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PRIVATE SECTOR PARTICIPATION IN  
DEVELOPMENT PLANNING

by

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A.I.D. HISTORICAL AND  
TECHNICAL REFERENCE  
ROOM 1656 NS

309.2 Private sector participation in development...  
G312 Geiger, Theodore

Private sector participation in development  
planning. Washington, D.C., National Planning  
Association, Center for Development Planning,  
Apr. 1968.

88 p.  
Contract no. AID/REPAS-9.  
Working paper M 9296.

M 9296  
April 1968

I. Development planning. I. Contract no. AID/  
REPAS-9. II. Title.

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## INTRODUCTION

This essay analyzes the basic issues and problems relating to private sector participation in development planning. Why should a developing country foster the growth in size and effectiveness of the private sector through efforts to modernize its forms and methods of operation? Granted a positive answer, why should the private sector be enlisted in some effective fashion as an active participant in the process of formulating and carrying out a development plan? What are the capabilities for and limitations on a mutually beneficial relationship in planning both of the government and of the private sector? What choices have to be made regarding planning approaches and methods and what are their implications for the nature and effectiveness of private participation in the planning process? In endeavoring to answer these questions, the essay goes beyond the conventional economic arguments, pro and con, to draw upon the analyses and data of other social sciences, particularly sociology and psychology. My aim is to substitute for the traditional a priori rationales on this issue an analysis embodying current scientific concepts and empirical evidence.

The essay is intended for a varied readership primarily in the developing countries. In addition to the small number of technically

trained development planners and quantitative economists to whom publications on development planning are usually addressed, we have in mind the desirability of reaching the other, much larger groups actively involved or interested in their country's development problems and prospects. They include political leaders and government officials; owners, managers, and employees of private enterprises; leaders and members of trade unions, farm organizations, and cooperatives; editors, journalists, broadcasters, and other molders of public opinion; and teachers, students, and intellectuals generally. Because so broad a potential readership will contain people who are not familiar with all of the social science disciplines used herein, I have defined technical terms and concepts in ordinary language.

There are, however, two concepts that should be defined at the outset. They are the terms "development planning" and "private sector."

Sooner or later, most countries seeking to accelerate their economic growth in order to raise living standards have recognized that the effectiveness of their efforts is likely to be substantially enhanced by their ability to formulate and carry out development plans. In the broadest sense, development planning includes:

- (a) determining practicable goals that are within the country's resource capabilities,

- (b) estimating the financial and material resources and the human skills necessary for achieving them, and**
- (c) specifying the policies, programs, and projects required to mobilize the available resources for realizing the chosen goals within the time periods envisaged.**

By its nature, development planning requires central coordination and direction; and, if national plans are to be effective, they need to be supported and implemented by government authority. For these reasons, development planning has to be primarily the responsibility of the national government.

In most developing countries, moreover, the central government not only has to initiate and direct the national planning effort but it must also undertake many of the specific investment projects and other economic activities included in the national plan. The variety of different economic operations carried on by the government are collectively called the public sector. It normally covers:

- (a) the operating expenditures of government ministries for such continuing functions as national defense, education, health, social welfare, technical assistance and extension services, maintenance of transportation and communication facilities, and similar recurrent activities;**
- (b) the capital expenditures required to construct schools and hospitals; highways, railroads, and port facilities; power**

plants and communications systems; and factories and other installations for the manufacturing and extractive industries under government ownership or financed by government credit; and

- (c) the operating costs of these state-owned and -managed corporations.

In any country, the size of the public sector reflects both explicit decisions regarding the desirability of conducting specific activities through government agencies and the implicit capabilities and limitations of individuals and organizations outside the central government for taking initiative and operating responsibility.

The economic decision-making and activity that occur outside the ministries, public corporations, and other agencies of the central government constitute by definition the private sector. In all developing countries, it is more heterogeneous than the public sector.

Organizationally, it embraces large companies similar to those prevalent today in Western Europe, North America, and Japan; smaller partnerships and individual and family proprietorships, such as pre-dominated at earlier stages of Western economic history; producers', marketing, consumers', and credit cooperatives of all kinds; and individual, family, and communal forms of farming and animal husbandry. In terms of economic activities, it includes modern types of agriculture, commerce,

finance, manufacturing and mining, and also the subsistence agricultural and handicraft production and petty trading in which a large, though varying, proportion of the population of many developing countries is still engaged. Thus, in the sense defined here, all Asian, African, and Latin American countries--even those most explicitly and strongly committed to socialism--have substantial private sectors. In consequence, the role that the private sector plays in the development process is of great importance even though much of its potential for dynamism and growth may not yet be realized in many countries.

My definition of development planning does not imply that the process must necessarily culminate in the publication of a comprehensive four- or five-year plan for the national economy. Certainly, in many countries, this practice is the most conspicuous feature of the national planning effort. And, granted the characteristics of developing societies analyzed herein, there are advantages in this form of planning which, at regular intervals, dramatically focuses attention on the formulation of national goals and on the policies and programs required to achieve them. However, it is well to keep in mind that, in contemporary market economies, effective national economic planning can be carried on in the absence of a comprehensive plan published by the government.

Probably the least recognized of the other kinds of national

planning processes is that which has been evolving in the United States during the past three decades. Throughout the world, the prevailing view is that the American economy is the last major example of an unplanned system. This is not the place in which to refute in detail this common opinion, whose validity rests solely upon the fact that the United States government neither prepares nor publishes a comprehensive four- or five-year national economic plan. However, it is relevant to the purpose of this essay to point out that, with respect to almost every other kind and technique of planning, there are few countries, developed or developing, in which planning efforts are greater and more pervasive, are taken more seriously in both the public and the private sectors, and are more fully and effectively implemented than in the United States.

U. S. government agencies and state and local government planning organizations are increasingly engaged in systematically projecting the needs for and availabilities of the human and material resources for which they are responsible; in evaluating by sophisticated techniques the comparative costs and benefits of alternative ways of achieving agreed-upon goals; and in implementing efficiently the chosen investment projects and operating programs. In the private sector, large business firms and other institutions are even more deeply committed to using advanced planning methods to cope with the increasing complexity of

their own activities, the growing diversity and uncertainty of the domestic and international environments within which they must operate, and the lengthening time periods for which they need to plan. Comprehensive quantitative frameworks for harmonizing public and private planning--in lieu of an official medium- or long-term national plan--are provided by private research institutions such as the National Planning Association, whose annually revised five- and ten-year national, state, and metropolitan projections are widely used both by government agencies and by business firms, trade unions and other private organizations. A multitude of formal and informal arrangements exist at all levels of government for private participation in goal determination, for sustaining and improving the two-way flow of information between the public and the private sectors, and for consulting private groups and institutions during the processes of policy-making and program preparation and implementation. Finally, virtually all of the econometric techniques of planning have been developed and applied--although not in some cases originated--in the United States.

The great and growing variety of substantive and institutional manifestations of planning in the United States are mentioned here not because they can serve as models to be adopted by other countries. In many ways, they reflect distinctive characteristics of the American

society, economy, and culture that do not exist in sufficient degree elsewhere. Nor is it intended to imply that they are complete and perfect. Indeed, public and private planning in the United States is under continual review and criticism--both for going too far and for not going far enough; both for promising to do more than it is technically capable of doing and for technical elaborateness that has lost touch with reality; both for insufficient rationalization of the private sector and for impairing the dynamism of private enterprise; as well as for failing to take account of noneconomic and nonquantifiable factors, and for many other reasons. As we shall see in the course of this essay, similar queries can be directed to the planning experiences of other countries. But, neither in developing nor in developed economies do such questions obviate the need for or impugn the validity of well-conceived planning efforts appropriate to the conditions and limitations of the societies concerned.

Theodore Geiger  
National Planning Association  
April 1968

## PRIVATE SECTOR PARTICIPATION IN DEVELOPMENT PLANNING

This essay explores the main issues and problems involved in two questions: why should developing countries actively foster the growth and modernization of their private sectors (as defined in the Introduction); and why should they encourage their private sectors to participate in significant ways in their national development planning efforts (as defined in the Introduction)? Questions of this kind are usually regarded as normative; that is, the valid answers, positive and negative, depend upon people's preferences, upon the values, or objectives, they believe are of paramount importance--for example, political freedom, social equality, economic welfare. But there is always an existential aspect to such questions because they also involve matters of verifiable fact--that is, assumptions and conclusions about what is or is not the case. Usually, the existential aspect relates to the means or techniques for realizing the chosen values, for achieving the desired objectives.

In the last analysis, there is no way to argue against or refute a person's choice of values except to point to inconsistencies among them. But, there is a very wide scope for argument over the existential aspect-- whether values are realizable and whether the means prescribed can, in fact, achieve the objectives sought. We shall, therefore, be primarily concerned with the existential aspect of the two questions posed above.

Such a focus of interest is particularly desirable because this aspect is often dealt with in a pseudo-empirical fashion. By this I mean that, although facts are seemingly adduced, they are in many instances not empirically based but really only deductions from doctrinaire convictions or rationalizations to support desired conclusions. This tendency to a priori reasoning will be recognized most clearly when we realize that the issues expressed in the two questions are in essence the same as those in the great debate over private enterprise versus socialism that first arose in the early 19th century and has continued in various guises ever since.

Despite the different forms in which this debate has been carried on at different times during the past 150 years, there have been only two main arguments involved, and even they are in part identical. The first is the argument about which type of economic system is more compatible with human nature; the second is the argument about which of

the two systems is more efficient. Because the latter overlaps the former in considerable degree, the human nature argument will be analyzed first.

As originally formulated in the 19th century, there were two opposing positions regarding the relationship between human motivation and economic activity.

The proponents of private enterprise--in those days the supporters of laissez-faire capitalism--maintained that human beings are essentially self-interested and are, therefore, motivated to work hard and conscientiously in proportion to their awareness of the direct and commensurate benefits involved for themselves and their families. Despite the nonreligious terms in which it was presented, this conception of human motivation was derived from the traditional Christian view of the ambivalent nature (i. e., of the natural propensity for both good and evil) of human beings as expressed, for example, in the Christian doctrines of original sin and the fall of man. With respect to the interests of society as a whole, the English utilitarians postulated that "the greatest good of the greatest number" of people would automatically be served if each were free to pursue his own interest. Or, as Adam Smith and his successors in the classical school of economics argued, the "hidden hand" of unregulated and freely competitive market forces would automatically allocate resources in the most efficient manner and thereby maximize economic welfare.

In contrast, the 19th century socialists affirmed the superior power of the motive to serve society as compared with the incentive of self-interest. Once people understood that their individual welfare depended on the welfare of the society as a whole, they would willingly forgo direct and immediate benefits for themselves in the interest of the common good for all. The socialist view was also based in part on older religious conceptions--on the higher ethical value assigned in Christian doctrine to altruism and self-sacrifice as compared with the advancement of self-interest. In part, however, it reflected the views of the 18th century French philosophes regarding the power of reason and the essential goodness of human nature. To many of the continental philosophers and social theorists, the observable preference for self-interest in existing societies was owed not to an intrinsic selfishness in human nature but to the corrupting influence of bad social institutions. Once society was rationally reformed, human beings would act rationally and, therefore, altruistically; that is, they would willingly subordinate their self-interests to the public good.

Many politicians and publicists, political scientists and economists--in the developing countries and the communist states as well as in the West--have ever since continued to repeat one or another version of these conflicting conceptions of the relationship between the

individual and society. Although common-sense experience provided some validation for both doctrines, these conceptions of human motivation were based in large part on a priori reasoning--that is, they were either deduced from general philosophical or religious principles or were inferred back from desired political or economic conclusions. They were not scientific in the sense of being derived from or verified by systematic empirical investigation or experimentation, rational analysis, and generalization.

