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THE PRIVATE SECTOR IN DEVELOPMENT PLANNING
(With an application to the Philippine context)

by

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This report by Dr. Ayal represents background information on the private sector in development planning, with some reflections on the problem as it is posed in the Philippines. The report grew out of two lectures presented to the University of the Philippines' Training Program in Development Economics. The paper attempts to present a summary of relevant conclusions from the author's survey of the literature and his general research experience in Southeast Asia.

It should be noted that this paper is not concerned with the main subject of Dr. Ayal's empirical work in the Philippines. Dr. Ayal is primarily concerned with an intensive survey study of the development of private manufacturing. Reports on the results of this study will be submitted in the future when Dr. Ayal's survey work has been completed and the results analyzed.

Since this is a preliminary working paper, it is not intended for quotation.

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This paper consists of three parts. Part I investigates the special problems which arise in the planning of a private enterprise economy, in general, and in a less developed, small open economy, in particular. Part II provides a summary of the Philippine experience with development planning. Part III deals with the special problems of planning in the Philippine private enterprise economy. Some studies germane to improving the basis of Philippine planning are suggested.

Private versus Public Sectors

The two terms in the title of this paper are so common that one tends to forget that they have different meanings for different people. The term "planning" is used for a wide variety of predictive and coordinative measures which range from a nearly complete control over the allocation of factors of production by a central authority to statistical projections of past performance, or merely a list of desirable objectives. "Private sector" usually refers to the multitude of economic activities performed by non-governmental entities. The borderline between what is private and what is public is often obscure, and the same situation would be defined differently by different analysts. Two major alternative criteria for distinguishing the two sectors are: (1) a definition based on ownership and (2) a definition based on decision-making criteria.

The relationships between the public and private sectors, however defined, are not amenable to a purely economic analysis. The reason is that these are not functional sectors in the strict economic sense.[1] Whether any specific economic activity belongs in one or the other is often the result of historical, ideological, or arbitrary reasons which may have little to do with purely economic considerations. Thus, almost any economic activity can be either governmental or private. Even such spheres of activity as public utilities, which in most countries nowadays are considered to belong exclusively in the domain of the public sector, are, or have formerly been, run by private companies in some countries. Often there are alternating shifts of certain activities from one sector to the other. In the case of some entities, it is difficult to determine to which of the two sectors they belong. Examples are joint ventures or government-owned entities which operate outside the framework of the national budget.

Moreover, the fact that one of these sectors is the government creates a unique situation in terms of the relative power of the sectors and the nature of any interaction between them. The government can impose its will irrespective of the economics of the situation.

It is obvious from the above that the term "sector," as used in this context, differs, analytically, from the usual economic sectors such as

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[1] For an exposition of the variety of the uses of the term "sector," see Joseph L. Tryon, "The Coordination of Sectoral and Aggregate Plans." (Washington: National Planning Association, Center for Development Planning, M-8761, June 1966) pp. 6-9.

agriculture, manufacturing, trade, etc. It would not be meaningful to investigate, for example, the terms of trade between the public and private sectors or the objective economic determinants of resource allocations between them. Since the scope of activities encompassed by the two "sectors" is different in each country, it would not be possible to apply conclusions derived from the analysis of one country's economic relationships between these "sectors" to another country.

In spite of such reservations, the continued distinction between the public and private sectors is meaningful, especially in reference to planning. Specifically, the methods used by the central government to implement the plan objectives differ radically between these two sectors. In the case of the public sector, the government can administratively determine the allocation of resources and the implementation of plans, programs, and projects. In the case of the private sector, however, the objectives of the government are achieved through policies.

This implies that a meaningful definition of the sectors should be based on the methods through which the wishes of the government are put into effect. This is essentially a distinction based on decision-making criteria. Entities which are free to make their own decisions are considered part of the private sector, irrespective of who owns them. Application of these criteria may also involve doubtful borderline cases. Such cases are of minor importance, however, when compared with the great benefit to be derived from the establishment of a method of analysis that can be applied uniformly to countries with varying institutional arrangements.

I. THE NATURE AND PROCESS OF PLANNING

Definition of Planning

We have already noted that planning means different things to different people. There is as yet no intellectual framework that sets up planning as a discipline.[2] The term "plan" is attached to a variety of systems of organization in various fields of human endeavor. Even within the more confined field of economics, the term carries a variety of meanings. The common denominator is that economic planning is concerned with resource mobilization and allocation among various units and sectors, thereby accomplishing certain objectives.

