\$1,410	\$330 — 390
Growth of GDP per capita, in dollars a year	\$28	\$6 — 7

* Gross Domestic Product; average annual compound rates of growth.

Source: United Nations, *World Economic Survey*, 1963, Ch. 2, pp. 20 and 21. Income of low-income countries is adjusted as above. DC's are "developed market economies", covering North America, Western Europe, Japan, Oceania, and South America. "Developing Market Economies" cover Latin American republics, Africa, the Far East, West Asia and "others".

The above data do not include the Soviet Union, Eastern European countries, and Mainland China. Data for China are not available, but for Russia and Eastern Europe growth rates of net material product, 1954 to 1959, range from 6.0 per cent to 9.5 per cent (latest base years are used), which even when concepts are adjusted toward comparability, are higher rates than in all but a few Western European countries. *Some Factors in Economic Growth in Europe*, etc. Ch. II, pp. 8-10.

I

At the Bangkok conference of Asian Economic Planners last October, the delegates were frank in citing difficulties they faced, and deficiencies in their governments' efforts to meet growth problems. The external difficulties they specified were unfavorable changes in terms of trade, and in the availability of external assistance. As to domestic faults in economic planning they cited:

1. inadequate statistical data;
2. poor coordination among government planning and implementing agencies;
3. lack of coordination between government agencies and the community;
4. unrealistic planning goals; and
5. failure to set priorities among sectors and projects.

With respect to execution of programs, they listed:

6. scarcity of adequately trained and motivated administrators and technical people;
7. ineffective mobilization of domestic savings; and
8. failure to stimulate private business and the community to make their best contribution to planned development.¹

These are, then, the conscious points of failure in economic planning in the minds of these knowledgeable planners. The natural moral is that the concerned administrator and technician should study how to correct the faults, and then do it.

A curious air of unreality hangs over such an analysis. It assumes that governments have maximum, or at least rapid, economic growth as their central goal, and that they objectively pursue their central goal. Neither the one nor the other is true. First, economic growth is one only among a number of goals of government. It may not be a goal at all, whether or not public pronouncements are made that it is. Second, any large organization, like a government or government department, is subject to administrative and ideological constraints on behavior that force it systematically askew from efficiently achieving its goals. This "theory of error of large organizations" holds for laissez-faire and communist governments and large private businesses alike, and for their large departments and divisions also. The existence of such systematic error is far from implying that government economic activities are not useful and necessary, or that small private businesses are not subject to their own patterns of error.

As soon as we deny these two assumptions, and accept instead that governments have multiple goals and that bureaucracies function in their own characteristic patterns,

¹This is the summary of Robert S. Smith, *Report of the United States Delegation*, (November 25, 1964), p. 3.

then the evaluation of success versus failure in economic planning becomes a complex problem.

II

THE PURPOSES OF ECONOMIC PLANNING

We list and comment on briefly below, first, the economic goals and, second, the political and social goals of economic planning. The latter turning out to be normally of major, often of overwhelming importance, the question then arises, third, of the extent to which the two goals are normally coincident or in conflict.

- A. Economic goals include the following:
1. Maximum rapidity of growth, to be achieved within some given time horizon.
 2. Minimum pressure on the standard of living.
 3. Minimum unemployment and under-employment.
 4. Minimum instability in economic life.
 5. Maximum shift of the rate of population change toward an estimated ideal level, in order to maximize income per capita.

These economic goals are in competition with one another. There is an administrative opportunity cost to each, in that limited administrative resources devoted to one mean less available for the others. They are also in more fundamental conflict. Maximizing the standard of living is in conflict with maximizing the rate of economic growth: higher consumption means less investment, which often means a lower rate of growth. Maximizing employment forces a choice of techniques that both immediately and through feedback effects will diminish the rate of growth. To maximize income, one must seize technical, market, and organizational opportunities as they appear; but this means more instability. Effective policies to check the growth of population may not be consistent with the location and occupation trends that will maximize total economic growth.

Economic success must therefore be measured by a weighted index of the subgoals.

B. As to the political goals: The usual central preoccupation of any governing group is keeping itself in power, swelling its power if possible, and checking any decline. The threat of loss of power may be remote, permitting considerable short-run freedom of action; or it may be pressing, leading to urgent or desperate measures for survival.

Means to the goal of maximizing political power involve strategically (1) control of the military and police, authority over taxation and the money supply, and control of general government and party administration; (2) making effective use of nationalist sentiments; and (3) the weakening and dividing, winning over, or possibly repressing and silencing of political opposition. We comment on each of these in turn.