Psychology has been among the last of the sciences to be developed and, during the 19th century, it could not provide the data and insights needed for a sound empirical basis and a valid conceptual framework. In the course of the 20th century, however, both psychology and sociology have become increasingly capable of providing data and analysis that go a long way toward explaining the complex relationships between the individual and society. Nevertheless, current debates over private enterprise versus socialism are still conducted with virtually no awareness of this crucially relevant scientific progress, and the protagonists on both sides continue to rely on obsolete a priori ideas about human nature. For this reason, it is desirable to devote space here to an explanation of the contribution which modern scientific psychology and sociology can make to understanding the relative roles of individual interest

and social interest in the motivation and behavior of human beings in various types of societies.

A. The Sociocultural Basis for Private Sector Development<sup>1</sup>

It is important at the outset to recognize that attitudes and actions differ from one kind of society to another. For our purposes here, societies can be classified into two types--homogeneous and differentiated.<sup>2</sup> A homogeneous society is one in which the constituent social units--for example, families, clans, tribes, villages, castes, etc.--doetail into one another or fit within one another naturally. There is little, if any, competition for the attention and loyalty of the individuals comprising them, nor are there significant conflicts in the values and behavioral norms their members are expected to observe. The two leading varieties of the organic homogeneous type are primitive societies and traditional societies. While, with respect to other criteria (for example, size, technological level, cultural complexity, political organization, etc.), there are

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<sup>1</sup>The analysis in this section is derived from the comprehensive psychosocial model of the development process in Theodore Geiger, The Conflicted Relationship: The West and the Transformation of Asia, Africa and Latin America (New York: McGraw-Hill Book Company for the Council on Foreign Relations, 1967), Chapters 3 and 4.

<sup>2</sup>For other analytical purposes, of course, there are other relevant criteria for classifying societies.

enormous differences among existing and past primitive and traditional societies, they nevertheless all have in common the characteristics of high degrees of homogeneity among their constituent social units and of consistency in their cultural elements.

The other type of society is heterogeneous, differentiated into many varieties of social units which compete with one another for the attention, energy, and devotion of the individuals composing them. Also, their cultures contain conflicting values and behavioral norms that people are nevertheless expected to follow. Western society is a leading example of this differentiated type. In it, the many different groups and organizations in which the individual participates (for example, the family and the school, the church and the political party, the business firm and the trade union, the professional society and the social club, etc.) compete for his time and loyalty and often require him to try to realize inconsistent values and to behave in accordance with incompatible norms.

More significant for our purposes, however, is another variety of heterogeneous society which is even more differentiated and internally conflicted than that of the West. This is the transitional society--a term that designates the traditional societies of Asia and Africa now in process of fundamental transformation as a consequence of their encounter with the

West.<sup>3</sup> In the transitional society, the organic bonds holding together the constituent units of the traditional society are in process of dissolution and, at the same time, new kinds of social groups and organizations are coming into existence--both changes in large part resulting from their encounter with the West. Not only do the traditional social units--families, clans, tribes, sects, castes, etc.--increasingly compete with one another for individual loyalties but, in the new national states to which they belong, they also compete with one another for economic wealth, political power, and social prestige. At the same time, the modernizing social groups and organizations--government agencies, business firms, political parties, trade unions, cooperatives, farm organizations, etc.--compete with one another and with the surviving traditional social units for the same objectives. Moreover, the values and norms held out to their members by these competing social units are even more conflicting than in Western society since they express two quite different cultures--the traditional indigenous culture and the imported Western culture. A society characterized by so pronounced a degree of competing constituent social units and cultural elements is called "particularistic."

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<sup>3</sup>Because the kinds of societies that will eventuate from this transformation cannot now be foreseen, it is preferable to call the intermediate process "transitional" rather than by other terms which connote specific cultural content.

## Social Identification and Individualization

The difference between the organic homogeneous traditional society and the differentiated particularistic transitional society is of fundamental importance for understanding the motivations and behavior of the individuals comprising them. To appreciate their significance, we now turn to the process by which individuals learn to feel, think, and behave as members of the particular society in which they are born and grow up. This process is called "socialization." Psychologically, it consists of inculcating into the individual, mainly during infancy, childhood, and adolescence, the distinctive values and behavioral norms of his particular culture. These constituents of the culture are "internalized" through the examples and the prescriptions of the specific persons who play "emulative" roles in different types of societies.

While the various schools of psychology (e. g., Freudian, neo-Freudian, behaviorist, etc.) have described the mechanism of internalization in somewhat different terms, there is general agreement on its broad outlines, which are all that need concern us here. The basic importance of the family relationship is universally acknowledged. In all societies, the infant begins to learn how to perceive and react to external reality initially through the nurturing and protecting relationship with his

mother--or another female filling her role. As his physical and mental capabilities increase, the child is presented with other persons to be emulated. In effect, they provide the models on which he can pattern his own feelings and actions, his conception of the roles he is to play as an adult, and his expectations of future status or achievement. For a boy, the main emulative figure is the dominant male in his nuclear family--in most societies, the father, but, in matrilinear and matrilocal primitive and traditional societies, the maternal uncle or another adult male relative of the mother. By the example of his own attitudes and actions and by explanation and criticism, the father helps the child to develop beyond his inward-oriented relationship with the mother to the outward-oriented relationships which he must learn to carry on as he passes through adolescence and into adulthood.

In the traditional society, behind and reinforcing the male head of the family are other persons to be emulated--the village elders, the clan and tribal chiefs, the leaders of castes and sects--whose attitudes and actions are perceived by the child as more remote but wholly consistent versions of those of the father or maternal uncle. By modelling himself upon these mutually reinforcing figures, he identifies his own interests and aspirations with those of the organic social units to which he and they belong. Thus, the boy--and, in a parallel manner, the girl--

in the traditional society acquires during childhood and adolescence a sense of his own identity as an integral member of his particular family, clan, tribe, caste, and sect.

In other words, he learns to think of his identity as derived from and expressed through his participation in the social units to which he belongs and not as dependent upon distinctive personal qualities that generate a sense of individual separateness and uniqueness. By the time he reaches adulthood, the typical member of the traditional society neither perceives nor feels any significant difference between his own individual self-interests and those of the social groups in which he participates.

So complete an identification of the individual with his social units and groups is uniquely characteristic of--indeed, is possible only in--homogeneous, internally consistent, and stable societies. As a society becomes more differentiated, social identification becomes more diffuse and less thorough and a second process--individualization--becomes correspondingly more important.

The nature of individualization can best be explained by the example of Western society. In the highly differentiated and internally competitive Western society, social identification is in continuous dynamic tension with individualization. While he is learning to pattern his feelings, attitudes, and behavior upon those of the emulative figures in the family,

the school, and the other social institutions and groups in which he participates, the boy in contemporary Western society is also striving to become a separate and unique individual in his own right. Indeed, the values and behavioral norms of Western culture compel him to act as a separate, self-instigating and self-responsible individual whether he wishes to or not. Thus, the process of personality formation and maturation in differentiated societies is inherently ambivalent. On the one hand, the boy identifies with the persons presented by his society for him to emulate and, through them, with the diverse and often competitive social units in which he and they participate. On the other hand, particularly during adolescence, the boy is also impelled to assert himself against and differentiate himself from these figures. The achievement of a sense of self-identity and self-confidence is a resultant of these intertwined yet conflicting processes of social identification and individualization.

In the transitional societies of the developing world, the relative importance of these two processes varies, depending on the extent to which the traditional social units are in competition with one another and with modern institutions and the traditional values are contradicted by modern aspirations. Although the process of individualization is nowhere as fully developed as in Western society--in which, as already noted, individuality is itself an indigenous cultural value of great importance--people in

transitional societies do have a growing sense of their own self-interests as distinct from the interests of both the traditional and the modern social groups and institutions in which they participate.

This emerging sense of individual self-interest is in large part the result of three characteristics of the transitional society. The first is the fact that social identification is weaker and more diffuse in the particularistic differentiated transitional society than in the organic homogeneous traditional society. The second is the fact that, in their relationships with the new, modern-type institutions of the transitional society, people have to behave as self-responsible individuals and not as integral members of their social groups, as in the traditional society. For example, as voters, taxpayers, civil servants, and recipients of social welfare benefits, people have direct relationships as individuals with their governments, and similar relationships exist for those employed by private enterprises and other modern-type organizations in the private sector of the economy. Third, despite the continued predominance in most transitional cultures of such traditional values as communal activity, mutual sharing, and fulfillment of extensive kinship obligations, Western-type values and behavioral norms stressing individual achievement, rising living standards and intensive nuclear family responsibilities are more and more strongly felt. These increasingly diverse and

individualized relationships and self-responsible behavioral norms open the way for people in transitional societies to think of themselves increasingly as individuals, to perceive their self-interests more clearly, and to pursue them with greater intensity.

Nevertheless, because the relationships and values that foster individualization are not yet sufficiently widespread and familiar, it is not generally as important as social identification in the process by which people develop a sense of identity in the transitional society. Social identification continues to be predominant in this respect even though its effectiveness is weakened and blurred by the diversity of and competition among the old and new social groups and institutions in which people participate.

#### The Effects of Particularism

Moreover, diffuse as they may be compared with the complete and unconscious social identification of the traditional society, the social affiliations of the transitional society are all the more important for such sense of self-identity as people can develop. In consequence, people become consciously aware of and feel strongly committed to their memberships, on the one hand, in their traditional kinship groups, tribes, castes, and sects and, on the other hand, in the modern-type political

parties and factions, government departments and private enterprises, trade unions and cooperatives in which they participate. At the same time, these old and new social groups and institutions are more and more in competition with one another not only for political power and economic resources but often for sheer survival. For these psychological and social reasons, the particularism of the transitional society has an intensity and fanaticism--a "life or death" character--that may be seen, for example, in the sectarian and ethnic/linguistic struggles in India and in the tribal conflicts of Africa.

In transitional societies, therefore, the sense of commitment to the particular social groups and institutions in which individuals participate generally predominates over their sense of self-interest, especially when the two are in conflict. And, both tend to take precedence over the sense of commitment to the interests of the society as a whole--or to what may be called the national interest. Although nationalism is a characteristic of the developing world, it manifests itself largely in the external relationships of these countries rather than among the social groups and organizations of which they are composed. Except when a major external threat arises, there is little disposition on the part of the constituent social units, old and new, of these transitional societies to subordinate their own interests to that of the nation as a whole. Even in countries where a consensus

has been reached on the necessity for accelerating economic growth and social reform, there are usually serious disagreements over the specific measures by which these national goals are to be achieved and the ways in which the resulting benefits are to be divided among competing groups. These conflicts of interests are among the main reasons why so many countries have so much difficulty in carrying out their development strategies.

Thus, a basic problem confronting all heterogeneous differentiated societies is that of developing among their major social groups and organizations a sufficient sense of commitment to the national interest, or the public good, to mobilize the resources required for accomplishing national goals. This difficulty is substantially greater in transitional societies than in Western society because the latter has evolved institutions and values which can offset the strength of particularistic and individual interests and can orient them toward the pursuit of national objectives and generally accepted values.