The broad definition of economic planning is practically synonymous to the definition of economics. The latter, as presented by Samuelson in the latest edition of his textbook, is as follows: "Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources to produce various commodities over time and distribute them for consumption, now and in the future, among various people and groups in society."[3] In this sense, every society is "planned" because every society solves these problems of allocation and distribution in some

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[2] For an interesting attempt to embark upon what may become a general theory of planning see Walter Firey, Law and Economy in Planning (Austin: The University of Texas Press, 1965).

[3] Paul A. Samuelson, Economics, Introductory Analysis (6th ed.; New York: McGraw-Hill Book Company, 1965), p. 5.

fashion. Countries differ with respect to the degree of governmental involvement in and direction of this process. The government can provide the objectives as well as the methods designed to achieve them. But a conscious and systematic involvement of government is not essential for rendering society a "planned economy" in the aforementioned sense.

Current usage, however, has tended to reserve the term "planned societies" for those countries that have evolved a formal plan. The few countries which have thus far resisted the temptation to work out such explicit plans are often referred to as "unplanned economies." Current usage also tends to confine the application of the term "planning" to plans for economic development (usually defined as a rise in the material level of living). In this paper, we will follow broadly this current usage and deal primarily, but not exclusively, with development planning. However, before proceeding, we wish to make a few further clarifications.

Economic planning is a recourse for many kinds of economic entities. Most private corporations have their own plans wherein they determine in advance the actions they intend to take during a specified period. Every budget of any administrative unit could be deemed a plan covering the budget period. Schemes for determining the physical and other outlays of municipalities and regions are also usually referred to as plans. In the present paper, however, we deal with development planning which takes the country as a whole as the reference unit. Thus, our definition for development planning is best presented as: Governmental programs consciously specifying objectives and continuously pursuing deliberate measures designed to achieve the economic development of the country.[4]

Countries differ in the methods of implementing such plans. For example, in Communist countries, all resources (ideally) are directly allocated by the central political authorities. In most countries, however, direct central allocation is limited to the public sector, which may constitute only a part, often a small part, of the economy. This means that the government has to employ more indirect methods when attempting to influence the private entities to make decisions appropriate for fulfilling plan objectives.

It is probably safe to make the generalization that the greater the share of government in the economy, the more detailed the plan is likely to be, if only because government expenditures are detailed in the annual budget document. Whether an explicit plan exists, however, it is important to remember that practically everything the government does affects the economy, intentionally or otherwise. Let us consider the budget. Even governments that do not invest at all (and there is no such government since, at the very least, they have to build schools, highways, etc.) have to finance their current operations. In obtaining revenue from a variety of

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[4] For a detailed exposition of the various kinds of development planning, see Albert Waterston, Development Planning, Lessons of Experience (Baltimore, Md.: The Johns Hopkins Press, 1965), especially Ch. II and the sources mentioned there. For his purposes, Waterston included in his definition multinational and subnational planning. This is not necessary for our purpose.

possible sources, the government inevitably influences economic activity. Indirect taxes affect commodity prices; income taxes affect incentives and savings; etc.

Most governments go much further, of course. They have an explicit or implicit capital budget for investments. The kind of investments chosen is of great importance in determining the course of the economy's future development. Moreover, the government has many tools other than the budget that it can use to affect the economic environment in which the private sector operates. Examples include import and export quotas, foreign exchange control and allocation, and credit conditions and control (normally the function of the Central Bank). Further, the government can serve as supplier of pertinent information and as a provider of education, health measures, research, etc--all functions which have a bearing on the economy's operation.

Our interest in this paper is focused on planning in less developed countries, with special reference to the Philippines. In singling out less developed countries, we recognize that there is a difference between the problems faced by policy-makers in less developed countries, like the Philippines, and those faced by their counterparts in developed countries, like the Netherlands. Many of the causes for economic backwardness are institutional. Often the price system is not a very effective mechanism for allocating resources due to the rudimentary state of the markets, especially for capital goods. Even where markets are effective in the allocation of resources, economic development may not be achieved without institutional and cultural change.