(1) Not much need be said about the first. The main function of the military is often, probably usually, domestic: to overawe the local people and to put down disorder and insurrections. The threat of the military is parallel: it may turn against its own sponsors. Complete control of taxation and the creation of money is normally achieved with independence.

(2) The implications of nationalism are more interesting. Nationalism is a major asset for nearly all governing groups and above all for those newly independent through force of arms. Their desire to use this immense force to their own political advantage tempts them to oppose the foreigner in conspicuous ways that are not too risky. They are impelled also to cater to local religions, customs, and patterns of value. They are likely, specifically, to support local economic orthodoxy, whatever it is—private enterprise, socialist, communist, cooperative; or state-directed isolationist.

(3) As to the political opposition, governments that are insecure are tempted — above all where the example

of history is that of autocracy — to repress expressions of dissent and independent criticism. The governing group may move abruptly, or patiently and subtly, toward the one-party state. Ill-fortune may more and more clearly await those who are discontented and show it. For those who accept the going orthodoxies and support the regime, there will be the chance of political success and influence, social success, and perhaps economic good fortune as well.

Such a pragmatic listing has an unsympathetic air. But it is meant to be only descriptive. The desire for power and status is one of the deepest human drives, found in all societies in all periods of history. And party leaders may feel a non-selfish responsibility to their followers, whose status, incomes, and perhaps personal safety, depend on the continued strength of the regime. Finally, no economic or other program in fact focussed toward the welfare of the people of the state has much chance of success unless it is carried out over a considerable period of time — which means government stability.

In Indonesia, in the early years after independence, in the Philippines in recent years, and in many another country, effective economic planning has been vitiated by maneuvering for power among political leaders, and frequent shifts of faces and policies. Such government instability makes economic planning a frivolous exercise. Whether one calls the pattern a failure of planning, or a failure of direction, it is a matter of words.

III

NATIONALISM AND ONE-PARTY RULE AS DETERMINANTS OF ECONOMIC POLICY

The use of nationalism and the one-party system to buttress political regimes has considerable implications for the effectiveness of economic planning in less developed

areas. Its logic is part of the general analysis of government effectiveness in economic life which George Stigler, in his Presidential address to the American Economic Association in December of 1964, called the pressing need of economics, in the forms both of theory and statistical-econometric testing.

We can forgive politicians of the right and left when they take for granted in vivid language that government planning will be catastrophic or, alternately, fully successful. They hardly pretend to be other than propagandizing. It is harder to forgive the fathers of economics — Smith, the Mills, Longfield, Senior, Torrens, Marx, and even Marshall and Pigou. Stigler easily proves that these distinguished economists, when they pronounced on government-in-economic-life, were content with casual impressions, or their own faith, or the conventional wisdom of their times.

The pages below, out of inductive theory and some statistical testing, attempt to fill in a bit of this yawning hole in the armory of economists.² The subject is politicians in power and seeking power, who view economic policy and planning as part of the means of power. How have their drives caused economic policy and planning to go right, and go wrong?

The question can be restated. Clair Wilcox has concluded, in his excellent study on the subject, that economic development has not been the central concern of any government in Southeast Asia.³ Save under unusual circum-

If it is objected that much of this material is not economics, then we must say that if one is concerned with solving real problems in social affairs, he cannot be very much concerned with formal discipline boundaries. As James Tobin has generalized, often economists argue that they will carry out the economic aspect of a problem, and then turn over their results to other social scientists to fill in the rest; but that this policy relies on a mythical collaborator who is never in fact there.

² Clair Wilcox, *The Planning and Execution of Economic Development in Southeast Asia*, Occasion Paper 10, (Center for International Affairs, Harvard University, 1965), p. 35.

stances and temporarily, it probably has not been anywhere in the world. The issue then becomes: to what extent is the political interest of governing groups coincident with policies that will further the economic interests of their people? When is there coincidence of interest, and when its lack?

A. The compulsions of nationalism work both for and against policies leading to economic advance. Where the regime is stable and long-run viability of the state is the goal, nationalism can be the springboard to effective economic action. The central issue of policy to the Japanese oligarchy in the late 19th century seems to have been: Should Japan become a European colony, or should it have rapid economic progress? They opted for the second.