In North America and Western Europe, for example, institutional changes and the increasingly effective influence of certain social values and behavioral norms converted 19th century laissez-faire capitalism into the socially responsible private enterprise systems that predominate in those regions today. In the course of the 20th century, the economies

of the West became more and more complex and interdependent as many new industries developed, as the size of enterprises became larger, and as the need to keep abreast of accelerating technological innovations and improvements in managerial methods became greater. Ownership has largely been divorced from managerial control, and the managers themselves have had to master the increasingly complex technology of their industries and the increasingly sophisticated methods of decision-making and organization. In doing so, they have also had to become aware, and to understand the significance for their own activities, of a very much broader range of economic, social, and political factors, both domestic and international, which have more and more influenced the success or failure of their enterprises. In consequence of these and other related changes, the managers responsible for the policies and activities of large corporations in the Western nations today are by training and by occupational requirements oriented toward socially responsible behavior.

In addition, and in part reflecting these basic institutional changes, certain social values--and the norms of behavior derived from them-- have been exercising a more powerful influence over the motivations and actions of decision-makers both in politics and government and in the private sectors of the national economies. Ultimately religious in origin, although substantially secularized during the 18th and 19th centuries, these

ethical values included the worth of the individual and his equal right to share in political freedom and economic welfare, the duty to improve oneself and to assist others to do likewise, the responsibility to contribute to the improvement of society in accordance with one's means and ability, and the obligation to regard all people, irrespective of racial and cultural differences, as entitled to the same rights and considerations by virtue of their common humanity. Such values are called "universalistic" because they are believed to apply universally to all members of the society and, therefore, to express its interest as a whole.

Under the influence of these and related universalistic values and expectations, a growing majority of the population in all Western nations has become unwilling to allow the rate of economic growth, the level of employment, the distribution of the national income, and the standard of living to be determined by autonomously operating market forces, as they were to a significant extent in the 19th century. In consequence, by the 1960s, Western governments have in different ways assumed active management of their national economies for the purposes of achieving and maintaining an adequate rate of growth, preventing substantial unemployment, fostering more equitable income distribution and rising living standards, and providing many different types of social welfare benefits. In addition, a great variety of programs are undertaken

in all Western countries to help disadvantaged individuals and groups improve their occupational qualifications and to provide them with increasingly more equitable opportunities for obtaining education, employment, and adequate living standards. True, many serious difficulties remain in the Western nations and new problems continually arise. Nevertheless, the Western countries have in recent decades been able to make very substantial economic and social progress owing to the effectiveness of these institutional changes and universalistic values in motivating people to act in accordance with the interests of society as a whole without suppressing or unduly restricting the pursuit of their particularistic individual and group interests.

#### Self-Interest and Social Interest in Different Types of Societies

These illustrations may perhaps be sufficient to show the differences in motivation that result from the socialization process in the different types of societies. All human beings have the capacity and the motivation for acting "egoistically" in their direct and immediate self-interest and "altruistically" in the generalized and often deferred interest of the society as a whole. Indeed, to call this human characteristic a "capacity" for acting in both self-interest and social interest does not adequately convey the depth and power of the motivational

patterns involved. To do so, we must turn once again from social analysis to the level of individual psychology. In the foregoing pages, the process of personality formation and maturation was discussed in terms of the internalization of values and norms, social identification, and individualization. These processes are, however, far more complex and multidimensional than the analysis indicates. Although a comprehensive and detailed treatment of them is not possible in this essay, a simplified account can be given of certain key aspects relevant to our purpose here.

An individual acting in his own direct and immediate self-interest is expressing a complex process operating at two different psychological levels. Normally, we think of this type of action as occurring solely at the level of conscious awareness--as a deliberate rational process of exploring prerequisites and consequences and weighing costs and benefits. And, so it is to a greater or lesser degree in all individuals. However, there is also a second psychological process occurring at the unconscious level that infuses rational decision-making with emotional feeling and thereby impels people to care strongly enough about the possibilities they perceive for obtaining satisfactions to take the actions believed appropriate for realizing them. In origin, this process expresses the most basic impulse for survival, the drive to satisfy the direct and immediate physical and emotional demands of the individual, and it is a key element

in individualization.<sup>4</sup> It also always includes a multitude of associational patterns of unconscious desires, aggressions, and fears, which generate anxieties and tensions that often reinforce, distort, or make ineffective the process of conscious rational judgment.

Actions serving the interests of other individuals and groups and the society as a whole are motivated by an equally complex process comprising the same psychological levels but originating in a different basic drive. At the conscious rational level, an altruistic action may reflect recognition that, although a direct self-sacrifice is involved, the individual's welfare indirectly depends on cooperating with others in advancing their welfare and that of the society to which they belong. Or, it may be regarded as deferred self-interest, as an immediate self-sacrifice that helps to achieve a long-term social goal ultimately beneficial to the individual or his children. However, the problem with purely rational calculations is that, in a great many instances, either individuals decide to--and can--enjoy the benefits of other people's sacrifices for the public good without themselves making any sacrifices of their own, or the

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<sup>4</sup>Terms such as 'impulse' and 'drive' are, of course, only descriptive of a process and do not explain its causes. However, it is not necessary for our purpose here to opt for one or another of the theories advanced by the various psychological schools to account for this phenomenon.

social goods that they would obtain are deemed of less value to them than the individual interests they would have to forgo. In many cultures, particularly in that of the West, the calculation to act in the social interest is reinforced and the preference for self-interest is in part offset by the stress placed on altruism and self-sacrifice as religious values or ethical norms.

At the unconscious level, altruistic motivation is rooted in the basic human drive to unite with other individuals in social units and organizations as a means of satisfying the emotional need to give to and obtain from others love and approbation. It provides the emotional content and impulse for social identification and impels an individual to care enough about other people to sacrifice or defer his self-satisfactions for the sake of theirs. Like the unconscious aspect of self-interested actions, it too includes many different and ambivalent associational patterns of desires, aggressions, and fears that strengthen, distort, or nullify the conscious rational decision process.

Thus, both egoistic and altruistic motivation and behavior include conscious and unconscious, rational and emotional, action-stimulating and action-inhibiting elements continuously interacting in complex and often conflicting ways. Moreover, in many situations--perhaps in most--both types of motivation operate simultaneously, although usually with

different intensity, sometimes reinforcing and sometimes contradicting each other. In part, they are expressions of the physical and emotional needs and capabilities biologically rooted in the human organism. In part, they are determined by the extent to which the individual's sense of objective reality and flexibility in adapting to it have developed, and they may be warped or blocked by neurotic rigidities and psychotic distortions. And, in greater or lesser degree, they are resultants of the conscious process of rational judgment, without which human behavior would be indistinguishable from that of animals and neither intellectual activity nor science nor the capacity for individual and social improvement would be possible. But, for all its power and efficacy, reason is not an absolute sovereign, especially in those regions of the psyche whence arise both the pleasure and the pain of human existence.

In consequence of the internalization process, the two types of motivation and action always express themselves in the distinctive perceptual and conceptual modes and behavioral norms of the culture within which the individual has been reared. Moreover, their relative importance in any particular society depends on its characteristics in two respects: the extent to which it is differentiated and its institutions and values foster competition and conflict, on the one hand, and compromise and socially responsible behavior, on the other; and the degree to which

conformity with its prescribed behavioral norms is achieved voluntaristically, on the one hand, and through repression and coercion, on the other hand.

In the homogeneous traditional society, social identification is so nearly complete and individualization so rudimentary that self-interest and social interest are virtually identical and all actions can be said to be simultaneously in the interests of both the individual and the society. In differentiated societies, individualization is of much greater significance and is in continuous tension with social identification. In consequence, the extent and severity of repression of egoistic drives have to be greater. For this reason, the harmonization of self-interest and social interest constitutes a serious problem only in differentiated societies.

Pluralistic Western societies cope with this problem by means of institutional relationships and behavioral norms which coordinate and regulate the pursuit of particularistic individual and group interests without suppressing them, and which generally orient them toward the achievement of national goals and universalistic values through persuasion. In large measure, therefore, the conflicts of self-interest and social interest are resolved through compromises reached in democratic and voluntaristic ways. True, force or the threat of punishment also has to be used to deter behavior condemned by the society and to repress the

discriminatory, restrictive, and dangerous activities of individuals and particularistic groups and organizations. But, the adverse effects of the required repression are to a significant extent mitigated by the substantial degree of individual and group freedom of action permitted and by the prevalence of compromise as a means of settling conflicts of interest.

There is a very important difference between these largely voluntaristic methods of the pluralistic Western nations and the much more coercive practices of the communist states. The latter have also been becoming increasingly differentiated societies in consequence of their forced-draft industrialization and the rapid transformation of their economic and social systems. The achievement of these objectives is sought through an effort to mobilize all of the resources of the society. In effect, the communist societies try through intensive propaganda and coercion to recapture the identity of self-interest and social interest that characterized the organic traditional society. Individuals and groups are either forbidden to pursue personal and particularistic interests or are strongly discouraged from doing so by widely publicized official disapproval. It is because of such single-minded and unremitting efforts to mobilize these societies for realizing the goals set for them by their

authoritarian ruling communist parties that they are generally called "totalitarian."

Nevertheless, the degree of mobilization of the society's resources and energies that can be sustained by communist states usually falls short of that at which their rulers aim. The failure is explained by the social and psychological factors already discussed. The more that a communist country develops economically and socially, the more its people are impelled by institutional changes to regard themselves as individuals and the more diffused their social identifications are by the increasing variety of different organizations and groups in which they participate. On the one hand, they are prohibited from pursuing interests that promise direct and immediate benefits to themselves and the groups and organizations with which they most closely identify when such efforts divert attention and resources from the officially designated national goals. On the other hand, the approved national objectives to which individuals and groups must largely commit their loyalties and efforts are of a long-term and abstract nature and promise their main benefits to future generations.

There are in all communist states a minority of dedicated people whose personality formation has been such as to make them willing-- indeed, compels them--to devote themselves to the pursuit of the national

interest, or the advancement of the world revolution, without regard to the satisfaction of their own self-interests and those of the particularistic groups and institutions to which they belong. Moreover, such altruistic motivation can also characterize a majority of the people during a great national crisis, as in wartime. But, in heterogeneous differentiated societies, it cannot be felt by all of the people all of the time. Rationally, the sacrifice of self-interest required may be regarded as too great compared with the social benefit to be obtained. Psychologically, the extent and depth of the required repression of egoistic drives is too great to be sustained except in critical periods of great emotional stress.

In consequence, most of the communist countries have had sooner or later to recognize the necessity of allowing scope for individuals and groups to pursue their own interests not simply because such behavior cannot be completely repressed but also because it can accomplish certain results that would otherwise be beyond the capacity of their economies to achieve. For example, after agriculture was collectivized in the Soviet Union in the early 1930s, peasants were still permitted to cultivate small private plots for their own benefit. Although their combined acreage has been a very small percentage of the total arable land, nevertheless, even today, according to official Soviet sources, they account for more than half of the eggs and one-third of the meat, milk, and wool

produced in the Soviet Union because their productivity is so much higher than that of the collective and state farms in consequence of the strength of the motivation of self-interest involved. In the last few years, the communist countries of Eastern Europe not only have relaxed their attempts to suppress such motivation but have also been seeking to enlist it in the service of national goals. Greater and more immediate rewards for their individual efforts are being provided directly to farmers and workers and the agricultural and industrial units to which they belong are being allowed to make increasingly important decisions regarding their own production and investment. These trends mean that the totalitarianism of these societies may in time become less intense and pervasive as coercive measures decline in importance and the increasing freedom to pursue individual and group interests decentralizes innovation and diversifies initiative.