Government Role and Stage of Development

On the face of it, it appears that the degree of government involvement is simply a matter of political choice. This is not entirely true. For one thing, almost every single function in an economy has been performed at some time and place by both the public and private sectors. The running of both the postal services and the educational system, for example, are assumed to be governmental functions par excellence in many countries, yet have, in some instances, been performed by private organizations. Secondly, even with unchanged dogma, the conception of what is the "optimal" degree of government involvement keeps changing. Historical data seem to suggest that no matter what the political regime is, the more developed and complex the economy and society, the greater the government's share in GNP will be.[5]

Many reasons might be responsible for this phenomenon. It could simply be caused by the low efficiency of tax collection and the general ineffectiveness of government controls in less developed countries. However, despite these factors, the share of government in contemporary less developed countries appears to be higher than it was when the developed countries were at a similar stage in their development. This change may be largely

[5] For some European data and observations on this subject, see United Nations: Economic Survey of Europe 1959, Chapter V, and Alan T. Peacock and Jack Wiseman, The Growth of Public Expenditure in the United Kingdom (New York: National Bureau of Economic Research, 1958.)

attributed to changing conceptions concerning the role that government should play in general and, particularly, in economic development. Newly independent less developed countries have been inclined to introduce welfare services which are of very recent origin, even in the highly developed countries. Moreover, during the last two decades, new "sophisticated" arguments have been advanced which favor greater government involvement in the economic development process. One such argument is of the "Big Push" variety, contending that economies of scale and external economies cannot be realized by piecemeal investments. Another alleges that there are "Inevitable Monopolies" in certain areas of economic activity and that these areas could be wrongfully exploited by private monopolists.

In recent years, a new argument for greater government involvement has been advanced in many newly independent developing countries--the wish to wrest economic control from the hands of aliens. The government, it is argued, has responsibility for erecting new enterprises or for seizing and managing foreign enterprises during a certain transitional period in the course of which indigenous private nationals will acquire sufficient business experience and acumen to operate key economic functions previously controlled by aliens. Often, this original motivation is forgotten and the government continues to control such activities. In other instances, as in the Philippines, some government enterprises of this origin have been turned over to private ownership and control within reasonable time periods.

Efficiency of Planning

Until very recently, many held the view that the more regulated and planned the economy, the better would be the conditions for rapid growth and development. Further, many asserted that the more direct and compulsive the planning mechanism, the better would be the prospects of development. Experience does not support such conclusions.

One of the clearest lessons from the history of economic development is that development can take place under many types of political systems and with varying degrees of government participation. Japan's path to development was different from Britain's and that of the Soviet Union was different from both. What is particularly interesting is that the Communist system, where almost all the factors of production are in the hands of a government that can allocate them at will, has not demonstrated a clear superiority over more decentralized methods of planning and execution.

The superiority of non-communist countries, which rely on administrative allocation of resources, over countries with no formal planning is even more doubtful. The latest available data on the Southeast Asian countries, for whatever they are worth, seem to indicate that the countries with little formal planning are doing better than the "planned" ones.[6] This does not necessarily mean that planning is the cause for the

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[6] See, for example, the data presented in Charles Wolf, Jr., "National Priorities and Development Strategies in Southeast Asia," and Theodore Morgan, "Economic Planning--Points of Success and Failure" (p. 418), both published in the Philippine Economic Journal, IV (Second Semester, 1965).

poor performance of the latter but, rather, that having a plan does not always assure efficiency in allocation. Below, we elaborate on factors which cause defects in plan formulation and implementation.[7] Here we wish to focus on two factors which are particularly important in centrally administered plans.

First, there is the political factor. Having virtually a free hand to determine allocation is not synonymous with primacy of economic goals. Economic development is often quite low in the hierarchy of policy objectives, declarations to the contrary notwithstanding. Moreover, even when the authorities have a considerable degree of control and efficiency in resource allocation, it does not necessarily follow that such allocation is optimal for development. This type of dichotomy appears to be stronger in dictatorial regimes than in democracies.[8]

The second factor is the ignorance that still prevails concerning the factors responsible for economic development. We know more about how

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[7] For a discussion of the factors contributing to weaknesses in plan implementation in the Southeast Asian countries, see Clair Wilcox, The Planning and Execution of Economic Development in Southeast Asia (Center for International Affairs: Occasional Papers in International Affairs, No. 10; Cambridge: Harvard University, 1965), especially pp. 35-37.

