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Gerhard Colm

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Foreword

Dr. Colm's monograph is the second in our series addressed to the subject of planning and budgeting. We welcome this addition to the literature since the problem of translating plans into budgetary action continues to be a major obstacle to realistic and effective planning in developing countries. The nub of this problem is improving the integration between national planning and budgeting in actual situations. While there is considerable literature on this subject,¹ Dr. Colm's study focuses on the particular issue of the type of integration that is desirable. It is clear from Dr. Colm's approach, however, that his general suggestions are meant to be interpreted only as a frame of reference providing general guidance to developing countries. It is recognized that the main emphasis of further effort should be on country-by-country analysis to produce recommendations appropriate to individual countries.

Dr. Colm is Chief Economist at the National Planning Association. In this capacity, Dr. Colm has been associated with virtually all economic research undertaken at NPA. This experience, as well as his prior service in important United States Government positions, provides Dr. Colm with a vast backlog of knowledge and understanding. In bringing this impressive body of accumulated wisdom to bear on his subject, Dr. Colm makes a unique contribution to his present subject. His contribution lies in skillfully blending the institutional and substantive aspects of coordinating planning and budgeting. Such a holistic approach has particular merit for guiding the applications of the economist's tools in the complex reality confronting developing countries.

¹ For references to the literature, see the Bibliographical Note at the end of the monograph.

iv FOREWORD

Dr. Colm originally prepared this paper for the Fiscal and Financial Branch, Department of Economic and Social Affairs, United Nations, New York. It was submitted as a working document to the United Nations Second Interregional Workshop on Problems of Budget Policy and Management in Developing Countries, held at Vedbaek, Denmark, in September 1967. Although the paper was prepared at the request of the United Nations Secretariat and written while Dr. Colm served in a consultative capacity, it does not necessarily reflect the views of the United Nations.

~~We are grateful to the Agency for International Development for financial assistance in publication and distribution of the paper. No concurrence in the views expressed in the paper is implied by this assistance.~~

DOUGLAS S. PAAUW
Director
Center for Development Planning

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Introduction

The outline for a general discussion of the integration of the national economic budget, annual national plan, and government budget suggests itself: (1) planning, (2) budgeting, (3) the relationship between the two, and, finally, (4) alternative practical ways to promote a desirable integration.¹

It may be useful to clarify in the beginning the meaning of the term "integration" as used in this paper. We may interpret integration as a process by which two elements are so combined into one totality that they lose their individual identities. This is referred to as a "merger." In contrast, we may speak of integration as a process by which two elements are combined into a system in which they still maintain their identities as subsystems. It is no longer necessary to argue that planning and budgeting should be interrelated, but it may be useful to examine to what extent planning and budgeting could and should be merged and to what extent they should be regarded as different but integrated government functions.

The problem that we are discussing exists in both predominantly socialist countries and in countries with mixed economies. For the latter, however, it is a more important problem. Therefore, in most of our discussion we will be talking in terms of mixed economic systems in which there is a public and a private sector—the private sector, of course, being subject to influence by public policies. This paper is

¹The first draft of this paper has been read by Kate Arbogast, D. M. Bhouraskar, John Miller, Douglas Paauw, and Benjamin Toren. They have provided valuable criticism which, in part, has been utilized in this revision. The responsibility for this paper, however, is entirely the author's.

2 INTRODUCTION

mainly concerned with planning and budgeting in developing countries. Nevertheless, some of the experiences of the developed countries are applicable, and we will draw on such experiences where they appear to be useful.

I. Planning

Planning as a System

Planning can best be described if we first recognize that most policy measures are not planned at all but are the result of drifting or responding to pressures. Such pressures may be exerted by interested groups seeking government support for projects through which they hope to prosper, or they may be pressures exerted by a crisis such as a balance of payments deficit, influence of a foreign power, or threat of internal revolt. In contrast to policies resulting from drifting and responding to pressures are policies which are planned.

It is important to recognize that planning means more than merely preparing a plan—it should be understood as a system of decision-making. Government decisions, in part, are always concerned with factors which are outside government control, such as foreign markets, foreign capital, the response of people to government measures, the weather, etc. Estimates can be made concerning these factors, but they are subject to a high degree of error. Consequently, planning is decision-making under conditions of uncertainty which requires a mechanism for adapting the plan to unexpected developments. Under conditions of uncertainty a plan is always tentative and subject to revision in the course of its execution and in the preparation of a subsequent plan. Thus, the main elements of a planning system are: (1) the setting of policy goals, (2) developing programs and projects for moving toward the goals within a specific period of time, (3) designing policies for mobilizing resources (e.g., manpower, taxes, domestic and foreign borrowing) required for the programs and projects, (4) providing information about the progress made and the obstacles encountered in the

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execution of the programs and projects, (5) providing a mechanism for adopting policies designed to overcome obstacles and to adjust the plan to errors when they become apparent, if necessary by modifying the current plan, and (6) preparing for a subsequent plan.

In this system of planning the preparation of a plan—that is, a book in which the goals for various sectors of the economy are expressed in quantitative manner—is one useful tool, but preparation of such a book is by no means the only, or the main, task of planning.

There are decisions and planning on various levels. Let us assume that the plan provides for building a power station and that the decision is made to proceed with it. Then planning begins at the level of the engineers who work out specifications, at the level of the contractors who recruit labor and prepare purchase orders, and so on. It is not necessary, however, to include in a discussion of planning and budgeting a description of how projects are executed.

With respect to the elements of a planning system presented above, which have been listed in their logical sequence, three qualifications are necessary. First: the setting of goals is a task which requires interaction between the political and the planning process. On the one hand, goals must be understood as the symbols which indicate what a political leader is proposing for his country, but they must also be translated into specific targets which are of operational use for the development of programs and projects and as criteria for measuring the progress made in the execution of the plan. Second: speaking of *goals* for policy is a simplification. Perhaps we should speak of *areas of concern*. There is no society in which “better education” is not a goal, but such a formulation is not very helpful for operational purposes. But, educational leaders may be concerned, for example, that classrooms are overfilled and will be more overfilled in the future; that education and training for technical occupations may be deficient; that inadequate use is made of new educational techniques, and so on. Out of concern for such existing or foreseeable deficiencies proposals evolve for programs with specific targets to be reached within a given period of time. Such targets have both a political and an operational usefulness, and they are essential in the planning process.

A third reservation is that feasible goals and targets can only be determined through the planning process as a whole. As in all systems, there is a mutual dependence among the elements, including the interdependence between ends and means. There is more than a bit of truth in the saying that a practical goal is the best result that can be obtained

with available means. Setting of goals and targets, formulation of programs and projects, and designing policies for mobilizing the resources appear as a logical sequence of events, but it is first necessary to appraise which resources can be mobilized before the programs and projects which are dependent on the availability of these resources can be formulated in final form. Also, goals will be just "pie in the sky" unless there are available at least tentative estimates of realistic programs which can be formulated in pursuit of the goals. That is why planning is a *system* in which the elements depend on each other. It may be useful to distinguish between *aspiration* goals, which evolve from the concern prevailing in a society, and *feasible* goals, which can only be determined through the planning process as a whole.¹ The need to formulate not merely desirable goals but feasible goals explains why the setting of goals and targets must result from an interaction of the political and the planning-budgeting process.