However, it is the transitional societies of the developing world that face the greatest difficulty in coping with the problem of reconciling self-interest and social interest. Owing to their highly particularistic character, the sense of the interests of the nation as a whole is very weak compared with the strength of the commitment to the interests of the competing old and new social groups and organizations of which it is composed and with the emerging awareness of individual interest.

Institutional relationships and universalistic values which could harmonize self- and particularistic interests and orient them toward national goals are not yet sufficiently developed, and the capacity for using coercion and sustained indoctrination for this purpose is also not great.

In other words, to revert to the terms of the conventional argument, the transitional society is not well suited either for socialism or for socially responsible private enterprise. An actively directed and expanding public sector has to be fostered to overcome the limitations resulting from the excessive particularism and self-seeking of the private sector. At the same time, the strength of the motivation to pursue individual and group interests, as expressed in the private sector, is necessary to offset the weakness of the motivation to serve the abstract and deferred interests of the society as a whole believed to be expressed in the public sector.

This is one of the fundamental dilemmas of development strategy in virtually all countries of the developing world. Like all dilemmas, it can be resolved not by choosing one or the other horn but by adopting both. In other words, an effective development strategy does not consist either of trying to conduct all or most significant economic activities through the public sector or of expecting the private sector to undertake all or most of them at its own initiative and with its own resources. Instead, both

sectors need to be enlisted in the development effort if the potentialities of the society for accelerated economic growth are to be realized. This subject is discussed at greater length in later pages.

### Comparative Efficiency of Different Economic Systems

We may now consider briefly the other main argument that has characterized the debate over socialism versus private enterprise for the past 150 years. This consists of rationales purporting to demonstrate the superior efficiency of one or the other economic system. Again, as in the case of the human nature argument, the proponents on both sides have tended to neglect the results of scientific analysis, although not to the same extent. Essentially, there are two propositions in the efficiency argument. The first is that the stronger motivation--that is, the drive to serve either self-interest or the good of society as a whole--in one or the other system makes people work more efficiently. The second is that economic decision-making is more rational and, hence, more efficient in one or the other system.

The motivational proposition is dependent, of course, on the human nature argument. Applying the results of the foregoing analysis of motivation and behavior in diversified societies, it is clear that, with respect to the great majority of individuals and groups, they tend in

ordinary circumstances to have a strong incentive to make the best use of their time, money, equipment, materials, and labor when they are working for the more or less direct benefit of themselves and their families. True, as will be explained below, many small-scale activities in the private sector of developing countries are inefficient and poorly managed owing to the persistence of traditional attitudes and to inadequate training and experience. However, these deficiencies also characterize many of the large public enterprises for the same reasons. The point is that, over the longer term, it is generally less difficult to correct inefficiency in a private enterprise than in a state-owned and -managed operation. Private individuals and groups may waste their own money and time through lack of knowledge or indolence but, in that case, they themselves directly suffer the resulting losses and, therefore, have a continuing incentive to overcome their deficiencies. In contrast, if a government official wastes the resources or time of a government enterprise, it is not his personal loss unless his performance is so poor that he is discharged for inefficiency. Often, political considerations make it difficult, if not impossible, to take corrective measures in public enterprises; and they generally enjoy protected or monopoly positions which make them immune to the beneficial effects of healthy competition. Thus, in the longer run, there are stronger incentives for efficient performance in private-sector activities than in those of the public sector.

In addition, private individuals and groups are more likely to adopt technological and managerial innovations and to take the initiative in realizing the opportunities for new economic activities that arise as part of the process of economic diversification and expansion. As already noted, the incentive to do so is inhibited by traditional attitudes and other factors. Nevertheless, under conditions of competition, the private sector has a stronger incentive to innovate and to take advantage of new economic opportunities. Public enterprises are generally protected from competition, tend to be fixed in their ways, and are usually able to adopt new techniques and to expand their activities only after cumbersome and time-consuming bureaucratic procedures. However, offsetting these tendencies is the fact that government enterprises in developing countries usually have access to much larger resources to finance innovation and expansion than do individuals and groups in the private sector, and they are better able to obtain the necessary skills, techniques, and processes from abroad. Nonetheless, it should also be pointed out that appropriate government credit policies and financial assistance can help to overcome the private sector's comparative disadvantage in these respects.

Turning now to the second proposition in the comparative efficiency argument--the greater scope for rational decision-making--the evidence is also not clear-cut for either side. In this case, the weakness

of the rationales on both sides is that they are derived from pure theory and not from analysis of actual economic systems.

As postulated by pure theory, the market process is conceived to be an autonomous automatic system of innumerable interactions among producers and consumers, buyers and sellers, lenders and borrowers who make their own decisions in accordance with their perceptions of their own interests relative to the objective signals of the market place (i. e., prices, wages, interest rates, etc.). Under conditions of unhampered competition and adequate knowledge by the participants of opportunities, costs and benefits, this process of decentralized private decision-making results in the most economical use of the resources available to the system and, therefore, in maximum benefit to the economy as a whole.

However, even in the 19th century, the existing economic systems diverged from this theoretical model of the market process in three major respects. First, basic cultural attitudes and social institutions suppressed or modified the perception of rational economic interest or impelled people also to take offsetting noneconomic considerations explicitly into account in making economic decisions. Second, opportunities and relationships existed in the economic system that made it possible for certain individuals and organizations to acquire superior knowledge, monopolistic power, exceptional subsidies, and other types of special

advantages which decisively improved their competitive positions vis-a-vis the other participants in the market process. Third, even in the 19th century, there were deliberate governmental interventions in and regulation of the market process.

Despite these divergences from the theoretical model of classical economics, the economic systems of Western Europe and North America did have a high degree of autonomy and competitiveness until the great depression of the 1930s. Even so, however, it became increasingly evident that the self-equilibrating and benefit-maximizing characteristics postulated by classical theory were not sufficiently operable in practice. Not only were there periodic dislocations and imbalances (crises and depressions) of very serious proportions but the market process was also incapable of allocating resources to those objectives conducive to realization of the cultural values and social goals that were becoming increasingly influential in Western society (for example, full employment, equitable income distribution, expanded and improved facilities for education and health, research and development, transportation, etc.). In these senses, therefore, the rationality--or efficiency--of decision-making by the relatively free market system of the 19th and early 20th centuries was not nearly as great as the proponents of laissez-faire economic theory maintained. As explained earlier, these

limitations and defects of decentralized private decision-making in a largely autonomous and automatic market system have been substantially corrected, in part by expanding the role of deliberate governmental decision-making and activity. Today, throughout Western Europe and North America, economic systems are operating a great deal more efficiently and providing much greater benefits in a far more equitable manner than in the past.

In the pure theory of socialism, all significant economic decisions regarding production and consumption and saving and investment are made in a fully conscious manner by the central government in accordance with a comprehensive and detailed plan for a specified time period. However, this pure model of a rationally planned socialist economy has also never existed. In real life, the rationality of decision-making by central planners is significantly impaired by many of the same factors noted in the case of private decision-making in the market process. Basic cultural attitudes, ideological prejudices, and institutional characteristics suppress or modify considerations of comparative costs and benefits and the choice of means effective for achieving goals. The more complex and diversified a planned economy becomes, the more difficult it is for the central planners to obtain the information required for efficient decision-making within the time necessary to be effective. The growing multitude and diversity of

decisions required of the planners more and more outrun their capacity to make and coordinate decisions with the required rapidity even with the aid of high-speed computers and the latest information storage and retrieval systems. Moreover, these mechanical aids to decision-making, however necessary they are in both types of economic system today, can only compensate for human limitations; they cannot eliminate human error, make qualitative judgments, and deal with novel situations on their own.

Owing to these intrinsic limitations and defects of decision-making in centrally planned systems, all of the East European nations, including the Soviet Union, have in recent years been reintroducing into their economies significant aspects of the market process. In varying degree, the communist countries have begun to decentralize decision-making to individual producing units in the economy and have introduced more rational measurements of costs, prices, and returns (profits) analogous in important respects to the way they are determined in a market system.

These efforts of the socialist countries to correct some of the inefficiencies of detailed central planning illustrate the fact that the market process, operating under effective government economic policies and programs, is clearly the most efficient way to make many types of decisions. There are certain areas--notably what today are called "infrastructure" and "social capital" investment--for which the market

process is an inefficient way to make decisions in the sense that, particularly under conditions characteristic of developing countries, it will not normally allocate sufficient resources for these essential purposes. In a later section, the subject of decision-making by the market and by planners will be discussed as it relates specifically to the problems of the developing countries.

### B. Factors Affecting Private Sector and Government Cooperation in Development Planning

The preceding section has sketched in broad outline and simplified form the sociocultural and psychological basis for the respective contributions that the public sector and the private sector can make to the development process in transitional societies. Next, we need to look more closely at the main factors that influence the capabilities and the limitations both of the private sector and of the government for cooperating in national economic planning to accelerate the development process.

#### Size and Composition of the Private Sector

It is axiomatic that a significant role in development planning can be played only by individuals and organizations engaged in producing commodities and providing services that are distributed to other producing

and consuming units in the economy. The subsistence economic activities that are carried on in greater or lesser degree in all developing countries are usually taken into account by the planners insofar as they supply a significant amount of consumption needs. But, their role in development planning is, at most, peripheral. The people engaged in them generally do not possess the attitudes, the skills, or the resources for active participation; indeed, if they did, they would probably be in process of transition to producing goods and services for sale. One of the main purposes of development planning is to encourage and assist this shift from the traditional subsistence sector to the modernizing market sector of the economy. However, so long as people remain wholly or mainly engaged in producing for their own consumption, their activities are outside the range of those which the planners can treat as factors working per se for economic growth.

In many countries, however, there are substantial numbers of people in process of transition from subsistence to market activities. They produce all or a large part of their food needs but, in addition, raise certain commercial crops either for export or for consumption by the urban population and the manufacturing industries of the country.

People in this category constitute a majority of the population in most African, many Asian, and some Latin American countries. Nor is their

importance for the development process measured solely by their numbers. The raw materials which they produce constitute the major exports of many developing countries and directly or indirectly generate the largest portion of the revenues available to the governments for public investment and operating expenditures. Moreover, because employment opportunities in the nonagricultural sectors of most countries are not likely to grow fast enough, even on the most optimistic assumptions, these mixed commercial/subsistence activities will continue for the foreseeable future to provide a livelihood for the largest portion of their increasing populations. Despite the fact that the mixed commercial/subsistence sector is of central importance in many countries, it has not, however, anywhere been effectively involved in the preparation, execution, or improvement of development plans for reasons discussed later in this section.

The modernizing market sector is the part of the economies of Asian, African, and Latin American countries which is generally regarded as the potential private participant in development planning. It contains the newer and more productive activities--mining and lumbering, the larger farms and commercial plantations, manufacturing industries, wholesale and retail distribution, importing and exporting, banking and finance, and the service trades and professions. The individuals and

organizations operating in these fields are much more susceptible to the stimulating and guiding influences of the government than are the small farmers comprising the mixed commercial/subsistence sector. Except for the numerous small retailers, traders, and service establishments, they are usually of substantial size and permanently located in identifiable places so that their existence and the nature of their operations are--or could be--known to the government, which usually deals directly with them for purposes of taxation and various kinds of administrative controls and regulations. Because of their complete involvement in the market, they can be affected positively or negatively by changes in market conditions and prospects induced by government policies. They are, of course, directly reachable by the government's financial and technical assistance programs. For these and other reasons, the modernizing market sector is usually the primary object of efforts to enlist private participation in development planning.