[8] There are doubts about whether a completely centralized economy is really effective for allocation in view of the mononolization of economic sectors by individual Bureaus. For such opinions, see, for example, Professor Robert Dorfman's argument in A Study Week on the Econometric Approach to Development Planning (Amsterdam: North Holland Publishing Company, 1965) pp. 208-210.

policies may block development than what brings it about. Useful theory is lacking. Most growth or development models indicate possible paths to development, given the underlying assumptions. They say nothing about what determines whether a country will, in fact, embark on economic development or whether it will follow the right path once it starts. Moreover, data necessary for the empirical application of such models are very seldom available. And, when a central authority determines all allocation, the availability of correct and sufficient data is crucial for success. It is clear, therefore, that the possibilities for error are substantial. When all the resources are at the disposal of the central authority, the impact of a mistake is more serious than in an economy with many independent decision-makers. One recent example of a mistaken central decision that had almost disastrous results was the "great leap forward" in Communist China.

Plan Implementation and Procedure

There are many technical details in the process of planning. Since the present paper aims more at clarifying issues related to the private sector than at providing a guide for the practical steps that should be taken in the process of planning, we will be brief here.[9]

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[9] There is an increasing number of books which go into the details of planning. The most comprehensive books published lately on the subject are Albert Waterston, Development Planning, Lessons of Experience (Baltimore, Md.: The Johns Hopkins Press, 1965) and W. Arthur Lewis, Development Planning, The Essentials of Economic Policy (London: George Allen and Unwin Ltd., 1966). Both contain references to earlier literature.

While all plans are unrealistic to a greater or lesser degree, the largest errors concern the private sector. It is a rare plan that correctly predicts the activities and achievements of the private sector. Rarer still is a plan that successfully integrates private sector activities with the rest of the plan. This is not surprising, of course, given the variety of activities, subdivided among a multitude of independent decision makers, which comprise this sector.

For comprehensive and effective planning, however, projections of the economy must include the private sector, if only because in most non-Communist countries the private sector is responsible for the lion's share of total production. Yet, as already noted above, hardly any underdeveloped country has data even approaching accuracy about past activities in the private sector, let alone future ones. "Most such figures are taken out of thin air."[10] The conditions in each of the economic activities in the private sector may differ from conditions in the others, which renders it impossible to draw any generalization from one line of activity for the sector as a whole. The problems and prospective rates of growth in the cement industry may be completely different from those in the sugar or the appliance industries. Their sources of raw materials are different, and so are their processes and markets. Some industries (e.g., cement in the Philippines) are scarcely involved with internationally traded goods. Some (e.g., sugar in the Philippines) depend in a crucial way on

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[10] Lewis, loc. cit., p. 15.

U. S. import policies. Others (like appliances in the Philippines) have to import the bulk of their materials and parts. These rather obvious examples serve to indicate the complexities involved in attempting to analyze correctly the private sector as a unit. The lack of such analyses is also a major stumbling block to serious and comprehensive development planning.

When the dust settled after the approximate decade and a half of enchantment with planning that followed World War II, much of the early enthusiasm was gone. We have already noted that countries which resorted to planning have shown no better results and often a lower growth rate than the "unplanned" economies. The reasons for the failure of development plans are many. The best way to present these in succinct form is to summarize the information available on as many countries as possible. Fortunately, we have such information in the conclusions of Albert Waterston and his team of researchers who compared planning procedures and results in over 100 countries. Their conclusions, in brief, are as follows:

1) Lack of government support. This takes various forms in practice. The planning agency which formulates the plan does not have the power to implement it. Seldom is the agency even prestigeous. Thus, there is an artificial separation between plan formulation and plan implementation which renders the plans merely paper exercises. Unless the plan objectives guide the framers of the annual budgets (a very unlikely event), this gap will not be closed.

2) Since plans are composed of numerous individual projects whose preparation takes a long time, even with the best of intentions, the plans cannot be implemented unless such projects are already in progress.