The relation among goals, programs, and resource mobilization is further complicated by two apparently contradictory facts. One is that desirable, or aspiration, goals will always exceed the resources which can be mobilized. The other fact is that there is usually an abundance of some resources and a scarcity of others. For instance, in many of the less developed countries there is often a relative abundance of unemployed or underemployed manpower but a relative scarcity of managerial skill, capital, or foreign currency. This emphasizes the need to consider the availability of specific resources in the formulation of goals and the selection of programs. Availability of specific resources should be seen, however, as a dynamic factor subject to development and policy (e.g., with respect to manpower, subject to education and training). Increase in resource availability is at the same time a goal of policy planning and a restraining factor in the planning process.

¹ See Leonard A. Lecht, *Goals, Priorities, & Dollars: The Next Decade*, with an Introduction by Gerhard Colm (New York: The Free Press, 1966). Aspiration goals reflect more than merely wishes. In the definition used in this study they reflect what people knowledgeable in a particular field (e.g., education or health) regard as desirable and as obtainable from the different types of manpower (teachers, doctors) and other resources which are likely to become available if one considers only this one field. Feasible goals, in contrast, reflect, in addition, the priority decision which must be made when the pursuit of various goals may claim the same real or financial resources for various purposes. The sum total of resources needed to pursue all feasible goals will, by definition, not exceed the total of resources which can be mobilized.

The scarcity of resources requires priority decisions—arranging programs and projects so that the best use is made of the resources that can be mobilized. The determination of the “best” resource use is an extremely difficult task requiring decisions involving political, social, and economic statesmanship—and a good deal of expediency. These decisions can be made more rational if they are based on information about estimated resource availabilities and on calculations of resource requirements for alternative programs and projects. These must be supplemented by subsequent reports about actual developments of resources and progress in pursuit of programs and projects, which, in turn, can be used as a basis for policy adjustment and new decisions.

The Time Dimension of Planning

Setting of goals, formulation of programs, and mobilizing resources is a long-term task. Planning requires first of all that political leaders spell out their vision of the social and economic future of their country and that they outline a development strategy for the realization of such a future. Twenty years is not too long a period to plan ahead, and such long-range thinking will provide a perspective for formulating more specific intermediate-range plans of five-year periods, perhaps, and operational plans of one- or two-year periods. The need for frequent revisions, to which we have referred, can best be met if a five-year plan is revised at least once a year on a moving basis; i.e. each year adding one and dropping one year. This means, however, that merely extending the plan for one more year may not be enough and that it may also be necessary to make revisions for the planning period as a whole.

For our topic it is of particular significance to emphasize that a five- or any other multiple-year plan remains a blueprint unless the road is built from the present to the five-year goal. It is particularly with respect to the short range that the budget and the plan must dovetail. This leads to the need for developing a one-year plan corresponding to the one-year budget as a crucial problem in planning-budgeting integration. This issue will be discussed in detail in Part II.

Social and Economic Transformation and Planning

There is a useful, even though somewhat artificial, distinction between *economic growth*, on the one hand, and *economic and social development*, on the other. The first refers to the possible rise in economic activity within a given frame of the social and economic structure

and institutions of a country; the second refers to a combination of economic and social transformation with a hoped-for rise in economic activities. This distinction is meant to refer to differences in degree and emphasis because in no country will activities rise without *some* degree of structural and institutional change. It is certainly true, however, that the structural and institutional change is of relatively much greater importance in the case of developing countries than it is in the case of the developed ones. For an example of this we need only to think of the great importance of land reform in many of the developing countries and how difficult it is to determine a politically feasible pace for such reform or to forecast its likely effect on agricultural production and consumption. Another example is the adoption of new forms of education and training which are of crucial importance for economic development. The same issues are important also for developed countries but perhaps not to the same extent and not in the same manner.²

The great importance of structural and institutional change has consequences also for the technique of development planning. All planning involves policy judgments as well as computations. The latter are required especially for projecting certain foreseeable factors, such as demographic data, and for testing the internal consistency of the plan. For example, projected capital investment and projected consumption must be in a certain dynamic relationship, and these, in turn, serve as essential benchmarks for programs and policies affecting capital investment and consumption, respectively. Both planning for growth and planning for social and economic development involve a mixture of policy decisions and computations, but in the case of development planning judgment about needed and feasible reforms plays a greater role in the planning mixture. This limits the use of mathematical models for development planning but does not make them useless.

Plans and Subplans

In this paper those aspects of planning are discussed which are particularly relevant to our topic, the integration of planning and budgeting. If we discussed planning *per se*, it would be necessary to

² This statement should not be understood as underestimating the social reforms needed in developed countries. In developing countries economic and social transformation is often a condition *sine qua non* of economic growth. This cannot be said of developed countries.

point to the need for various subplans. For example:

(1) There is a need to develop subplans for various sectors of the economy; namely, agriculture, manufacturing, transportation, communication, power development, education, health, and other categories of services.

(2) There is a need to develop a manpower plan which projects manpower needs by major occupational classes, skills, and geographic distribution, and which projects supply—resulting in estimates of need for, and anticipated supply of, educational and training programs, and also programs designed to meet the needs of internal migration.

(3) There is a need to develop a balance of payments plan which is based on projected exports, import requirements consistent with the overall plan, payments on foreign debt, and other current items, and then estimates of projected and required capital import. The uncertainty of foreign aid is one of the reasons why many plans prove infeasible. In order to make a good case for foreign aid public investment programs, there is often observed a bias to overstate expected foreign aid. (It is a fact that a plan is not merely an instrument for planning but is also an argument in international negotiations.) The balance of payments plan is also one of the essential instruments for testing the feasibility of the overall plan.

(4) There is finally—and very importantly—the general financial plan of which the balance of payments plan provides one element. The financial plan especially must estimate the savings which are likely to be forthcoming from private households, business enterprises, the government sectors, and from external sources, and it must contrast them with the capital requirements of individuals (e.g., for residential and consumer goods financing), of business, and of government. The financial plan points to the requirements for tax and public debt management measures and the financial restraints of the plan as a whole. The financial plan is directly related to the budget, and it provides the test for answering the crucial question as to whether the budget is consistent with the plan. We will return to this question later in the paper.

Planning for the Public and the Private Sectors

What we have been saying thus far could apply equally well to countries with either a socialist or a mixed economic structure. Even for socialist countries the plan depends to some extent on the decisions of individuals (as consumers and workers), on environmental factors (such as weather), and on conditions in foreign countries. Every plan

is a mixture of political decisions, which can be implemented by the force of the state's authority, and of estimates of factors outside the government's direct control. Plans in all countries, socialist or not, can go askew—because of extraordinary weather conditions, natural catastrophes, or unexpected developments in foreign markets. Another factor usually not under direct government control is the freedom of choice of consumers as to spending and saving, and spending among various products. In socialist countries, there is also an increasing responsibility of management to respond not only to decrees of the planning authority but also to signals of the market. In mixed economies the scope of decisions made by individuals as consumers or producers is much broader. As a matter of fact, the treatment of the private sector is a critical question in planning for mixed economies. Actually, there are people who question the usefulness of a plan for mixed economies which includes the private sector.