Precise statistics are generally lacking with respect to the size of the modernizing market sector compared with the commercial/subsistence sector. The percentage of the population classified as rural offers a reasonable, though exaggerated, approximation of the size of the commercial/subsistence sector. The latest available United Nations demographic percentages range from 98 in Uganda to 33 in Chile, with India at 82, Algeria at 68, and Brazil at 55.

It is also relevant to compare the size of the modernizing market sector with that of the public sector. Here again, adequate statistics are difficult to obtain, and it may be necessary to rely upon indirect indications of their relative sizes. One such rough indicator would be the percentages of a country's fixed capital formation occurring in each sector, which would give an idea of their respective contributions to growth. In terms of fixed capital formation as reported in the United Nations Yearbook of National Accounts Statistics, 1966, the public sector's share, for example, ranged from nearly 12 per cent in the Philippines to almost 82 per cent in Tunisia, with Bolivia close to 60 per cent, Taiwan at 35 per cent, and Thailand under 30 per cent.

In summary, the size and composition of the private sector are among the major factors determining the nature and degree of active participation by its members in development planning. The larger the portion of the private sector engaged in modern-type activities in agriculture and industry, the greater the potential for effective participation. This does not mean, however, that the many small farmers engaged in mixed commercial/subsistence activities must or should be neglected. This portion of the economy is of fundamental importance, and special measures are required for mobilizing it effectively.

## Attitudes and Skills in the Agricultural Sector

Another major set of factors affecting participation of the private sector relates to the attitudes of the different groups comprising it and their qualifications for playing a significant role in the planning process. Both attitudes and skills vary widely, not only from country to country but also within many countries among the different groups comprising the private sector. A discussion that would do justice to the many complex social and cultural factors largely responsible for these differences in attitudes and qualifications is beyond the scope of this essay. I can, however, endeavor to characterize some of the main types involved.

Existing attitudes and skills have their most inhibiting effects on the willingness and ability to participate in development planning of the majority of the population that still lives in rural areas and is engaged in the mixed commercial/subsistence activities of the economy. It is among these people that the values, behavioral norms, and institutions of the traditional society and culture still have their greatest hold, and they generally are not conducive to the kinds of attitudes and actions requisite to development planning.

Indeed, even the concepts of development and of planning are usually unknown in the cultures of traditional societies. Hence, in all

African and many Asian countries, the purposes and nature of development planning are in large part beyond the scope of the ideas and situations with which the people in the countryside are accustomed to deal. This is true even with respect to many of the ordinary activities of a modern-type government, most of whose functions did not exist in the traditional society. For this reason, people in the countryside do not always respond fully or appropriately to government programs and policy initiatives designed, directly or indirectly, to affect their attitudes and behavior.

More fundamentally, their inadequate responsiveness results from the weakness or absence in traditional cultures of values stressing some or all of the following: the worthiness of physical and social existence; the possibility and desirability of individual and social improvement; the superiority of rewards and prestige obtained through personal and group achievement over those derived from ascribed status; the satisfactions of work, saving, and conscientious performance of roles and tasks; the merit of innovation and initiative; and the senses of self-responsibility and social obligation. Other values--often the opposite of those just noted--predominate to greater or lesser degree in traditional societies: the impermanence or worthlessness of existence; fatalism about and resignation to the forces of nature and society; suspicion of novelty and initiative with concomitant strong anxiety about

innovation and change; preference for leisure and consumption and denigration of physical work; and the prevalence of particularistic kinship obligations and tribal and sectarian loyalties over both individual interests and those of the society as a whole. Most deeply entrenched in the countryside, such values--and the norms of behavior reflecting them--inhibit both the willingness and the ability of farmers engaged in subsistence or mixed agricultural activities to respond to the possibilities for improvement provided by development policies and programs.

Nevertheless, despite the effects of traditional values and behavioral norms, there appear to be certain universal characteristics of people engaged in mixed commercial/subsistence activities that do make possible effective contacts between them and governments intent on accelerating economic and social development in the countryside. At bottom, these arise from the capacity for rational judgment and the strength of egoistic drives explained in the preceding section.

Probably the most significant example of this tendency is the evidence from all parts of the developing world that small farmers will respond to price and income incentives under conditions that do not threaten certain other values and objectives<sup>s</sup> important to them. Small farmers at or close to minimum subsistence income levels will endeavor to increase production in response to higher prices (a) if the necessary

innovations in agricultural inputs and cultivation techniques are available and within their means, (b) if such changes do not significantly increase the customary risks that affect the probability that they can continue to raise at least the minimum output essential for maintaining their families, and (c) if a sufficient percentage of the increased income thereby generated will accrue to their benefit and not to that of landlords, moneylenders, merchants, and tax collectors. In cases where small farmers have not responded to price incentives, one or more of these three essential conditions have been lacking. Conversely, the use of coercive measures to compel small farmers to increase production and to provide larger quantities of resources for development purposes through enforced deliveries of crops to government agencies or through direct or indirect taxation has usually resulted in little or no increase in output. For this reason, as we have seen, the communist countries have begun in recent years to relax their coercive measures and to provide greater income incentives to their farmers.

The responsiveness of small farmers to economic incentives even in countries in which traditional values and institutions still predominate indicates that the social and psychological basis exists for broadening their intellectual horizon to include comprehension of ideas about national development and for improving their willingness and ability

to participate in it. The problem facing the governments of the developing countries is that of using this opportunity effectively. In addition to ensuring that their efforts are consistent with the three essential conditions explained above, governments need to have a great deal more knowledge than they now possess regarding the specific ways in which technological and economic innovations can be stimulated in the countryside and regarding the operationally significant relationships of development programs to the basic social and cultural factors of each particular situation. What works in one locality or tribal area does not necessarily work in the next, owing generally to differences in the social and cultural backgrounds. The particular people whose innovating example will be followed by the other members of the village or tribe; the particular cultural context within which technological and economic innovations have to be presented; the associations and connotations which the new ways of thinking and working are likely to have for the people expected to engage in them--these and many other aspects of the process of social and cultural change will differ markedly from one locality to another within a country, and even more so among countries.

The need to be aware of so wide a range of social and cultural factors not commonly taken into account in devising and administering government programs, and the fact that this knowledge depends largely on

empirical investigation rather than on a priori reasoning, make the problem of involving the small farmers effectively in development planning much more difficult than any other task of development strategy. One of the most successful of such efforts has been undertaken in Malaysia, where the government has taken the lead in organizing the rural population to engage actively in planning and executing local development projects. This and other relevant examples need to be studied and publicized. So far, however, lack of knowledge has been a major reason why efforts to involve the small farmers in development planning have not yet been undertaken in most developing countries. Moreover, many political leaders and government officials are inclined to shirk this task not only because of its difficulty and the lack of knowledge of how to do it but also because they tend to identify the rural commercial/subsistence part of the private sector with the rejected traditional past and only its industrialized urban portion with the desired modern future.

#### Attitudes and Skills in the Modern Market Sector

In the modernizing market part of the private sector, attitudes and capabilities are, of course, much more conducive to effective participation in development planning. By the nature of the economic activities in which the people concerned are engaged, they deal directly

with the government as taxpayers, importers, suppliers, and beneficiaries of the financial and technical assistance provided by official agencies. Inevitably, they become aware of the importance for their own operations of government policies and actions through the latter's effects on market conditions and prospects. Nevertheless, there are influences largely derived from the traditional society and culture that limit the effectiveness of such rational considerations of economic interest in determining their attitudes toward and capabilities for participating in development planning.

The values and behavioral norms of the traditional society, noted above, also affect people engaged in modernizing types of economic activity, although less strongly than in the countryside. Their main manifestation is in the nondynamic character of so many of the entrepreneurs and groups engaged in manufacturing, commerce, banking, and the service trades. The typical form of organization for these activities is the family firm. Owned and managed by close kin, it is generally oriented toward maximizing the family's income in the short term and not toward the reinvestment of profits for the growth and improvement of the enterprise over the long term. Hence, the propensity of the owning family is low for technological and managerial innovations and for venturing into new fields and activities. The capital

required for such purposes is not accumulated from profits or available from other sources, and the necessary technical knowledge is not sought and may even be scorned. In keeping with their familial character and kinship loyalties, such firms tend also to have a weak sense of social responsibility, although they are sometimes paternalistically protective of their employees.

Nevertheless, in many countries, the process of development is already stimulating--indeed, compelling--the transformation of nondynamic family firms into modern types of enterprise in ways similar to those described in the preceding section as characteristic of Western Europe and North America. With broader and longer-term orientations, and increasingly staffed with managers and technicians not related to the owning family or founding entrepreneur, these organizations are beginning to have a stronger sense of their own interest in furthering the process of national development, as well as much greater willingness and ability to innovate and to venture into new fields and activities.

However, even among such more dynamic enterprises in the modernizing market part of the private sector, certain attitudes tend to inhibit effective cooperation with the government in development planning. A major example is their ambivalence toward the government.

On the one hand, most entrepreneurs in the private sector are reluctant to become closely involved with government agencies for several reasons. In many countries, the ruling political party professes socialist doctrines and, in consequence, private entrepreneurs tend to believe that it is hostile not simply to their advancement but to their continued existence. Where socialistically inclined governments are committed to preserving and fostering a significant private sector, and even where the ruling groups are favorable to private enterprise, indigenous entrepreneurs are inclined to be skeptical of the ability of political leaders and civil servants to make and implement the difficult decisions involved in an effective development strategy. Private individuals and organizations are often unwilling to disclose the data about their own activities needed by development planners because they are afraid that such information will be used to increase their taxes or to restrict their operations in various ways unfavorable to them. These and other fears limit their willingness to cooperate with official planners in the formation and execution of a national development plan.

On the other hand, however, they tend to look to government agencies for various kinds of benefits conducive to maintaining and increasing the profitability of their activities. Government ministries and state-owned enterprises usually supply many essential inputs, such as

electric power, transportation facilities, raw materials, and intermediate products, etc., at prices advantageous to local entrepreneurs, and sometimes are the sole or an important purchaser of their goods and services. Government policies and regulatory activities affecting import licenses, foreign-exchange availabilities, investment and construction permits, materials allocations, price controls, wage rates, social security obligations, and other factors are major influences on the location, growth, and profitability of their enterprises. In many countries, state-owned or -supported development banks and corporations are important sources of capital and credit, and government productivity and training centers provide necessary technical assistance. Finally, private entrepreneurs usually look to the government for tariff protection, monopoly privileges, subsidies, and other devices for obtaining favored positions in domestic or export markets.

Thus, the people engaged in the modernizing industrial and commercial part of the private sector tend to have mixed feelings regarding active involvement with the government in the process of development planning. As we shall see below, political leaders and civil servants in many countries are equally ambivalent in their attitudes toward the private sector. The net effect is to limit and weaken the relationship between the government and the private sector.

The constraints arising from these mutual attitudes are reinforced by the limited capabilities of the private sector for participation in development planning. A large portion of the modernizing part of the private sector consists of small entrepreneurs with little or no formal education and lacking the knowledge necessary for viewing their own operations in the broader and longer-term context required to understand the nature and benefits of development planning. Even those engaged on a more substantial scale in manufacturing, commercial, and service activities often do not possess the education in economic and technological subjects and the training in managerial techniques needed for them to have a significant voice in national policy-making. For these reasons, even where formal arrangements exist for them to participate in development planning, the results tend to fall short of expectations on both sides.