But current world experience emphasizes the frequency of adverse economic effects. Governments that are insecure, or that have had recent experience of colonial rule, with independence painfully won, are wont to use nationalist policies in ways disastrous to the economy. In Burma, there has been nationalization of enterprise and trade to get them away from foreign control, expulsion of foreigners, extension of government control even where it would be ineffective, and general retreat from the outside world. The Ceylon government in recent years disrupted its economy through policies discriminating against a major minority group, the Tamils; moved toward insulating its economy and society from the progressing world outside by substituting Singalese for English in official activities; and divided its house through attempting to muzzle the press and make Buddhism the state religion.

The Indonesian leaders make little pretense of caring anything about economic matters: "We are neglecting our wealth purposefully because we are concentrating on nation-building," said Dr. Subandrio, Foreign Minister and Deputy Prime Minister.⁴ President Sukarno said to a Majumi (so-

⁴ *Straits Times*, December 7, 1963; quoted in Clark Wilcox, *op. cit.*, p. 35.

cialist) politician whose economic ideas he judged politically impractical: "I have learned to ride the wild horse of anti-colonialism."⁵ The Indonesian leaders have maintained themselves in power, weakening the oppositions or evoking their support, through a series of remarkable policies that have been at once economically disastrous and politically triumphant. The main ones have been, in the early 1950's the campaign against the Dutch, in 1958-59 the expulsion of Chinese middlemen from their businesses, later the Western New Guinea (Irian Barat) campaign, and currently and most disastrous economically, Malaysian *konfrontasi*. The latter two policies have, improbably in the abstract and most brilliantly, united both Communists and the army in support of the regime. As for business, socialist, and pro-Western groups, they have long since been weakened and frightened into impotence. Indonesian policies have been brilliantly successful from the domestic political point of view — and that is what counts.

Examples of economically injurious policies can be multiplied, conspicuously recently in Africa. A frequent common denominator is neurotically bitter antagonism to the foreigner, who, as colonial administrator or soldier or businessman, has repeatedly humiliated the local people.

B. As to the conspicuous tendency toward one-party rule and repression of dissent in less developed areas: once again the effect is mixed. It can achieve, at substantial human cost to dissidents and sometimes to supporters, major progress in specific fields on which effort is concentrated. The Soviet Union has developed with remarkable rapidity its heavy and military industries, and has made wide advances in special kinds of education.

But the long-run and general implications of one-party rule are hostile to economic advance. Dissent and criticism are useful means to correct abuses and mistakes, and to

⁵ Quoted to me by I. R. Sinai, from his conversation with the Majumi politician.

improve policy and the execution of policy. They are vital to crucially-needed flexibility, and for introducing innovations in all ranges of economic activity. One-party rule is the more injurious the more severe the repression of heretics outside and within the Party, and the longer the period of repression. Its injury is less if selected areas are clearly preserved for free discussion.

The baleful effects of one-party orthodoxy are the greater where there is a tradition of high prestige to government service — as in most less-developed countries, arising both from the tradition of the late colonial government and from earlier indigenous autocratic rulers. Such a tradition helps assure that the ambitious, able, and trained will flow into government service and the Party, where they are sterilized for decision-making.

The injury to the economy can be deepened by nationalist policy that excludes minority groups from sharing in social decisions and handicaps them in economic life. Among the countries of Southeast Asia, Burma, Ceylon, and Indonesia have harassed and squeezed out Chinese, Indian, and Western enterprises and immigrants. The Philippines and Thailand have squeezed the Chinese businessman but been tolerant toward Western enterprise. Elsewhere in the world Arabs, Negroes, Irish, Jews, and many another group have been put to the squeeze. Especially in newly independent countries where nationalism is a high fever do we find minorities in general systematically discriminated against.

Often the discrimination is thoroughly understandable, in the light of past experience or current practice as seen by indigenous people. Arguments for it usually assume that there is a fixed economic pie to be shared, so that the less that goes to the minority group or foreigner, the more remains for the local people. This mainly false argument is nearly totally false for countries that want economic growth. The flight of capital from countries where the future for a minority seems dark is evidenced by de-

pressed free-market exchange rates, as compared with official rates. Myint points out:

Burmese currency was quoted in the free market in Hong Kong and Singapore always below par compared with the Indian currency, even during the years of buoyant exports, and during the time when India was also suffering from balance of payments deficit. The reason seems to be the desire of the Indian immigrants in Burma to send more remittances home than officially allowed, or to repatriate their capital. This desire in turn depends on the Indian immigrants' assessment of the political future of Burma. Conversely the strength of a currency such as the Malayan dollar depends not only on current items, but also on capital inflows and the expectation of future capital inflows, again dependent on political factors."