It makes sense to include the private sector in mixed-economy planning, but it must be recognized that this part of the plan is of a different character from that part which refers to the public sector. In the public sector we deal with plans subject to policy implementation. The estimates for the private sector have the character of projections. They are forecasts of decisions by private consumers and producers which take into consideration both the expected development of market conditions and the likely response of the private decision-makers to public programs and policies as laid down in the plan. If it turns out that business enterprises or individuals in the private sector are not living up to the expectations projected in the plan, it should first be asked if the government has made its contribution to the development which was assumed in the projections for the private sector. Second, if activities of vital national significance are concerned, the government may consider policy measures which could induce the enterprises or individuals to behave more nearly in accord with anticipations. Otherwise, the estimates for the private sector and possibly for the plan as a whole will need to be revised. Within the limits of our topic, we need not dwell on the various ways in which the most realistic anticipation of behavior in the private sector can be obtained or the ways in which enterprises and individuals can be induced to act as nearly as possible in accord with essential elements of the plan. Giving representatives of the private sector an opportunity to participate in the development of the plan (e.g., by consultative committees) is one such device. In some developing countries it is particularly important to as-

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sure the cooperation of partially or wholly foreign-owned enterprises with the planning authority.³

³ For a more detailed discussion of dealing with the private sector in planning see Gerhard Colm and Theodore Geiger, "Public Planning and Private Decision-making in Economic and Social Development" in *Organization, Planning, and Programming for Economic Development*, Vol. VIII of U.S. papers prepared for the United Nations Conference on the Application of Science and Technology for the Benefit of the Less Developed Countries (Washington, D.C.: U.S. Government Printing Office, 1962).

II. Budgeting

Although planning as a formalized system for the guidance of government policy has a history of only a few decades, formalized budgets have a history as old as democratic government. In order to recognize essential functions of the budget system, therefore, it is best to look at its evolution in the highly developed countries, from which developing countries have inherited a large part of their budget institutions and techniques—and their budget problems.

Three Approaches to the Budget Problem

Political Control

For about a century—until the first World War—the discussion of the budget focused on its use as an instrument of *political control* of government activities. Parliaments all over the world felt frustrated in dealing with the growing power of bureaucracies. The legislative “power of the purse” appeared to be the obvious means for exercising control over the executive. There were—and are—however, many reasons why members of parliament so often felt frustrated by their inability to control executive decisions. Public finance literature concerning the budget focused for a long time on the budget “principles” which would assure effective parliamentary control by preventing government agencies from spending money for any purpose not specifically authorized by appropriation for a stated period of time. Actually, these principles have been violated by a great variety of methods, and new methods are always being discovered.

The classical principle most violated is that of the “comprehensiveness” of the budget. In many countries the amounts spent from

government trust accounts, public corporations, or other special accounts are often larger than amounts subject to budget appropriations. A close second is the principle of "gross" budgeting, which forbids any direct offsetting of expenditures by receipts. (The U. S. practice of deducting returns from sale of assets from expenditures is a glaring example.) A third in this "dishonor" list is the classical principle of the "unity" of the budget, which speaks against the earmarking of certain taxes for specific purposes. These "principles" are like the principles of virtue, which everybody praises but cannot help violating in the course of daily living.

Executive Control

With the advent of the 1930's and the Depression, the problem of *executive control* over proliferating government activities moved into the center of attention, particularly in developed countries. The budget during this period was discussed as an instrument of managerial control within the executive branch. Some budget practices which appeared to be violations of budget principles were understandable (but only in part excusable) if looked at from the point of view of managerial efficiency and control.

A new aspect of the budget developed with its use as a compensatory device in combating inflation or depressions. With the growth of government activities relative to GNP, the budget had become an essential tool for compensating economic fluctuations in the private sector. This complicated the problems of executive management. The use of the budget as a tool for executive management, including anti-inflationary and anti-recession budget policies, required a quite different approach to the budget problem, and it meant that the budget could no longer be looked at merely from the aspect of effective parliamentary control. A budget ideal for managerial, and especially for flexible, control will look quite different from a budget regarded merely as an instrument of political control. Capital budgeting and authorization of the executive to vary the pace of actual expenditures within longer-term appropriations loosen legislative control but permit compensatory expenditure variation.

In fields where the government engages in quasi-commercial operations (government enterprises), it is in the interest of effective management to budget in terms of net loss or surplus rather than to budget

gross expenditures and regard all receipts as part of general government revenue.

Proposals for executive authority to vary tax rates within specified limits are in violation of the "power of the purse" dogma but have been recommended as a way to permit a quick response to the requirements of an anti-cyclical policy.

Principles of efficient budget management, therefore, must be reconciled with principles of parliamentary budget control.¹ While this phase of concern with budget matters was still taking place, a third phase began to develop and is still in its initial stages.

Program Budgeting

Rules for the budget as an instrument of parliamentary and managerial control apply to all kinds of expenditures, but they are not related to specific programs. *Program budgeting* started as a classification problem: to group expenditures by programs or projects which can be related to national (or regional) goals and permit, as far as possible, an evaluation of benefits and costs. It also permits a comparison of the costs of alternative programs or projects which might serve the same objective, thereby providing information of use in the process of budget formulation. There is an obvious need for program budgeting, but a budget classified by programs is not the most suitable for purposes of political or managerial control in cases where programs cut across agency lines. Budget problems are complicated by the fact that budget rules for political and managerial control differ and classification for both kinds of control differs from budgeting for program or project appraisal. A program budget will cut across organizational lines when various agencies or various units within one agency contribute to a program which, for purposes of benefit analysis, must be seen as a single entity. There are, for example, health or education programs in many countries under the jurisdiction of the armed forces in addition to those under several civilian agencies. Often agencies of the central government and of local governments contribute funds for the same program. Also, in an increasing number of cases, public programs are designed to support or supplement private activities in the same field so that a meaningful program appraisal must consider the contribution by private

¹ See Harold D. Smith, "The Budget as an Instrument of Legislative Control and Executive Management," Chapter VII, from *The Management of Your Government* (New York: Whittlesey House, 1945).

outlays. This, again, goes beyond the conventional budget classifications developed for the use of the budget as an instrument of political and managerial control.

Program budgeting actually is a link between budgeting and planning because programs are the means by which the planning objectives are being pursued. This, too, is a topic for Part III.