Account needs also to be taken of the capability of the private sector for organizing itself to participate effectively in the national planning effort. While a few very large enterprises may possess adequate staffs for independent analysis of development plans and may deal directly with the appropriate government agencies on such matters, the great majority of enterprises and groups in the modernizing market part of the private sector are too small to engage in such activities by themselves. Hence, their capacity to join together in organizations able to discharge

these and other functions is an essential element determining the effectiveness of their participation in development planning. In most developing countries, chambers of commerce, trade associations (often called professional organizations), employers' organizations, trade unions, societies of cooperatives, and other institutions already exist, or are in the process of being established, for representing the interests of the private economic groups of which they are composed.

In theory, such organizations could serve as devices for ascertaining and coordinating the views of their members on national planning problems; collecting and processing data required by the government planners regarding their members' activities; keeping their members informed of existing and prospective government plans and programs; and interpreting their implications for their members. In practice, however, many private-sector organizations do not have the financial resources and the technically trained personnel required to carry out these functions adequately. Where family-type firms predominate, the intense kinship loyalties and the concomitant suspicion of all outsiders limit their willingness to cooperate with one another in these associations, to exchange information, and to concert common positions on development policy issues. These traditional values and behavioral norms impair the cohesiveness of many private-sector organizations and, hence, their capacity to represent their members adequately.

Admittedly, the prevailing attitudes and inadequate skills of many people in modernizing industrial and commercial activities constitute serious limitations on their willingness and ability to participate in development planning. But, paradoxically, these deficiencies are likely to be overcome more readily and quickly by the educational effects of active involvement in development planning than by any other available means. The reason is that the only effective alternative method of inculcating new attitudes and skills is through formal education and training--a process spread over at least a generation and possibly more. While learning by doing usually does not accomplish as fundamental a transformation, especially for adults, as do long years of schooling during childhood and adolescence, its results are nonetheless significant and they are manifested in a substantially shorter time. Because of its importance, we will return to this subject in the concluding section.

#### Attitudes and Capabilities of the Government

It is only fair to note that a parallel set of factors inhibits the effectiveness of the government's efforts to bring about significant private participation in development planning. Political leaders and government officials are as much the products of their own societies and cultures as are people in the private sector. True, those who believe strongly in the

need for national development are ipso facto favorable to innovation and change. But, the great majority of political leaders and civil servants do not--indeed, cannot--have a single-minded and overriding commitment to national development, as the first part of this essay has explained. Other social and individual values, loyalties and interests are important to them. Often the latter objectives compete with the former and, in many cases, the traditional nondynamic values and behavioral norms prevail. Hence, in most countries, there is only a difference of degree in the attitudes toward and the capabilities for accelerating economic and social development among people engaged in public-sector activities as compared with those in the private sector. Nevertheless, such differences of degree can be of crucial importance because little if any development is likely to occur in most countries unless the government is willing and able to take the lead in planning and stimulating it.

There are, however, certain specific factors that inhibit the government from making more effective efforts to enlist the active participation of the private sector in development planning. As already noted, the commitment of many developing countries to socialism carries with it a tendency to denigrate private enterprise and to minimize the role assigned to it in the national development strategy. But, the reservations regarding the private sector of many political leaders and civil servants

result not only from ideological objections to private enterprise per se. They also reflect attitudes that are implicit in the governmental institutions of developing countries and the development functions which they are endeavoring to perform.

There is a natural tendency for government agencies in developing countries to assume a major share of economic decision-making and activity in an effort to accelerate economic growth. In part, as we have seen, this tendency reflects the inability of the private sector, if left to itself, to initiate and finance many necessary development activities. However, this tendency also results in part from the failure to provide market incentives and assistance programs capable of stimulating and helping the private sector to undertake more of these activities. Instead, political leaders and government officials tend to feel that adequate implementation of approved programs and projects can be assured only if they are undertaken by government departments and state-owned corporations rather than left to private entrepreneurs.

Indeed, government planning always carries with it the danger that all economically significant activities not under the direct control of the planners will be considered unreliable. This inclination exists without regard to whether implementation is, in fact, more effectively done by public agencies than when left to market incentives and the

initiative of private organizations. For these reasons, even in countries that are not committed to socialism, there is a tendency to underestimate the capabilities of the private sector and to make inadequate provision for the kinds of incentives and assistance programs necessary for it to realize its potential.

A second factor inhibiting the willingness and ability of governments to enlist effective private participation in development planning arises from the deficiencies of government ministries themselves. They, too, are short of personnel qualified by training and experience to deal effectively with representatives of the private sector. Information is lacking for enabling them to determine the specific functions that private participants can perform in plan preparation, review, and execution. The natural bureaucratic tendency to prefer routine decision-making and operations to innovation and initiative also inhibits the effectiveness of the government in dealing with the private sector. Finally, bribery, favoritism, and other forms of corruption impair confidence on both sides of the government-private relationship.

### C. The Implications of Different Approaches to Planning

In these ways, certain economic and social characteristics of the private sector and of the government influence the willingness and ability

of both to cooperate effectively in national development planning.

However, they are not the only significant factors that need to be taken into account. In addition, the choice of planning concepts and methods plays an important role in determining the scope for and effectiveness of private sector participation. When a country decides to undertake national development planning or to improve its existing system of planning, it has to make a number of technical and procedural decisions as to how it will plan that have important policy implications. Choices need to be made regarding the scope, or degree of comprehensiveness, of the planning effort; the amount of detail in which planning is to be carried on; and the relative extent to which economic decisions will be governed by the decentralized market process, on the one hand, and by explicit decisions and actions of centralized governmental authorities, on the other hand. These three sets of options are closely interrelated, and the choices made regarding them help to determine the effectiveness not only of the planning process per se but also of private-sector participation in it.

#### Comprehensive versus Public-Sector Planning

The alternatives with respect to the scope of the planning effort are (a) to restrict planning to the public sector--that is, to the investment and current operating expenditures of governmental agencies--or (b) in

addition, to include the activities of the private sector in the planning effort, which then would cover the economy as a whole.

In a significant sense, all countries plan their public sectors as soon as they adopt the practice of preparing and implementing annual government budgets. However, budgetary planning is by nature short term and does not, therefore, adequately take into account the fact that the construction of public investment projects commonly requires more than a single budgetary year, and current operating expenditures tend to increase over time as these projects are activated upon completion. For these and other reasons, many countries have also adopted a longer-term method of public-sector planning. Usually covering three to five years, these public-sector plans specify the investments to be made during the planning period and, in some cases, also project the increased operating expenditures that will be necessitated by the completion of investment programs.

In virtually all countries, experience with public-sector planning has shown that it has three major deficiencies. The first is the difficulty of translating the longer-term plan into specific investment projects. This is usually the responsibility of the operating ministries or agencies of the government which, in many countries, lack the technically trained personnel required for devising and engineering projects. The second is the difficulty of ensuring that the annual budget appropriations are

coordinated with the expenditure schedules required to complete longer-term investment projects in a reasonably economical way. In part, this is a conceptual problem; many countries have been unwilling or unable to adopt the kinds of accounting techniques needed for meshing the annual budget with the longer-term public-sector plan. In part, it is a problem of appropriations procedures. Many countries divert funds from approved activities toward the end of a budgetary period in order to cover the substantial deficits of other programs and of public corporations--deficits which were anticipated at the beginning of the period but for which no provision was then made.

However, in greatest measure, this difficulty arises from political causes. Particular ministers or ministries are sometimes powerful enough in their own right or because they represent important special-interest groups to ensure that the annual budget includes appropriations desired by them regardless of whether such expenditures are for projects and programs initiated in the longer-term public-sector plan. National legislatures may also add or delete projects in the course of approving annual budgets regardless of whether such actions conform to the public-sector plan.

The third major deficiency of public-sector planning arises from the fact that it covers only a part of the total economy. This is probably

the crucial technical consideration inducing countries to opt for the alternative of comprehensive national planning. Public-sector planning does not in itself provide the information necessary for anticipating whether the economy as a whole is likely to get seriously out of balance either internally or in its relationships with the rest of the world. If the entire economy, in both its internal and external aspects, constitutes the frame of reference for planning, then it is possible to estimate the total resources likely to be available from domestic production and imports during the planning period and to balance against them the projected demand for private consumption, productive investment, government expenditures, and exports. A balance between supply and demand can then be formulated on the basis of realistic assumptions regarding the factors affecting domestic economic growth and imports during the planning period. It is generally not possible, nor would it be desirable, to implement exactly the supply and demand schedules in such a national accounts projection. However, if it has been carefully prepared, a comprehensive planning framework of this kind makes it possible to identify in advance--and to take measures to avoid or to minimize--three kinds of serious imbalances that could arise in the course of the planning period.

The first is the possibility that aggregative demand--that is, the total demand for goods and services from both the public and the private

sectors--would be sufficiently greater than the available supply to generate a degree of inflationary pressure that would seriously warp the pattern of investment, cause increased economic hardship for the low-income groups constituting the great majority of the people, and adversely affect the country's external relationships by reducing or inhibiting exports and stimulating imports. The second is the possibility that the external economic relationships of the country would be more directly unbalanced by investment programs or consumption demands so large as to require imports of capital equipment and consumer goods in excess of those that could be financed with the foreign exchange earned from exports, obtained from foreign private investment, and transferred as loans and grants from other governments and international agencies.<sup>5</sup> The third type of imbalance detectable through comprehensive planning is that among various geographical regions within the country or between the two main functional sectors of the economy--agriculture and industry.

The process of preparing a comprehensive plan provides opportunities for detecting such existing and prospective general imbalances affecting the economy as a whole. For this reason alone, it is technically

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<sup>5</sup> A pertinent example of how planning makes it possible to detect an imbalance of this type occurred in the course of preparing Pakistan's Third Five-Year Plan. Using a comprehensive model of the Pakistan economy, which became available late in the drafting of the Plan, the planners caught an error in the estimates of the growth rate that, if uncorrected, could have led to serious shortfalls in food and fiber exports and an unacceptable deficit in the trade balance.

superior to the alternative of planning only the public sector. Indeed, public-sector planning itself can be conducted efficiently--that is, with an economical use of resources and without inducing excessive strains and shortages elsewhere in the economy--only within the framework of comprehensive planning. Thus, when countries seriously resolve to engage in development planning, they sooner or later opt for a comprehensive approach that includes the private sector, at least for analytical purposes.

#### Macro versus Micro Planning

Comprehensive planning by itself, however, does not provide information about other types of significant imbalances that can occur within a growing economy or about specific opportunities for productive investment that could contribute to achieving and sustaining a high rate of growth. For these purposes, a decision has to be made regarding the degree of detail in which the economy is to be planned. However, the choice of macro (that is, in broad aggregative and sectoral terms) or micro (that is, in terms of specific activities, projects, and even individual producing and investing units) planning is not between sharply defined alternatives, as in the preceding option, but relates to the kind and amount of disaggregation--that is, breaking down into component parts--to which the planners will subject the supply and demand estimates for the economy as a whole.

In any development plan, the public sector will by its nature be broken down in the greatest detail. Public-sector planning commonly begins with the identification and evaluation of individual investment projects and functional activity programs by the responsible ministries, public corporations, and other agencies of the government. The specific proposals emanating from each of these governmental departments are then further evaluated by a central planning agency, which usually has the responsibility of preparing a coordinated public-sector plan that will not exceed the resources likely to be available during the planning period. Disagreements between the operating ministries and the planning agency regarding the inclusion of specific projects and programs in the plan, or the amount and timing of the resources to be allocated to them, are generally settled by negotiation or by decision of the highest planning authority--usually a national development council or the chief executive himself. Regardless of the variations that exist in planning procedures for the public sector, they all involve detailed planning at the level of specific investment projects and functional programs.