Similarly, the Indonesian rupiah has been depressed by capital flight, especially in 1959-60, far below the level that the balance of trade would explain.

Of probable greater importance than capital flight has been the flight of skills, as repressed minorities have sought refuge and better prospects elsewhere. The most energetic, trained, and ambitious, for whom prospects abroad are relatively bright, are the first to go. Historically, it is just the dissident, heretic, status-deprived groups that have typically been centers of energy and of economic and other progress. Progressive economies have made use of this energy; that is, economic life has thrived in plural societies.

One can put down in table form the influences that seem most likely to lead toward, and away from injurious nationalism and one-party monopoly of political life.

¹Ulla Myint: "Economic Interdependence in Southeast Asia: Some Notes on a Research Program," (manuscript) p. 4.

INFLUENCES TOWARD ECONOMICALLY-INJURIOUS
NATIONALISM AND SINGLE-PARTY MONOPOLY IN
LESS DEVELOPED AREAS

A	B
<i>Factors maximizing their dominance</i>	<i>Factors minimizing their dominance</i>
1-Domestic political insecurity of the regime, forcing it into short horizons and improvisation to keep itself in power.	<i>vs</i> Security of the regime, enabling it to take the long view
2-Recent independence, won through fighting	<i>vs</i> No past experience of colonial domination or rule; or independence peacefully achieved, or achieved in the distant past
3-A strongly held, self-righteous orthodoxy; tradition of autocracy, and of violence as a road to power	<i>vs</i> Tradition of pluralism in ideas and tolerance of dissent; political democracy
4-One or more conspicuous minority groups	<i>vs</i> A homogeneous population
5-Isolation, illiteracy; tradition of responsibility to self, family, and special group	<i>vs</i> Liberal education, literacy, sense of responsibility to national or world interest

The implication of this reasoning is that in a country characterized by A, economic planning will be aimed toward disaster. The political leaders will find their advantage to lie in injurious economic policies. The less the government of such a country seeks to influence or direct economic life, the better. One does not have to be so pessimistic as Sinai⁷ to be conscious of the possibility of retrogression: tribalism and savagery are close enough behind us in history — aspects of them are with us in every society — and Toynbee reminds us of how often societies have gone back to more primitive levels. On the other

⁷ I. R. Sinai, *The Challenge of Modernization* (Chatto and Windus, London, 1964).

hand, in a country depicted by the B factors, economic planning has a chance. The interest of the political leaders is usually served by policies furthering economic growth.

IV

THEORY OF ERROR IN LARGE-SCALE ORGANIZATIONS

The above section was concerned with two conspicuous sources of wrong direction of economic policy — nationalism and one-party rule — that can threaten less-developed countries seeking to plan their economic growth.

This section is concerned with systematic tendencies toward error that exist in large-scale economic systems. Such systems may be large planning organizations or the administrative super-structures that direct the planners, or large-scale organizations, public or private, that carry out the plans. I have written of this elsewhere, and will do no more here than to summarize the conclusions there arrived at.⁸

It is often said that there are three inevitable delays in the response of any organization to the changing outside facts to which it must respond: delay in recognizing a problem, delay in deciding what to do, and delay in carrying out the decision. This fault is of course true. But there is much more that can be validly said about the characteristic functioning of large organizations.

First, such organizations drift toward fewer but bigger errors than does the decentralized system. The cause lies partly in the value judgments that major policy involves: the leader of any organization tends to dominate its conventional thought, and major alternatives and views that don't suit the local conventional wisdom are ruled out of consideration. There are other reasons.

⁸ Theodore Morgan, "The Theory of Error in Centrally-Directed Economic Systems," *Quarterly Journal of Economics* (August 1964), 395-419.

Second, the central organization tends toward delay, excessive optimism as to the results of its policies, and extension of controls when things go wrong. For example, authorities in power are slow to change the policies they have started on when those policies more and more clearly are turning sour; and since it is always a political mistake to make an unpopular decision, such decisions will normally be postponed until they are plainly necessary — that is, until much harm has been done. As for excessive optimism, there is, among other causes, evidence that people tend to make decisions on the basis of favorable assumptions, and to pay special attention to information that supports their assumptions. Finally, the normal and simplest reaction of people in authority when something goes wrong is to set up a rule so that in the future it won't. But economists, conscious of indirect reactions, often would disagree with such simplicities of political thinking.