Budget Formulation and Budget Execution

Budgeting, like planning, is a process in which the preparation of a book, that is, the budget document, plays only a subordinate role. Like planning, it is a system; actually, as we will see later, it is a subsystem in the planning-programming-budgeting process. Formulation of a budget rarely starts from nothing. Typically, it starts from last year's budget. There has been much discussion of the sequence of events in the budgeting process as to whether it begins first with an estimate of available funds which are then allocated to the various programs and operations, or whether it starts with an estimate of requirements first and then it is determined what taxes should be raised or what amount of funds should be borrowed. This question is as meaningful as the question of whether the hen or the egg came first. Regardless of whether the various government departments are given official ceilings when they propose expenditure increases, they are restrained by the knowledge that availability of funds will be a limiting factor in the final budget determination. Still, it is an unrealistic simplification to regard budgeting as a process by which a given amount of expected funds is allocated to competing claims. Not only the expenditure allocations but also the funds to be made available by taxation or borrowing have to be determined. Budgeting is a "system" in that both the inputs (funds) and the outputs (programs) are mutually dependent variables. However, inputs and outputs are not equally variable, and their variability differs from country to country.² The first assumption in expenditure determination is (or should be) that tax rates should not be increased and that borrowing should be limited by considerations of price and

² Walter Heller has observed that in developing countries the increase in tax sources is more limited than in developed countries. See "Commitment to Growth," an Address at the 46th Annual Meeting of the American Council on Education, Washington, D. C., October 4, 1963; quoted by Albert Waterston in *Development Planning: Lessons of Experience* (Baltimore: The Johns Hopkins Press, for the International Bank for Reconstruction and Development, 1965), p. 40.

balance of payments stability. Of course, in a growing economy and with improved tax administration the yield from existing tax rates may rise and justify either an expansion in programs or a reduction in tax rates. Program expansion must be regarded as very urgent, however, in order to justify an increase in tax rates in addition to the increase in yield from the existing level of taxes.

A budget is meaningful only if budget formulation is followed by controlled budget execution. No increase in expenditures beyond the budget allowance should be permitted without prior authorization. The reason why real development so often departs drastically from the budget is not merely because of a lack of discipline in budget execution; it is frequently the result of an unrealistic budget formulation. This applies especially to overly optimistic estimates of quasi-commercial government operations but also to unrealistic estimates of tax revenues. Actually, these errors are not merely human defects in the ability to foresee the future, for they often also reflect a political purpose. Knowledge of this fact has to some extent undermined confidence in budget estimates and in this respect has diminished their usefulness. These matters have often been discussed at UN workshops, but they are relevant for our topic since the recommendation for using budgeting as a means for plan implementation does not make sense unless the budget process is realistic. If the budget is not comprehensive and realistic, integration of planning and budgeting might only mean that one piece of paper is related to another piece of paper.

The Time Dimension of Budgeting

Budgets have usually covered a one- or, in some cases, a two-year period; however, appropriations are often made for different time periods. For example, in the United States we have permanent appropriations for the payment of certain legal obligations such as the interest on the debt, and we have appropriations "until completed" for certain construction projects which may cover several years. Most appropriations are, however, for one year and, if not obligated during the year, must be re-appropriated. Several countries have published, in the past, a budget outlook covering a longer period of time. Historically, multi-year budgets were used widely when formal budgeting was first adopted as a concession to parliamentary debates on the gov-

ernment's activities and in reducing tight parliamentary control.³ Only recently some governments have adopted longer-term budget outlooks, not as a substitute for, but as a supplement to annual budgets.⁴ In the modern economy decisions on expenditure programs, on tax requirements, and on future debt management cannot be made for a 365-day period; instead, they require a longer time period as a frame of reference.

The development of a longer-term budget outlook is highly desirable, not only as one aspect of integration of budgeting and planning (to be discussed later), but also in order to provide a perspective for one- or two-year budgets. Even many operating programs suffer from year-by-year budgeting. The U. S. President has made repeated efforts to obtain from Congress multi-year appropriations for foreign aid programs. It is nearly impossible for developing countries to plan ahead if they are assured of foreign aid for only one year. The same is true for many other programs of the government. It should also be mentioned that because of the size and complexity of government operations the appropriation process has become so time consuming that the staff of the budget bureau is overworked with the actual preparation of the budget. In many countries, it is the rule rather than the exception that the legislative branch has not completed its work by the beginning of the new fiscal year. This, too, leads to the suggestion of a two-year budget. Against this proposal it is argued that even the one-year budget is fraught with uncertainty because the process of preparation actually begins at least two years before the end of the period to which the budget applies. Many things could happen during this period which would require changes in expenditure programs or in revenue estimates. This is particularly true with respect to changes in international relations and in business conditions.

The answer to the above argument is that the need for revision already applies to the one-year budget—the need for supplementary budgets and other changes becoming apparent during that period.

³ For the history see Kurt Heinig, *Das Budget* (3 vols.; Tubingen: J. C. B. Mohr [Paul Siebeck], 1949, 1951).

⁴ For references to actual or proposed long-term budget outlooks in the United States, Great Britain, France, Netherlands, and Canada, see Gerhard Colm and Peter Wagner, *Federal Budget Projections* (Washington, D.C.: The Brookings Institution, 1966). For the example of a multi-year budget plan in a developing country, the case of the Philippines is discussed in *Government Budgeting and Economic Planning in Developing Countries* (New York: United Nations, 1966), pp. 34ff. (See Bibliographical Note)

There should be less objection to a two-year budget, however, once better working arrangements have been provided for needed revisions and budget estimates are based, not on a particular business cycle prediction, but on the assumption of a reasonable rate of economic growth and a reasonable price stability (recognizing that "reasonable" may have different meanings in various countries). Anti-cyclical or special stabilization policies would then be recommended for immediate adoption. For adaptation to cyclical movements a one-year budget is not much more suitable than a two-year budget; both require short-term revisions in the light of short-term events.

In this respect it may be mentioned that the Joint Economic Committee of the U. S. Congress has recommended⁵ that the Administration report quarterly to the Congress on the course of government expenditures. A two-year budget with provision for interim reports and for revisions when needed may more closely correspond with actual developments than a one-year budget with inadequate provision for such revisions. Of equal importance, however, is that with each budget for the next fiscal period there also be prepared a longer-term budget outlook.

⁵ 1967 *Joint Economic Report*, Report of the Joint Economic Committee on the January 1967 Economic Report of the President, 90th Cong., 1st sess. (Washington, D. C.: Government Printing Office, 1967).

III. The Relationship Between Planning and Budgeting

The main problem in planning is that it must be at the same time forward-looking, bold, imaginative, and also realistic. The planner may be guided by a distant star, but he must be sure that he is moving on solid ground, one step at a time—in the right direction. What is needed seems to be a long-range plan implemented by short-term measures as incorporated in the next year's budget. Thus, planning may be regarded as a broad system for guiding government policy, with budgeting as one of the subsystems aiding in the plan's implementation.

There are several important reservations to be made before we can accept this as a complete answer to our problem; namely: (1) Planning in a mixed economy relates to all economic activities in both the private and the public sectors; budgeting, however, relates only to the public sector, and even this sector is covered only in part and in a fragmented manner by budgets. Thus, the plan also serves as a device for coordinating several levels of government as an aid in orientation for private decision-makers. (2) Planning, even in the public sector, requires classifications and measurements different from those needed for the control function of the budget. (3) Planning and budgeting have different emphases in the time spans to be covered. (4) Planning and budgeting imply different kinds of responsibilities and different attitudes in leadership and staff.