To overcome such defects, Waterston suggests that plan objectives be "discounted" according to administrative inefficiency and lack of political will to develop. These, he claims, can be gauged (quantified) by previous experience. Similarly, by specifying policy alternatives required for the achievement of the objectives, the planner can discount certain objectives when the political authorities reject any of the required policy measures. Through these methods, Waterston hopes to make the administrative capacity and the political will to develop basic elements of planning similar to economic potential, which has always been the basis for development planning.[11]

Waterston's argument brings to the fore the fact that the major causes for plan failure are noneconomic. Very seldom does any country follow a procedure which promises successful implementation. Projects envisaged in the plans either do not yet exist or will take a very long time to materialize; rarely are plans translated into the annual budgets; political powers pull in their separate directions; etc.

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[11] The above is distilled from Waterston's Development Planning, op. cit. For condensed versions of Waterston's opinions, see his shorter publications: "A Hard Look," The Economic Monitor (Manila: December 19, 1966) and "What do We Know About Planning," International Development Review (December, 1965).

In view of such obstacles to plan implementation, it is surprising that so little attention has been given to these practical aspects of planning. Instead, most of the literature has concentrated on the elegance of the planning model. During the last decade or so, international agencies (following academic institutions) have increasingly insisted on plans which meet, in quantitative terms, three standards--comprehensiveness, consistency and optimality. First, the plan must state the output objectives and the inputs necessary for their achievement in quantitative terms. Second, all the components of the plan have to be mutually consistent. A plan cannot present investment figures which are not matched by savings or goods to be consumed which are not matched by provisions for their supply, etc. Third, evidence of optimal use of available resources has to be demonstrated.[12]

Such insistence on quantitative proofs are often illusory. Data collection in underdeveloped countries is rather poor. As a result, the plans bear a minimum relation to actual facts and, thereby, defeat the avowed purpose of those who insist on such conditions. It could be argued, therefore, that in these countries the opportunity cost of preparing such plans is so high that it is hardly justified, given the unreliable results. The most capable people in the countries are usually in short supply, and many waste their valuable time devising an impressive looking plan with little

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[12] Although these and related questions are familiar to those who follow the literature, readers might wish to read Raymond Vernon's "Comprehensive Model-Building in the Planning Process" (mimeographed, Harvard Center for International Affairs, February 1, 1965). Besides a cogent discussion, the paper also contains many useful references.

empirical relevance. Unfortunately, this tendency is frequently encouraged by countries and international agencies which are the sources of external assistance.

Why Planning?

These lessons from postwar development planning experience naturally induce the observer to question what is gained by planning. The difficulty of assessing gains is compounded by the absence of objective criteria with which to judge the contribution of planning. Seldom, if ever, does actual development follow closely the path envisaged in the plan. In some countries, the economy "overfulfills" the plans. This may mean that the planners underestimated the potentialities of the economy or that their basic data were wrong. Conversely, when the economy fails to reach the specified plan objectives, it might be because the planners were too optimistic and unrealistic.

Although both are caused by mistakes of the planners, there is a tendency in fact to treat these two cases differently. The joy over the "overfulfillment" tends to dull any criticism of the planners' mistakes. In the cases of "underfulfillment," the planners tend to blame policy-makers, businessmen, and others for the failure to achieve the plan goals.

A major puzzle arising out of the above is whether planning makes any difference. Does it not appear that the economy tends to set its own pace no matter what the plan says? The answer seems to lie somewhere in between, depending on what measures were spurred by the plan that would not have been taken in its absence. But this is not much different from saying that the government should adopt good and well-conceived policies. In fact, in a free enterprise economy which resorts to "indicative" (as opposed to regulative) planning, the difference between planning and policies is quite small.

Another important aspect is that the factor apparently most responsible for economic growth is that which is currently covered by the term "technical progress." The arguments in favor of planning are primarily based on two assumptions--that proper allocation of resources is the key factor determining development and that planners know what the best allocation is. Neither of these assumptions is correct nor takes into account the role of innovative entrepreneurs in introducing new technology. Given the absence of a discernible connection between government planning and technical progress, the case for planning by fiat is further weakened.

How Government Affects Private Business

In a private enterprise economy it is not always clear where policies end and planning begins. This arises in part from the differences between private enterprises and government enterprises. A private enterprise is, as a rule, compelled to achieve a minimum degree of efficiency in order to survive. Government enterprises, on the other hand, are guided, at least in theory, by such considerations as general welfare, general level of employment, infra-structure, etc., and are subsidized accordingly. This often means that they would not be able to survive under market conditions.