Third, the imposition of rules and regulations for getting things done frequently leads to avoidance and evasion of the rules, and to corruption of the authorities.

This bald summary will suffice to suggest, though not prove, that large organizations, including those that plan and those that execute plans, have characteristic ways of functioning that often achieve different, and inferior, results compared to those intended.

V

EMPIRICAL EVIDENCE

So far empirical material has been mainly for illustration or definition. But empiricism can help us much more. Various data and studies are available that shed some light on the successes and failures of planning.

A. Recent growth rates for nations of Southeast Asia are of some comparative interest. Data below are mainly

AID-estimated, for 1957-58 to 1963-64. In table II, I divide nine countries, following a suggestion from Hla Myint, into three groups, primarily according to kind of policies followed:

TABLE II
GROWTH RATES FOR SELECTED ASIAN COUNTRIES

Group A		Group B	
<i>Relatively open and liberal economic policies</i>		<i>Relatively close central control and autarchical policies</i>	
Malaya	5.9%	Burma	3.5%
Pakistan	4.5%	Ceylon	3.5%
Philippines	4.9%	India	4.4%
Thailand	7.4%	Indonesia	1.0%
Group C			
<i>Subject to special circumstances</i>			
Korea	4.7%		

Sources: AID material cited above, Table 2a; except for Indonesia — Hollis B. Chenery, "Development Policies and Assistance Requirements," draft of September 9, 1964, Table 2. For Burma, Douglas Pataw, "Economic Progress in Southeast Asia," *Journal of Asian Studies*, (November 1963), 72. For Ceylon Donald R. Snodgrass, *Ceylon, an Export Economy in Transition*, (mimeographed), (Yale Growth Center, 1964). Calculated from his real gross national income, 1955-60 data.

The basic data of this table are subject to error, the classification of the countries is impressionistic, policies are carried out imperfectly, and other influences than government policies (falling rubber prices cause understatement of the real "normal" domestic growth of Malaya) may be determining. But the data do at least indicate that open and liberal policies are not necessarily correlated with low rates of growth, nor close controls with high rates of growth.

B. K. C. Sen, of our research group, has expanded this kind of comparison. He defines four Southeast Asian countries, Burma, Ceylon, India, and Indonesia, whom we

have called Group B, as "Inward-looking"; and three countries, Malaya, the Philippines, and Thailand, as "Outward-looking". "Inward-looking" countries exercise (i) strict control of resource-allocation through formal planning, and (ii) strict trade and capital flow controls, and show (iii) some disposition to nationalize foreign enterprises. An Outward-looking country has these characteristics in mild degree or not at all.

His criteria of success include per capita income growth, growth of saving and investment, and price stability; and also certain structural changes, among them a falling share of agriculture in total production, falling deficit financing, import substitution, and export growth and diversification.

The conclusions are mixed. On the growth and price stability front, the evidence is "rather inconclusive". With respect to desirable structural change, the Outward-looking group have a clear advantage. Offsetting their rather slack record in domestic capital formation, they have had far greater access to external financial resources, which has kept down their deficit financing. In addition, they have generally a much better record in import-substitution, productivity increases, increases in import capacity, productivity, and government spending for development.⁹

C. A recent study by Staller of comparative instability in western centrally-planned and free-market economies, 1950-60 is instructive.¹⁰ There is much variation in degree of instability both in and between the two groups. The path of growth, for example, was smoothest in Poland, the Soviet Union, France, Italy and Norway. It was roughest in Bulgaria, Yugoslavia, Greece, Turkey, and the United States. The Soviet Union and Norway take the

⁹ K. C. Sen, *The Inward-Looking and Outward-Looking in Southeast Asia* manuscript, (January 6, 1965).

¹⁰ George J. Staller, "Fluctuations in Economic Activity: Planned and Free-Market Economies, 1950-60," *American Economic Review* (June 1964), 385-395.

highest prizes for stability; the lowest marks go to Yugoslavia and Turkey.

The case of the Soviet Union, with the longest experience in central planning, is of special interest. Its high rank is due to the stability of one sector, industry. But in total production its record is matched or surpassed by those of France, Italy, Norway, and Sweden; in agriculture by eight free-market economies; and in construction by four free-market economies.