Each of these aspects will be discussed in the following sections of the paper.

Planning in a Mixed Economy— Budgeting in the Public Sector

From our discussion of planning and budgeting it follows that the quantifications incorporated in the plan of a mixed economy and those in the budget have quite different meanings. For example, what does it mean if we include in the plan an estimated increase in consumer expenditures for certain items or an increase in business investments? It is clear these figures do not have the same meaning as estimates of government expenditures, which, if approved, can be directly enforced by the government. These estimates of consumer expenditures, or business investments, differ from market forecasts because they are part of the plan (or a national economic budget¹). We call these estimates "projections." Projections are hypothetical forecasts that refer to private actions which are likely to occur if the other parts of the plan, particularly the activities scheduled for the public sector, are realized. If, for instance, the projections for revenue in the public sector anticipate a reduction in taxes or some increase in expenditures for infrastructure which might support private business investments, then we ask—assuming that these government measures will be adopted—what would be the effect on the activities in the private sector. Thus, for private decision-makers the plan presents relevant information, not as a substitute for, but in addition to, the signals of the market. Actually, it is very important that the decision-makers in the private sector, particularly business and labor leaders and private consumers, have confidence that the government will proceed in the public sector as outlined in the plan. This reduces a factor of uncertainty which otherwise may have an important impact on private business, labor, or consumer behavior.

For the implementation of plans in the private and semi-private sectors there is need for a statistical service which will bring to the attention of government, as early as possible, any tendency which might indicate a substantial discrepancy between the actual development and the projections. On the basis of such statistical information and analysis it is important that the reasons for the discrepancy be determined. This will require, in many cases, trained economists and social scientists, but it will also require a good working relationship with the decision-

¹ National economic budgets may be defined as national economic accounts projected for a future period. They form an element in a national economic development plan, but the latter also includes statements of policy programs.

makers in the private sector so that their cooperation can be obtained in determining the reasons for the discrepancy. If a failure in the private sector is serious, policies may be considered which would affect the motivation of private decision-makers so that their actions may be brought more in line with the plan anticipation. If the discrepancy is of minor size or if it resulted from erroneous judgment, what may be needed is a revision of the plan, particularly changes in the public sector to compensate for changes in the private sector.

In the public sector implementation is of quite a different character. First, the information for the decision-makers is not based on general economic statistics but on progress reports by government agencies. Discrepancies between the plan in the public sector and performance will have to be examined in cooperation with the agencies that are responsible for the particular types of activities. If, for instance, tax receipts are not up to expectations, then both the tax-collecting agencies and the economic advisors to the government will have to cooperate in the analysis. It is essential to ascertain whether the lag in receipts results from erroneous economic assumptions made in estimating tax receipts or whether there are defects in the collection system or in the compliance of the taxpayers. If there is a time lag in the progress of public works or other activities of the government, then the respective agencies will have to be consulted and, if necessary, investigations of the supply of raw materials or machinery or the quality of management will have to be initiated. The implementation of the plan in the public sector could be, at least in part, identical with the implementation needed for the budget process. However, it should be recognized that a central government plan can best be integrated with the budget of the central government. This still leaves open the implementation of the plan with respect to activities by subordinate government jurisdictions; i.e., states, provinces, or local governments. This leads to a very broad question; namely, *the regional implementation of a central budget*. This question lies outside the subject of this paper, but it is a problem of great significance for several countries, especially for those with a federal system.

It follows that in a mixed economy the integration of planning and budgeting of the central government is essential for plan implementation, but the budget process can only help in the implementation of one part of the plan; namely, in the public sector. And even in the public sector not all activities are under budget control of the central government. Thus, a special arrangement for government activities

outside the budget, and for cooperation between the central government and state, or provincial, and local governments, needs to be made.

Classifications and Measurements in the Public Sector of the Plan and in the Budget

It has been pointed out that the budget system has developed as a system of political and managerial control. This requires the use of classifications and measurements which make it possible to control the actions of responsible officials. Government accounts are usually set up for serving these purposes; that is, the government activities are classified by organizational units. For purposes of program evaluation different classifications are needed. Often various organizational units make contributions to the same program, and sometimes the same organizational unit makes contributions to various programs. This is why it is not always easy to form program classifications from an accounting system originally built up by organizational units. This difficulty is real but probably can be overcome on the level of the central government.² It becomes more complicated when various jurisdictions—central and local governments, for instance—contribute to the same program, and the evaluation of such programs requires that the totality of the program be considered. Still more difficult is the case in which a program is conducted jointly by government and private resources. This is the case with respect to an increasing number of important activities. It is recognized that the accounting systems of many governments are very deficient and in need of reform. However, the reform should make them first of all suitable for accountability and control. Once a solid foundation for the accounting structure is built, upper floors providing rooms for program estimates should be added. It would be erroneous to recommend a complete change in the accounting system so that it would serve only a program and planning function. It should not be forgotten that the function of the budget as an aid in planning and programming does not replace, but is in addition to, the older functions of legal, political, and managerial control. By emphasizing the need for a solid accounting foundation, it is not suggested that the preparation of estimates needed for program planning must wait until all desirable improvements in government accounting have been

²This problem disappears, of course, to the extent that the government is organized according to program functions. This is not likely to be easily accomplished. In any case, it is a question ultimately not of accounting but of government organization.

made. On the contrary, because program and project appraisal can use *estimates* there is no need to wait until precise accounting data classified by programs become available.

There are further differences with respect to the point at which the accounting of government activities takes place. Programs can be measured by orders placed, by progress in work accomplished, or by payments made. This corresponds roughly to the accounting of obligations incurred, liabilities accrued, and cash paid. For control purposes obligations incurred and cash paid are the most significant measurements. The first is needed to be sure that an official does not exceed the authority he derives from an appropriation, and the latter is needed for auditing purposes. Program appraisal must consider the actual use of resources, which is most closely reflected in the accrual concept.⁵ It is desirable and probably feasible that both for control and programming-planning purposes one accounting system be used. Countries with scarcity of skilled personnel can hardly be expected to keep books and make estimates for the future in several different ways. As a minimum it may be sufficient that exact accounts are kept in one manner. If this is, for example, the cash basis, other measurements could then be derived by way of estimates. Figures for control purposes must be exact by dollars and cents, but for program evaluation only rough estimates are required.

Thus, it follows that different kinds of numbers are used for planning and for control purposes even though both kinds of numbers may be based on one accounting system. If the budget is considered merely as a tool for plan implementation, there is danger that the political and managerial control function will be neglected. This is another reason why we should speak of integrating, and not of merging, the planning and budgeting functions of government.