Because of these dissimilarities between the two kinds of enterprises, they differ from each other in their saving and investment functions, their concern about productivity, and a number of other aspects relevant to economic planning.

In influencing private businessmen, government is supposed to know what motivates them. Economic theory assumes that they want to maximize profits, which is a useful first approximation.[13] Since profit is essentially revenue minus costs, government policies must, in order to encourage a certain line of production, bring about either lower costs or higher revenue, or both. Such measures, usually referred to as "incentives," come in a variety of forms. The Philippines employed them during the control period of the 1950s. During that time, foreign exchange for importing machines, equipment, and raw materials could be acquired by manufacturers at about half of the free market rate. The importation of competing finished products was severely curtailed, thereby allowing local industry to maintain high prices. Many enterprises also received low interest credit, tax benefits, and similar incentives.[14] Uusually such strong

[13] Namely, ignoring the fine points such as the period over which such maximization is envisaged. Recent literature, primarily concerning "managerial" corporations, tends to qualify further this assumption about the objectives of firms. However, a satisfactory rate of profit remains an essential requirement for survival and growth of business enterprises.

[14] For the history and some of the details of these policies, see Eliezer B. Ayal, "The Development of Philippine Manufacturing Since World War II," Center for Development Planning, National Planning Association, Field Work Report No. 6, June, 1966.

measures cannot (and should not) be maintained too long because of the various economic distortions involved. These are, however, good examples for policies based on appeal to the profit motive.

The government has many other ways to affect private businessmen. We have already seen that practically <u>every</u> move by the government has implications for the economy. Therefore, the confidence of private individuals and businessmen in the government's intention to abide by certain policies is an important factor guiding their behavior. In the United States, for example, federal guarantees of savings accounts, Social Security provisions, and similar measures are said to have affected savings habits. Similarly, the belief that the U. S. government will not allow the occurrence of huge unemployment has tended to make businessmen more confident that there will be a satisfactory level of demand for their products and has encouraged continuing investments.

In view of the importance of government policies alluded to above, the advantage of having a satisfactory degree of coordination between the various government policies is obvious. It is for this reason that some sort of a plan is advisable, even in a country dedicated to private enterprise. As a minimum, a plan appropriate for a private enterprise type economy should:

1) assure mutual consistency between the various government measures;

2) provide some assurance of continuity in government policies to enable long-range business planning;

3) encourage data collection as a basis for more informed policies in both the private and the public sectors.

Such a "plan" falls short of so-called "comprehensive planning" and is primarily "indirect" or "indicative" planning so far as the private sector is concerned. There are reasons for believing that such "planning" is preferable to planning by fiat. The most pertinent ones have already been referred to; i.e., our unsatisfactory knowledge of the determinants of economic development and the inadequacy of available data. With such inadequacies, the imposition of an iron-clad plan is fraught with grave dangers of dislocation.

Planning in Small Open Economies

When the economy to be planned is also an open economy,[15] there are additional obstacles to effective planning. The major complication arises from the uncertainty inherent in the dependence on foreign markets and sources of supply. Since all planning depends to a large extent on the expectations about the future (usually arrived at through projections based on past performance), such uncertainty weakens the realism of development plans. Moreover, even with reasonable certainty about possible developments in the world markets, the openness limits the scope of effective planning.

[15] Practically all economies are open to a certain degree. The "open economies" are those whose foreign trade sector constitutes a significant share of GNP and/or when the internationally traded goods occupy an important place either as inputs or as producers of income.

For example, under certain conditions, inflationary measures may be advisable for development. In an open economy, however, this would lead to balance of payments problems, especially in countries which maintain a stable exchange rate. These and similar problems are more serious when the economy is small, because small economies tend to be more dependent on foreign trade than large ones. This is true of both developed and underdeveloped countries, as are the resulting difficulties to planning.[16] The main reasons are that a small country, by virtue of its size, is likely to be deficient in some natural resources and, at the same time, lack the efficiency required to produce many items that are hinged on large scale operations.