Staller calculates three pairs of averages, one for all of his eight planned and 18 free-market economies, a second for the Communist bloc and those OECD countries with similar incomes, and a third for four East Europe countries that previously were a part of the economic community of Western Europe and West Europe nations. In each comparison, instability was higher for the planned economies in each of the four sectors measured: total production, agriculture, construction, and industry. In industry only is the difference very small.

These results suggest that the changes of policy that come with central planning, and improvisations of policy that unexpected events demand, are likely to make economic life under central planning more unstable than it is under free-market economies.

D. We have mentioned above the tendency toward delay in large organizations. This is so mild a statement as to approach caricature, when laid against the fantastic extremes of delay of which bureaucracy is capable.

Given a firmly held ideology and a one-party regime (and perhaps a stubborn dictator), delay in making obviously needed economic decisions can persist for decades. In the Soviet Union in the fall of 1964 "unwarranted limitations" were to be removed on the size of private land holdings and on the number of livestock allowed to peasants; the Liberman system, which urged that planning should

be influenced by such economically meaningful concepts as accounting profits, credit, and prices based on consumer demand, was to be tried in part of the clothing and shoe industries; and the Lysenko ideology in agricultural practice seemed clearly to be losing ground. If these tendencies really amount to a watershed, then it has taken one to two generations for initial ideology to be worn down by experience.

E. There is much evidence that planning in both markets and centralized economies have in recent years been converging in the direction of similar policies. In the main, these represent the result of frustrations with bureaucratic machines — much as Adam Smith represented the same frustration two centuries ago.

In countries as different and remote from each other as Mexico, Yugoslavia, France, the Soviet Union and Malaysia, there appear currently strong tendencies toward decentralized implementation of plans and toward economic pluralism. The attempt is to evoke the participation and zeal of widespread groups of diverse interests and views. Lewis explains Mexico's recent growth in large part in terms of functional representation, decentralized public corporations, and labor union participation in basic decision-making.¹ In Yugoslavia, interest rates are being consciously used to decentralize investment decision-making. In France's planning, members in plan commissions and working groups were about 1000 in the First Plan; now there are about 3500. In Soviet Russia, the Liberman attempt to base incentives on profits, rather than output, is an attempt to free central planning from detailed supervision over enterprises. Malaysia's effective planning is distinguished for its thorough-going effort to find out what people in the towns and *kampongs* really want, and to enlist their ideas and effort toward achieving their wants.

¹ G. K. Lewis, "Mexico's Economic Growth — Prospects and Problems," in Nelson, *Economic Growth, Rationale, Problems, Cases*, (University of Texas Press, Austin, 1960), pp. 252-255.

Closely related with the tendency toward decentralization and economic pluralism is the growth of adherence to strict economic criteria, and toward the introduction of economic (as opposed to non-economic) incentives. The worldwide current is at present moving strongly toward the policies of countries usually called market-oriented, which seek to direct the economic future by influencing the environment in which economic decisions are made.

VI

GENERALIZATIONS

In conclusion, failures of economic planning originate both in (a) government instability, with its context of maneuvering for political power and shifts of persons and policies, and in (b) the nationalist and one-party policies that governing groups use to keep themselves in power. They originate also in (c) the characteristic functioning of large organizations which, among other drifts toward error, tend persistently toward delay, toward fewer but bigger errors than a decentralized system, toward excessive optimism about their own rationality and effectiveness, and toward excessive extension of rules, with concomitant evasion and corruption.

The successes of planning originate in its ability (a) to influence the economic environment in which private individual and groups make their decisions, and in supplementing and encouraging the decisions that appear most socially useful, and discouraging those that appear injurious despite cases where delay or mistaken policy brings ineffective or perverse results. They originate also (b) in encouraging expressions of felt want for improvements from the people in the fields and villages and hence stimulating their ideas and energy, which the government can then assist.

(c) Planning is having a major success of an educational variety. The center of technical economics is logic;

but the life of economics in the long-run, as Justice Holmes said of law, is in experience. People change their minds about a strongly held ideology, not through proof of its illogic, but through repeated failures in practice. The hard school of experience is gradually teaching governments where, in various fields, the borderline lies between what government can do best, and what private activity can do best, and what particular forms government activity can best take.

Finally, planning is in our time a popular word like democracy. Hypocrisy being the homage vice pays to virtue, dictatorships proclaim they are democracies, and governments that do not intend serious planning still go through the form. Even so, planning (d) keeps green the idea and hope of substantial economic advance, which makes more likely policies, public and private, that will eventually bring about its reality.