While by its nature public-sector planning will be carried on in considerable detail, there is a wide latitude for choice with respect to private-sector planning. Usually, an explicit decision has to be made regarding the degree of disaggregation to which the estimates for the private

sector will be subjected. Such disaggregation serves essentially two purposes--one during the stage of plan preparation (discussed here), and the other during the stage of plan implementation (discussed below).

In theory, the more information the planners have about the private sector, the more effective their planning is likely to be. By breaking down the aggregate estimates for the private sector into specific agricultural, industrial, and service activities, it is possible to estimate their capacity for growth during the planning period and the resources they will need to provide the required productive facilities and to achieve the desired rates of output. Information in this degree of detail, properly coordinated and correlated, can be used to identify the specific shortages of capital equipment, raw materials, manpower, and other factors of production likely to prevent achievement of the projected levels of investment and production. Judgments can then be made as to whether and how these imbalances can be overcome or as to whether the plans have to be changed because the effort needed to deal with these imbalances would be beyond the capacity of the economy or would require elimination of other activities of higher priority.

Thus, detailed analysis of the private sector can provide useful information regarding the interdependencies among the many specific

activities comprised in it and the possible bottlenecks and imbalances that could arise in the course of the planning period. However, whether a country will engage in detailed private-sector analysis and, if so, the extent of the detail, depend on several considerations.

The first relates to the ability to obtain the required data regarding the existing activities and future capabilities of the private sector. In most countries, these data do not exist, and systematic recurrent arrangements to obtain them take time to establish and to begin to operate effectively. Second, personnel possessing the economic knowledge and the technical skills needed for processing and interpreting such data are lacking in many countries. Again, it takes time to train a planning staff that can make effective use of information of this kind. These two constraints usually set the limits on the degree of detail in which private-sector analysis can usefully be carried on in most countries today.

However, there is also a substantive policy consideration of major importance involved. In theory, if enough time and effort were spent, it would be possible to obtain sufficient information about the private sector in any detail desired, even down to the level of individual business firms and family farming units. This would be the equivalent of the highly centralized and detailed planning attempted by the communist states until

their recent reforms. Their failure, for the reasons outlined in the first section of this essay, reinforces the undesirability of trying to plan the private sector in this degree of detail.

Moreover, with respect to the preparation of the plan, it is doubtful whether the additional insights that might be obtained from very detailed private-sector analysis regarding the interdependent relationships and possible imbalances of the economy would warrant the expense involved and the burden on the private individuals and organizations that would have to provide the necessary raw data. If, further, it were decided that no use would be made of such information during the implementation stage, then doubts about very detailed planning of this type would be compounded. The latter consideration is particularly important and can best be explained as part of the discussion of the third option.

### Government Decisions versus the Market Process

In the implementation stage of planning, the question of macro versus micro planning takes the form of deciding upon the relative roles to be played by planners' decisions and administrative controls, and by the incentives and pressures of the market process as influenced and regulated by fiscal and monetary policies and governmental programs of

various kinds. Again, the choice is not between clear-cut alternatives but relates to the nature and extent of government involvement in the operations of the market.

In an earlier section, this question was discussed as one of the elements in the argument regarding the comparative efficiency of decision-making in market economies and in centrally planned systems. Here, it would be desirable to apply the results of that analysis specifically to the problem of choice as it exists in developing countries today. Most of them have explicitly or implicitly decided to rely on market processes for a substantial--and in many cases for a predominant--portion of their economic activities. However, all of them in this category have recognized the need to stimulate, guide, regulate, and supplement market processes in order to ensure that the allocation of resources adequately covers all high-priority purposes and that the distribution of income is conducive to realization, sooner or later, of important social values and national objectives.

In addition, there are a number of factors operating in the developing countries that are less important in the market economies of Western Europe and North America. Chief among them are the need for government initiative in formulating and executing a national development strategy. Also significant are ideological considerations--the explicit

commitment of many developing countries to socialism of one type or another and the belief that even indigenous private enterprises are immoral or in some fashion agents of "neo-imperialism." Efforts to satisfy these needs and convictions take two main forms: expansion of the scope of the public sector, principally in the form of state enterprises, to embrace many types of economic activities which private enterprises, indigenous and foreign, are unwilling or unable to undertake or in which it is believed undesirable for them to engage; and the use of detailed administrative controls of various kinds to regulate the operations of businessmen and farmers carrying on the activities permitted for the private sector. Countries committed to such detailed control of the operations of the private sector are thereby impelled to attempt the detailed type of micro planning, explained above, so as to obtain the information needed to formulate the specific targets for, and the restrictions on, private producers, investors, and consumers.

The best known example of a country that has been trying to implement such detailed plans for controlling private-sector activities is India. Although private enterprise accounts for 85 per cent of India's industrial production, virtually all of it has been itemized in the government's sectoral plans, and investments of any significant size in all industries have been tightly controlled. The Planning Commission not only

has a five-year target for bicycle production, for example, but it has also specified how many will be produced by each factory, where its supplies will originate, and how large the import component will be. These are forecasts rather than mandatory orders, and they are arrived at in consultation with the private sector. But, they serve the government as guidelines for the application of a powerful and cumulative assortment of licensing and regulatory measures. They include licensing the construction and equipment of new facilities and of substantial expansion of existing factories, allocating foreign exchange, licensing imports, controlling capital issues, and occasionally regulating the distribution of electric power. In the last year or so, the practice of detailed planning has been intensified but the detailed system of control and regulation has been relaxed to some extent.

Most developing countries, in contrast, do not endeavor to control the market process to anywhere near the same degree. In part, they recognize the impossibility of obtaining the highly specific and up-to-date information required for carrying on such detailed planning for and control over the private sector. In part, also, they know that it would impose an excessively heavy burden of decision-making on planners and administrators. Inevitably, the scarcity of adequately trained personnel and the long bureaucratic delays are conducive to favoritism, bribery, and "black market" activities.

In addition, the substantive policy consideration, noted in the discussion above of micro versus macro planning, is of major significance in deciding on the degree of detail in which to control the activities of the private sector. This is the fact that many of the specific imbalances that detailed government decision-making and administrative controls are supposed to eliminate are not harmful. Indeed, quite the contrary; they are among the most important stimuli to economic growth. Unfortunately, however, the criteria for distinguishing between the kinds of specific imbalances that are desirable and those that are undesirable can be described only in the most general terms, and they are, therefore, useful only as a general guide.

On the one hand, it would be very wasteful for most developing countries to invest a substantial amount of scarce capital in constructing an automobile factory, for example. This is because most of them lack the facilities for producing the many different materials, components, sub-assemblies, and parts required; they do not have markets of sufficient size for manufacturing the intermediate products on a large enough scale to be economical; and, because their foreign-exchange earnings are inadequate, they must eliminate other higher priority imports in order to buy them abroad. On the other hand, building a plant to make fractional and small horsepower electric motors might stimulate the production of iron castings,

copper wire, and other needed components, for which additional demand within the country from other industries might already exist or could thereby be stimulated. In turn, the availability at economical prices of fractional and small electric motors could foster the establishment, expansion, or more efficient operation of other industries using them as a component of their own products (e.g., irrigation pumps, machine tools, refrigerators, etc.).

A major purpose of analyzing the private sector in some degree of detail is to try to identify in advance the significantly harmful imbalances likely to arise during the planning period--that is, those to which the economy would lack the capacity to adjust or which would be excessively costly and time-consuming to overcome as compared with other possible uses of the resources required. Unfortunately, it is not always possible to forecast such potentially dangerous imbalances and, even when they are recognized, considerations of national prestige, political pressures, and the power of special interests can induce countries to persist in undertaking projects that will cause serious dislocations and economic strains. To some extent, however, both the plan itself and the planning process can help to deter such actions through their educational effects.

In addition to the difficulty of anticipating harmful imbalances and of counteracting the factors producing them, there is the danger that

extensive regulation and control of private activities in accordance with a detailed plan for the private sector will eliminate, or severely restrict, the beneficial imbalances as well. Nor is it generally possible to plan for such stimulative imbalances in advance. In fact, their creation is one of the essential and most desirable functions of the market process.

Finally, a growing number of countries recognize the desirability of encouraging the initiative and dynamism of the private sector so that it can play a more effective role in the national development effort. Detailed regulation of private activities by government authorities inhibits such desirable characteristics and often discourages businessmen and commercial farmers from conducting their operations in ways that can increase their contribution to economic growth. In general, market incentives and pressures produce the opposite effect. They can stimulate the qualities of entrepreneurship--innovativeness, competitiveness, managerial efficiency, etc.--which are necessary for the private sector to overcome its deficiencies and thereby substantially enhance its role in national development.

On balance, then, analysis of private sector capabilities and prospects is certainly a useful aspect of the planning process. The greater understanding of the economy's problems and potentialities thereby obtained can be beneficially used to define national goals and investment

priorities and to anticipate major bottlenecks and shortages. But very detailed planning of the private sector and its implementation through extensive regulations and controls are likely to do significantly more harm than good.

#### D. Why Private Sector Participation in Development Planning

It may be helpful at this point to recapitulate the main outlines of the analysis.

We have seen that the egoistic drive toward individualization and satisfaction of self-interests and the parallel altruistic drive toward social identification and uniting with others in the interests of the society as a whole are both rooted in the deepest aspects of the process of personality formation and maturation. They express themselves in different ways and in varying intensities in different types of society. In the homogeneous, stable and static traditional society, social structure and relationships, and cultural values and behavioral norms foster identification and inhibit individualization to the point where little, if any, competition is perceived between self-interest and social interest. Indeed, the two are usually felt to be identical.

The more differentiated a society becomes, and the more the interests of its constituent social units and groups diverge, the more

diffuse social identification is and the greater the scope for and stimulus to the process of individualization. In consequence, egoistic drives to satisfy the interests of the individual and of the organizations and social groups closest to him (that is, those with which his identification is most intense and on which his own sense of identity is most deeply dependent) become increasingly powerful. The development of altruistic concern for the society as a whole (that is, for the public good, the national interest) tends to lag very far behind.

Thus, especially in their early stages, differentiated societies are highly particularistic, and have great difficulty in reaching an effective consensus on national goals and priorities and even more difficulty in deciding on and carrying out the measures necessary for achieving them. In the transitional societies of the developing countries, these effects of particularism are compounded by the wide differences between the old and new social groups and organizations of which they are composed, and the deep incompatibilities between the traditional and Westernized values and behavioral norms that people are expected to follow.

All societies endeavor--with greater or lesser effectiveness--to control, suppress, and harmonize the conflicts and incongruities between self and particularistic interests, on the one hand, and general social

interests, on the other hand. The means always combine varying degrees of repression and coercion and of rational evaluation and voluntary commitment. The former range from the basic social approbation, condemnation, and ostracism by which conformity to the accepted values and behavioral norms of the culture is induced; through legal punishment for failure to observe explicit laws, regulations, and administrative orders; to the direct use of force to secure complete obedience to the will of the sovereign power.

However, these means tend to be significantly less effective in the newly differentiated transitional society than in other kinds of heterogeneous societies. The transitional society does not inherit from its traditional past concepts of the public good and the national interest and norms of behavior for achieving them. Efforts to rely predominantly on coercive measures are weakened by lack of the resources and skills needed to enforce them and are resisted, actively and passively, by the drive to satisfy particularistic and self-interests. In turn, such resistance often provokes even more comprehensive and coercive attempts at repression. If successful, they impair morale and efficiency; if unsuccessful, as is usually the case, they waste time and resources and undermine the regime's prestige.