Time Span in Planning and Budgeting

It is obvious that any integration between planning and budgeting requires, first of all, that both activities relate to the same time span. We have seen that budgets usually relate to a one-year time period, while plans usually are made for an intermediate period of around

⁵ See *Government Budgeting and Economic Planning in Developing Countries*, prepared by the Fiscal and Financial Branch of the UN Department of Economic and Social Affairs for the Fourth Workshop of Problems of Budget Reclassification and Management, August-September 1966, Bangkok, Thailand (ST/TAO/SER.C/93) (New York: United Nations, 1966), pp. 12, 13.

five years, with longer-range plans as perspective. It is essential that the one-year budget be supplemented by longer-term budget outlooks and that the longer-term or intermediate-term plan be supplemented by one-year plans. This necessity has now been generally recognized. Nevertheless, there remains a difference in emphasis, possibly not only for historical reasons. Planning must start with a broad vision, and only secondarily are the immediate steps considered which lead in the direction of the plan. In contrast, the emphasis in budget making has been on the ensuing year for operational reasons, and only as a supplement have longer-term budget outlooks been adopted or recommended. Thus, even though it is recognized that we need both the longer-term and the short-term, both in planning and budgeting there still remains a difference in emphasis.

A longer-term budget outlook would project the likely yield of taxes and other sources of revenue, possibly under alternative assumptions: (a) under existing tax systems, and (b) under changes in tax rates and tax administration which are considered as desirable reforms. On the expenditure side, obviously, there is no need for a breakdown as detailed as that which appears in the annual budget, but the major programs and projects should be projected for a longer period of time.

Certainly it would be impossible, and is unnecessary, to develop each year a plan for the ensuing year with the same detail as is required for an intermediate—say, five-year—plan.⁴ A one-year plan should have as a minimum the following three component parts:

First, it should include reports on progress made and obstacles which have arisen in the pursuit of the longer-range programs and objectives. These reports should be divided into those related to the public sector and those related to the private sector. Particular emphasis should be placed on bottleneck items such as shortages in skilled manpower, foreign exchange problems, and so on. These analyses would then serve as a basis for proposing remedial action to be undertaken in the ensuing year.

Second, the one-year plan would list the major programs and projects which are included in the intermediate plan and estimate the tranche of these programs or projects that should be accomplished during the ensuing year. These items presumably should be identical

⁴ For details of the desirable content of a one-year plan see Albert Waterston, *Development Planning: Lessons of Experience* (Baltimore: The Johns Hopkins Press, for the International Bank for Reconstruction and Development, 1965).

with the investment items included in the budget even though, as mentioned before, the basis of measurement may differ for the two purposes.

Third, the annual plan should include such surveys and appraisals as are needed for the longer-range policy initiation of programs and projects included in or considered for the longer-range plan. It should also include provision for negotiating the financing of longer-run projects and all that needs to be done immediately in order to make the attainment of the longer-term programs a reality. In general, it is very important to recognize that a one-year plan cannot be obtained merely by dividing, say, a five-year plan into five equal parts. The longer-term plan reflects a development process in which each phase must play its own role. There are certain tasks which must be done in the first year in order to be ready to perform other tasks in the second, third, or fifth year. And what needs to be done each year should be reflected in the plan for that year.

Different Attitudes in Planning and Budgeting

Planning and budgeting imply different kinds of responsibilities: they require different ways of handling figures, and they emphasize different time spans. This suggests that the people who do the planning and budgeting must be quite different from each other. To some extent this is true. The planner, for example, must be a man of imagination, and he should have an understanding of the image the political leaders have in mind for the future of their country. Even if he has his feet on solid ground, he must by nature have a constructive, imaginative approach. In contrast, the man responsible for the budget, by the nature of his profession, must look at the financial side of the program—he is accustomed to facing people who are often “empire builders” or at least tend to see the importance of their own tasks out of proportion with other tasks of government. It is his duty to take a critical look at their proposals in the perspective of the government as a whole, and he must always remember that resources are limited and that priority decisions have to be made. A restrictive attitude is particularly pronounced when the budget bureau is under the responsibility of the minister of finance, as it often is. There the budget director tends to function as the “watch-dog of the treasury.” On the other hand, when the budget bureau is located in the office of the chief executive, it is more likely to provide space within itself for both constructive and restraining tendencies.

The planner, by his function, is in no way a superior being to the

budget man, or vice versa. We must recognize that both constructive and restraining functions are necessary. We need the people who are more aggressive in pushing development plans to the very limit of available resources, just as we need those who watch that aspirations stay within the limits of resources in order to prevent overcommitments which may result in inflation and eventual setbacks.⁵

Social and economic leadership in developing countries (as well as in developed countries) must be a blend of imagination and daring, on the one hand, and of realism and caution, on the other. In devising an administrative integration between planning and budgeting, it is important that both functions (and the attitudes that so often go with them) are not only articulated but also reconciled with each other. Ultimately, they must be reconciled at the highest level of government. There are several organizational means which may promote such a reconciliation, and they will be discussed in the next section.

⁵As with all generalizations, this contrast in attitudes is subject to qualifications. The writer was present when the U. S. Director of the Budget (shortly after the Budget Bureau had been shifted from the Treasury Department into the Executive Office of the President) returned the budget request of an agency with the comment that the request was inadequate to fulfill the function assigned to that particular office and that the agency should come back with a larger request. We should like to know, however, whether many people have had the experience of being told by a director of the budget that their request was too small.

IV. Organization for Integrated Planning and Budgeting

It is possible to develop certain general principles concerning the integration of planning and budgeting, but it is difficult to make specific recommendations for the "best" form of organization. What sometimes appears to be the most rational organization for a task may turn out to be a failure, and sometimes what appears to be a clumsy organization may work quite well. Here is one example from many:

When the U. S. Government was considering a "Full Employment Bill" in 1945, it was recognized that fiscal policy would be one of the main instruments for the pursuit of a full-employment policy. Therefore, it appeared rational to broaden the functions and name of the Budget Bureau so that the Employment Act and the Budget and Accounting Act would be administered by the same agency. According to a proposal prepared in the Executive Office of the President, a Council of Economic Advisors was to serve this integrated agency. When the Council of Economic Advisors was created without any organizational relationship to the Budget Bureau, one of the foremost authorities on public administration predicted that this arrangement would lead to conflict between the two agencies and that it would prove unworkable within a short period of time.¹ Actually, the "administrative monstrosity" has worked for 20 years—at times with excellent, at times with fair use of budgetary policy for implementing the Employment Act. The policy was well integrated when there was a good personal rela-

¹ Reference is made to Harold Smith, Budget Director under President Roosevelt. The statement was made orally to the author.

tionship between the agencies at the top and at the staff levels and when the President had given clear directives for his policy. There were at times greater difficulties with the equally important integration between fiscal and monetary policy. Although both the Council of Economic Advisors and the Budget Bureau are in the Executive Office of the President, the Board of Governors of the Federal Reserve System is legally independent of the executive branch of government. However, informal arrangements for frequent consultation among the different organizations were developed and they have worked rather well. This example is not meant to suggest that organizational matters are unimportant for achieving a desired integration but only that the best blueprint does not always give the best results and that even a less than ideal arrangement may be made to work. The best theoretical set-up for a country may not always be the best practical solution where such factors as tradition and personalities are considered. Continuity in organization is often a great value which speaks in favor of adapting an existing organization to new functions rather than creating new agencies. However, in some situations it may be valuable to dramatize a new departure by a new organization. There is probably no general rule applicable to all countries.

One other introductory comment is necessary before discussing the kind of organization which may be ideal for integrated planning and budgeting. Organizational efforts do not start from nothing. In all countries there is some government organization which must be revamped or taken over for new functions. The developed countries, particularly, have had the tradition of an established budget procedure for from 50 to 150 years. The first efforts at reorganization for planning (efforts which we recognize today as the precursors of planning) originated in Great Britain in the Treasury, the same place where Keynes first developed the application of his "new economics." The Chancellor of the Exchequer, who for many years has played the role of a kind of super-minister, was responsible for taking care of many of the coordinating functions of the British government. His planning functions were removed from the Treasury only very gradually and incorporated in other organizational forms. In the United States, prior to the creation of the Council of Economic Advisors, program planning and planned fiscal policy were developed to a large extent in the Budget Bureau's Fiscal Division. It is also significant that the present effort in the United States to develop a Planning-Programming-Budgeting

System is directed by the Budget Bureau. The Budget Bureau was chosen for two reasons: first, it was recognized as an appropriate coordinating instrument in the executive branch of the government; and, second, government officials were reluctant to create any new agency in the Executive Office for the planning and programming function except for emergency purposes.

In developing countries when the whole government operation is revamped, very often with foreign technical assistance, the traditional position of the ministry of finance can more easily be modified. In Korea, for instance, there is an arrangement whereby a Deputy Prime Minister is chairman of a planning board which has both a planning bureau and a budget bureau under its jurisdiction. Here the planning function is regarded as superior to the budget function.

Any proposal for government organization, of course, must take into account local traditions, the existing power structure within the government, and the personalities involved. With this warning we dare to make some general suggestions with regard to reorganization for the integration of planning and budgeting.

It might be regarded as ideal to have both a planning bureau and a budget bureau as two closely interrelated agencies within the executive office of the president or under the direction of the prime minister. This will depend very much on the character of the president or prime minister and how he wants to see the functions and attitudes of the two bureaus reconciled. In some cases the chief executive may wish to have the heads of the two bureaus report directly to him; in other cases he may wish to have a deputy in the executive office take charge of reconciling the different attitudes and functions of the planning and budgeting bureaus located in that office. In either case there should be a committee of cabinet members advising the president or prime minister on the planning and budget proposals and working on their reconciliation. Whatever organization exists on the top, it is essential for planning and budgeting that the executive agencies get "into the act."

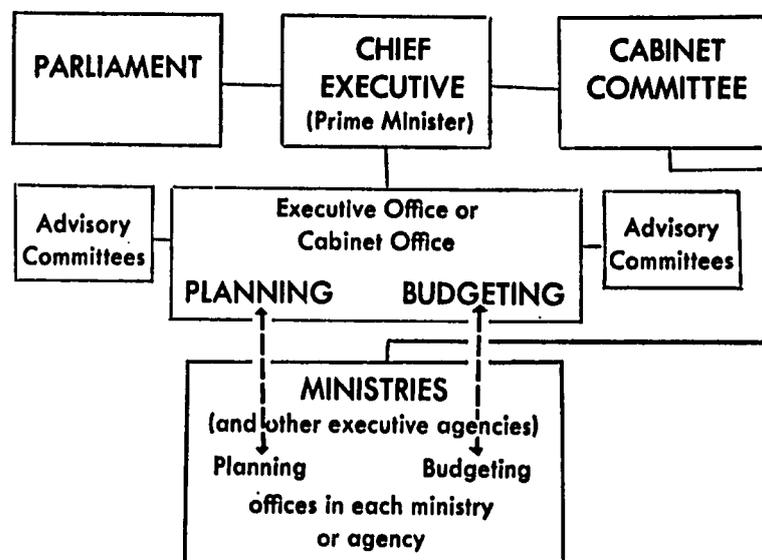
In many countries the planning function is vested in a cabinet office with a minister in charge. From an organizational point of view, it is probably preferable to have directors of the planning and budget bureaus who act on behalf of the president, the prime minister, or a cabinet committee. When these directors can speak "on behalf of" the chief executive, they actually have more power for coordination than they would have if they were only one cabinet member among many. The fact that directors of the planning or budgeting agencies are not

cabinet members need not prevent them from attending cabinet meetings. Nevertheless, it must be recognized that an effective director of planning very often has political ambitions and, therefore, would like to be a minister and cabinet member. Even though this would increase his prestige, it might also reduce his influence.

Whether the planning bureau is located in a cabinet ministry or in an independent office, it should have several advisory committees with representatives of private business, labor, consumers, and academic experts. The budget bureau should also have advisory committees, particularly for establishing regular contact with provincial and local governments. The estimates of the plan for both the public and the private sectors should be prepared by the planning bureau. The planning bureau should, however, prepare public sector programs in close cooperation with the budget bureau. But it would not be desirable for the planning bureau simply to take over budget bureau estimates, nor would it be desirable—as is the case in some countries—for the budget to include only operating expenditures and leave investment programs and their financing solely for incorporation in the plan.

Each agency of the government should have both a program and a budget office which parallel the two bureaus in the office of the president or prime minister. Particularly in developing countries it is often necessary that the officials in the planning and budget bureaus take the leadership in selecting and training appropriate staff members for the corresponding offices in the ministries and agencies. As more people trained for these functions become available, it is desirable that a great deal of the initiative for developing programs and projects originate with the respective agencies rather than in the central office. Then, gradually, the central office may become increasingly a coordinating, screening, and goading agency and also an office for establishing priorities among the proposals as they come from the various ministries and agencies (see chart).

If, for historical reasons, the budget bureau is located—and remains located—in the ministry of finance (or treasury), the question may be asked as to whether the planning bureau should also be a ministry in order to maintain some “balance of power” in the bureaucratic hierarchy. The writer personally would still favor, even in this case, a planning bureau in the office of the chief executive. We understand this is the arrangement which is now intended for Chile.



Ideally, new program and project proposals should be developed by the initiative of the ministry or agency in the respective field. The proposals could then be submitted to both the planning and budget bureaus. The planning bureau would review them primarily from the point of view of their contribution to the long-term economic and social development of the country, from the aspect of manpower availability in the respective regions, and from the standpoint of the impact they will have on the private sector of the economy. In this review the estimated costs would, of course, be taken into consideration. The budget bureau would review primarily the cost estimates and examine the financial feasibility of the proposal. In the case of major new proposals, a joint planning-budgeting task force should be formed with special experts (engineers, educators, medical men—as the case may require) as additional members. The task force would either submit a joint report to the directors of the planning and budget bureaus or, in case of disagreement, separate reports. In the latter case decisions would have to be made by the two directors or by the president or prime minister—in important cases, decisions would have to be made after discussion in the cabinet committee.²

² See Albert Waterston's proposal in "Public Administration for What?—A Pragmatic View," paper submitted by the IBRD for the UN Meeting of Experts on the UN Programme in Public Administration, New York, January 16-24, 1967, (ST/SG/AC.6/L.9) (New York: United Nations, 1967).