There is, however, an alternative approach which accepts the existence of particularistic and self-interests and seeks to enlist the strength of their egoistic drives in the altruistic service of the society as a whole. It does not do so by trying vainly to recapture by exhortation and coercion the traditional society's identity of self- and social interests, as do contemporary totalitarian states, or by permitting unlimited scope for self-interest in the mistaken belief that the greatest good for all will thereby be automatically ensured, as did 19th century laissez-faire capitalism. Instead, it uses a combination of regulations to restrict the antisocial actions of particularistic groups and individuals and the conflicts among them, and rewards to encourage them to orient their actions toward the achievement of generally accepted national goals. The means include the strengthening of voluntary commitment to socially responsible behavior by fostering the concepts of nationhood and the national interest and the desire to help realize universalistic values of justice, freedom, and welfare. They comprise laws and regulations prohibiting harmful actions and protecting the rights of individuals, organizations, and groups to pursue their own interests within these limitations. They involve policies and programs for stimulating and assisting individuals, organizations, and groups to obtain the resources and skills required to carry on activities which serve both their own interests and those of the society as a whole.

The merit of this median approach is by no means limited to avoiding the deficiencies of the extremes of coercion and laissez faire. Its advantages are positive as well. With respect to the private sector, recognition of the power of egoistic drives and appropriate measures for controlling them and orienting their satisfaction toward the achievement of national goals would yield several kinds of substantial benefits.

First, by fostering the growth of the private sector, a nation can mobilize indigenous resources of money, skills, and human energy that would not otherwise be available to it. In order to start or expand productive activities of their own, individuals and groups tend to be willing to save, instead of consume, more of their incomes, and--even more important--to work conscientiously and for longer hours than people are generally willing to do for other purposes. Today and for the foreseeable future, all developing countries are confronted with shortages of money, skills, and diligent effort. By encouraging the private sector, rather than relying solely or predominantly on the public sector, they can eventually mobilize a significantly larger proportion of these necessary resources relative to the total potentially available.

Second, the scarcity of development resources in all countries means that every effort needs to be made to reduce waste and inefficiency to a minimum and to take advantage of improved methods and new

opportunities. As we have seen, the private sector usually has stronger incentives than the public sector to use scarce resources efficiently, and it has a greater propensity for technological and managerial innovation. Also, being less constrained by bureaucratic procedures and inhibitions, the private sector is more prone to recognize and grasp the opportunities for diversification that arise in the process of economic growth.

Third, a growing private sector tends to provide substantially greater productive employment than the public sector normally can. This is because private sector activities in agriculture, commerce, the service trades, and even in manufacturing are likely to be labor intensive while those in the public sector tend to be capital intensive. With unemployment and underemployment a serious problem in many developing countries, they cannot afford to neglect the job-creating potential of the private sector as a supplement to, and eventual replacement for, publicly financed work-relief programs of various kinds.

Fourth, reliance on the private sector means scope for decentralized economic decision-making and activity under the influence of market forces. Although, in practice, the market may not be as efficient and welfare-maximizing as classical economic theory insisted it would be under ideal conditions, it nevertheless is a more effective method of allocating resources for many purposes than is the alternative of

detailed central planning. Moreover, its instabilities can be offset by government policies fostering monetary stability and appropriate rates of saving and investment; its limitations with respect to social capital and infrastructure can be overcome by public sector projects; and its inequities can be mitigated by government programs designed to improve income distribution, raise living standards, and assist disadvantaged groups and localities. Supplemented, guided, and stimulated by such government policies and programs, the market can relieve political leaders, government officials, and technical planners of the necessity of making a vast multitude of decisions for which they usually lack the requisite personnel, information, and skills. In this way, it enables them to concentrate their available time and talents on the many and difficult policy and operating decisions that can only be made effectively by governments.

In these and other ways,<sup>6</sup> the encouragement of the private sector can hasten the achievement of economic independence and a satisfactory rate of growth by developing countries. The more capital, skills, and diligent effort of its own that a country can mobilize, the less dependent it will be upon aid obtained from abroad. While an adequate flow of such foreign resources through private, governmental, and international channels to the developing countries is essential for accelerating their economic growth, both the period and the degree of their dependence, and hence of their restricted freedom of action, can be significantly reduced by fostering the development of their own private sectors.

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<sup>6</sup> In two previous studies by the National Planning Association, the reasons for encouraging the quantitative and qualitative growth and diversification of the private sector are presented in considerable detail, and the difficulties involved and the possible measures for mitigating them are explained. See Theodore Geiger and Winifred Armstrong, The Development of African Private Enterprise (Washington, D. C.: National Planning Association, 1964), and Frank Brandenburg, The Development of Latin American Private Enterprise (Washington, D. C.: National Planning Association, 1964). The analysis in each study takes explicit account of the differences between the two regions. The African study is also available in a French edition (Paris: Centre Regional d'Editions Techniques, 1964) and the Latin American study in Spanish and Portuguese editions (Bogota: Ediciones Tercer Mundo, 1965) and (Rio de Janeiro: Editora Atlas, S. A., 1966), respectively.

The contribution of the private sector in all of the foregoing ways will be greater in proportion to the dynamism and sense of social responsibility of the individuals and groups comprising it. In virtually all developing countries, the extent to which private individuals and groups already possess these essential qualities is still quite low, but this is equally true of many officials responsible for organizing and managing the activities of the public sector. Basically, as we have seen, lack of dynamism and an inadequate sense of social responsibility are characteristic of transitional societies and in the main will be overcome by the slow progress of social and cultural change operating primarily through the decades-long processes of socialization and education. However, the development of more dynamic and socially responsible attitudes can be significantly accelerated through personality and attitude changes resulting from certain kinds of experiences which both government officials and individuals and groups in the private sector can undergo.

Such experiences include all situations that induce or compel the participants to recognize and to evaluate validly the broader and longer-term implications of self-interested actions. One of the most powerful in generating more dynamic and socially responsible ways of thinking and acting is the experience of playing a significant role in the preparation and execution of national development plans. Indeed, over the longer term, it

may well be that the greatest value of development planning will be found to lie in such educational effects--that is, in improving knowledge and understanding of how the national economy operates and of its potentialities for growth; in revealing the specific opportunities for making productive investments and useful innovations in both the public and the private sectors; and, most important of all, in broadening the intellectual horizons, lengthening the time perspectives, and enriching the conceptual frameworks of the people involved.

Political leaders, government officials, and professionals engaged in public-sector activities are by the nature of their functions involved in one or another aspect of the development planning process. In consequence, they are ipso facto exposed to its educational effects. This is not true of individuals and groups in the private sector who, in normal circumstances, tend to be only passively affected by development planning. Government policies, programs, and exhortations are directed at them; but, in most countries, they themselves are rarely involved in preparing and carrying out the policies, programs, and appeals comprised in development planning. Yet, the more directly and responsibly private individuals and groups participate in the planning process, the greater will be their willingness to make the productive investments expected of them, and the greater will be their ability to undertake the decisions and actions

required for the achievement of national goals. Both the intellectual understanding and the personal motivation of people in the private sector will be strengthened by their growing awareness of and commitment to universalistic values, national aspirations, the public interest, and the norms of behavior appropriate to them.

Thus, through its educational effects, private sector participation in development planning is probably the major means by which the interests of private individuals and particularistic groups can be harmonized in voluntaristic ways with those of the society as a whole. This result is usually achieved through the specific ways in which the government and the private sector mutually benefit from private sector participation in development planning. When effectively organized, it provides government planners with their most important source of information regarding the existing and potential productive resources of the private sector of the economy; the latent capabilities and actual plans of enterprises, farmers, cooperatives, and other organizations and individuals for increasing their investments, expanding their operations, and improving their efficiency; the present and possible future composition and rate of growth of final demand and inventory accumulation; the existing and prospective need for capital and credit; the implications of private sector activity for imports, exports, foreign exchange availabilities, and

other factors affecting external economic relationships; and the specific bottlenecks and difficulties--including government policies and activities--impeding the development of the private sector. Conversely, it is the most important means by which the private sector learns about the general goals and specific targets projected by the government for the national economy; about the programs and projects in the public sector having significant implications for the present and future operations of the private sector; and about existing and prospective policies, regulations, incentives, controls, and other devices whereby the government affects the performance of the private sector. For both, it provides the most effective mechanism by which each side can influence the policies and activities of the other while they are in the formative phases and, hence, are more susceptible to mutual accommodation.

Before concluding, it would be well to comment briefly on two crucial implications of the foregoing analysis that are too often overlooked by developing countries.

The first relates to one of the key elements in the process of harmonizing self-interests with those of the society as a whole. Insofar as

the economic activities of private individuals and groups are concerned, the essence of the self-interest involved is profit. Now, profit is a bad word to many people, not only in the developing countries and the communist states but also in Western Europe and even in North America. The notion that profit is evil has its roots in medieval Christian doctrines, and it was stripped of its religious, although not of its moral, connotations by 18th and 19th century socialists. Certainly, there is a valid case, on pragmatic as well as on moral grounds, for concluding that excessive profit can be detrimental not only to the social interest but also to the longer-run self-interest of the individual, organization, or group concerned. But, it is likewise true that, unless a reasonable prospect exists for making an adequate profit, there is really no self-interest involved for them. This fact of life is too often ignored by political leaders, government officials, and development planners who complain about the unwillingness of the private sector to undertake investments and activities that they believe are in the national interest. Unfortunately, it is by no means easy to determine in specific situations what an adequate rate of profit should be. On the one hand, it has to be large enough to provide an effective incentive for people to commit their capital, skills, and conscientious effort to new or expanded activities. On the other hand, it must not adversely affect the national interest by exceeding reasonable

standards of equity or by wasting scarce resources through the inefficiencies resulting from excessive subsidies and tax concessions, tariff and quota protection, monopoly privileges, and other such devices.

The second essential implication of the analysis relates to the time scale involved in organizing effective private sector participation in development planning. Most commonly, those responsible on both sides for establishing and carrying on institutional arrangements for government/private-sector relationships anticipate significant benefits within a year or two. Almost invariably, these expectations are disappointed and the effort is then abandoned. In many cases, of course, such failures occur mainly because--whether intentionally or not--the institutional arrangements are inadequate or are only partially activated. However, an unrealistic time scale is often a significant element, and sometimes impatience is the major reason for the collapse of arrangements for private participation. Assuming that both sides sincerely intend to establish and operate an effective mechanism, they need to recognize that the minimum trial period is at least five years and in many countries is probably ten.

To counsel patience is not the same thing as counselling complacency. Even with a trial period of adequate length, arrangements for private participation in development planning are not likely to yield their benefits to either side unless each sincerely intends to make them

work, conscientiously fulfills its obligations in connection with them, and constructively seeks to improve them as their deficiencies are revealed. In these respects, the political leaders and government officials involved have to set the example and provide the initiative, at least in the early decades. As we have seen, traditional attitudes and doctrinaire prejudices on both sides are among the major obstacles to effective government/private-sector relationships. In transitional societies, governments have to provide the main leadership for change--in the attitudes affecting private-sector participation no less than in the other aspects and dimensions of the development process. As they do, the benefits produced over time by effective private-sector participation in development planning will be much more substantial and enduring than has as yet been recognized by most people in the governments and the private sectors of the developing nations.