We will end this discussion of the organizational aspect of integration by reemphasizing the importance of a close integration between budgeting and planning and the necessity of a real leadership by the president, prime minister, or deputy in reconciling both the forward-looking and the restraining influences which may come from the two offices. This can be done under a variety of organizational arrangements. The arrangement that is recommended for a particular country should not only follow what the "ideal" blueprint seems to indicate; it must also consider the historical development of the government's institutions and the personalities who are involved.

v. Problems in the Integration of Planning and Budgeting— Summary and Conclusions

This paper started with the statement that there is excellent literature available on both the need for integration of planning and budgeting and proposals for such integration, particularly for a corresponding one-year plan and one-year budget. Nevertheless, it was also stated that progress made in the achievement of such integration is still very deficient. By way of a summary and conclusion to this paper, we should like to emphasize three problem areas which may make it understandable why there are obstacles in the path of this apparently obvious task of integration. These are the areas which deserve particular attention.

1. Planning and budgeting form an interface between the political and professional processes of government decision-making. Planning officials, therefore, must be attuned to the political processes from which aspiration goals emerge in the major areas of national and international concern. Logically, planning must start with the goals of the nation, the setting of which is obviously the task of the statesman or politician. Aspiration goals are often articulated simply in the form of election promises and slogans. These kinds of goals cannot be used directly as objectives for the programs and projects which must enter into the plan and the budget. However, even disregarding oversimplified and exaggerated political goals, we cannot proceed on the assumption that it is the task of the statesman or politician to set the goals alone and that the task of professional planners and the budget is merely to propose the programs suitable for the realization of the goals. Feasible

goals must be set through the interchange of the political and the planning process.

Planning and budget officials must assist the statesman or politician in the articulation of feasible goals and targets which move in the direction of aspiration goals but stay within the limits of available resources. This is particularly complicated in developing countries, where goals involve much more than growth within existing economic and social institutions.

2. The integration between planning and budgeting would be a relatively simple job if the only necessary task were to make sure that certain pages in the plan (specifically those which deal with one part of the public sector) were brought into conformity with certain parts of another document, namely, the budget. Integration means more than relating two documents to each other. In reality, as we have seen, the task of integration requires establishing a relationship between two government-wide processes, namely, planning and budgeting. The task is further complicated by the fact that planning exceeds the jurisdiction of the central government, it must include sub-national jurisdictions, and it must be related to the private sector of the economy.

3. A good deal of our discussion has been concerned with the extent to which integration of the planning and budgeting processes really means merger, and the extent to which it means that budgeting should be regarded as a sub-system in the planning process—a sub-system which not only serves as an instrument for the implementation of the plan but also has its own functions. It was important to recognize that the budget, not only serves program appraisal, program formulation, and program execution functions, but also legal, political, and managerial control functions. The latter historical functions explain the fact that the accounting system, which is the basis for all government operations in most countries (including the developed countries), is poorly designed to serve planning purposes. The badly needed improvements in the government accounting system must, first of all, make sure that the accounting system serves the legal, political, and managerial purposes. This means a classification system based on the organizational units of government. Where programs clearly fall within the jurisdiction of one agency of the government, there is no problem. However, programs often cross organizational lines, jurisdictional lines (for instance, when contributions come from the central and sub-national governments), and, in many cases, cross the public-private sector boundary when contributions are made by private organizations and institutions

as well as the government. Once a good accounting system has been created for a country, it should be possible to derive at least rough figures which can then be used for program appraisal and program execution; that is, they can serve as elements for the planning process. This, however, is a task which has not yet been satisfactorily accomplished in many countries.

Another reason why a complete merger between planning and budgeting does not appear feasible is that the time emphasis is likely to remain different. Planning requires, first of all, a long-range perspective even though the plan may then be subdivided into periods of shorter time spans. The one- or two-year plans are to a large extent derived from the longer-range or intermediate plans. In contrast, budgets are usually for the ensuing year because of operational requirements. In order to provide perspective, longer-term budget outlooks can and should be provided. While there is an obvious correspondence between long-term or intermediate plans and budget outlooks, and also between one- or two-year plans and budgets, the emphasis will probably remain different, with the degree of greater detail worked out for the longer-range plans and for the shorter-range budgets.

Furthermore, it was emphasized that planning and budgeting imply different responsibilities and correspondingly different attitudes. Thus, it is not likely that it would be very successful to have planning officials and budget officials in one office under one responsible director. Therefore, it was suggested that there be one planning bureau and one budget bureau at the top level of the bureaucratic hierarchy. Should there be any conflict, then reconciliation could be made at the level of the two respective directors; in serious cases, however, it should be made at a higher level, ultimately at the level of the president, prime minister, or cabinet.

One final consideration in conclusion. There is a general feeling of dissatisfaction with the progress made in the economic and social development of many of the developing countries. Many reasons are given for this. Some countries have not yet succeeded in establishing the stable political institutions necessary for a successful long-term economic and social reform or a development policy (although in some cases lack of success in these policies has, in turn, contributed to lack of political stability). The world markets for many products of developing countries have been weak, and capital influx (commercial capital and foreign aid) has been inadequate (we refrain from defining here

the term "adequate") with balance of payments difficulties as a result. Another negative factor is the scarcity of qualified manpower.

There is, therefore, a question as to whether defective planning and budgeting arrangements are one of the main causes of disappointing progress or whether they reflect more the deficiencies caused by other social and economic, national and international factors.

Without going into the situations of individual countries, it is not possible to answer this question in a general way. We personally do not believe that even the best planning and budgeting procedure will result in desirable progress if the more profound obstacles are not reduced. On the other hand, we are equally convinced that a well conceived and organized planning-budgeting procedure is useful in reducing obstacles so that the best results possible under given circumstances may be obtained.

It has sometimes been pointed out that countries with good development records have not had a planning system. From this it was concluded that a planning system was not essential for development. If there are strong forces for development in a country, and few obstacles, a planning mechanism may be less essential. In contrast, it is a reasonable assumption that the weaker the forces for development and the greater the obstacles, the greater the importance of having a well-integrated planning-budgeting system in operation.

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Valuable information is often presented in reports on individual countries. In addition to reports by the UN Fiscal and Financial Branch, see also papers prepared for meetings of the Committee for Development Planning of the UN: e.g., "Experience and Problems in the Implementation of Development Plans," the role of the fiscal budget in plan implementation, paper prepared by the Centre for Development Planning, Projections, and Policies for April 10-21, 1967, meeting in Santiago, Chile. A relevant discussion can be found in *Planning the External Sector: Techniques, Problems, and Policies*, report on the First Interregional Seminar on Development Planning, Ankara, Turkey, September 1965, especially pp. 20ff. and pp. 160ff. Also, reports by missions of the International Bank for Reconstruction and Development often have valuable discussions and recommendations on the relationship of planning to budgeting.