Since capital accumulation is a crucial requirement in economic development and since underdeveloped countries have to import the required capital goods and, often, also the raw materials, what happens to the foreign trade sector is of great importance for development planning. That sector is both a source of income for savings and investment and a source of necessary materials, as well as a major constraint on the choice and intensity of economic policies. Such limitations are primarily the balance of payments problems, already mentioned, and the debt servicing problem (when capital was received from abroad through loans).

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[16] For analysis of the difficulties to planning caused by opening of West European economies, see Bela Balassa, "Planning in an Open Economy," Kyklos, No. 3 (1966), pp. 385-410; and Bela Balassa, "Whither French Planning?" The Quarterly Journal of Economics (Nov., 1965), pp. 537-554.

While some of these problems can be minimized through proper policies, a large area of uncertainty will always remain. Moreover, unexpected fluctuations may be more acute for some industries than others. Consequently, projections for individual industries might be less reliable than projections for the whole economy. Under such conditions, it might be hazardous for the planning agency to get too involved with planning of the private sector, in general, and of particular industries and firms, in particular. The smaller the economy, the narrower is the scope for the success of policies that encourage import substitution or any other actions that promote autarchy and protection against fluctuations of foreign trade.

II. PLANNING IN THE PHILIPPINES

An Overview

One can argue convincingly that the Philippines never had a real development plan.[17] This, however, will be true only if we stick by the comprehensive definition of planning which includes not only an explicitly enunciated program of action but also systematic steps of implementation. If we slightly relax the definition, we will find that the Philippines has been, if anything, an "overplanned country." Waterston listed in his

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[17] This point was made on numerous occasions by Sixto K. Roxas, former head of the Program Implementation Agency (PIA) and the National Economic Council (NEC). The most extensive presentations were made by him in his terminal report to President Macapagal entitled Organizing the Government for Economic Development Administration (Manila: February 29, 1964) and in "Lessons from Philippine Experience in Development Planning," The Philippine Economic Journal, IV (Second Semester, 1965), pp. 355-402.

monumental book the development plans of each of the 100 countries studied. In those lists, the Philippines ranks among the first in the world in the number of plans it has drafted (and Waterston did not include all!).[18]

This apparent paradox stems from the fact that although various plans were drafted, they never served as actual guides for government policy-making offices. This, of course, is quite common in other countries as well. Yet, the Philippine experience is particularly interesting for a number of reasons: (1) The mere fact that so many plans were drafted in the Philippines without a serious intention of implementing them; (2) The Philippines is one of the very few less developed countries still having an operative commitment to a democratic political system (Another major exception, of course, is India. But, because of its huge size and a number of other factors, it is not as useful an example as the Philippines.); (3) The Philippines is relatively well endowed with qualified people; (4) A few years ago, it appeared that the Philippines would succeed in establishing a workable plan implementation system; (5) Although every country is unique in some sense, we believe that the Philippines has a combination of factors which resemble other countries. The country can be classified as a "small, open economy" which applies to a large number of underdeveloped countries.[19] Its people have many similarities with those in

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[18] For Waterston's list of plans, see Waterston, Development Planning, pp. 626-628.

[19] A series of models for the "small, open economy" have been presented in working papers of NPA's Center for Development Planning. For a recent version, see Douglas S. Paauw and John C. H. Fei, "Development Strategies and Planning Issues in Southeast Asian Type Economies," The Philippine Economic Journal, IV (Second Semester, 1965), pp. 200-225.

tho rest of Southeast Asia. At the same time, it has social features which resemble those found in Latin America. Superimposed on these are the American experience and the exposure to modern influences, facilitated by the widespread command of the English language.

Until 1962, economic planning in the Philippines followed the familiar pattern: various "plans" were enunciated by a number of government offices, but there was no systematic attempt at implementation. To a large extent, this was caused by the lack of coordination between the various government offices. Moreover, the National Economic Council (NEC), which was assigned the task of drafting the plans, has not had implementing authority and has, consequently, been ignored with impunity by the various ministries and bureaus.

Most glaring was the absence of coordination between the NEC and the Budget Commission through which the allocation of government funds is effected. The Budget Commission started a sort of five-year program of its own in 1957.[20] In preparing the annual budget documents, the officials were supposed to strive to fit them into this five-year fiscal program. This, however, did not have much to do with the NEC plans and, most relevant for our purposes, the impact of the budgetary measures on the private sector was not an explicit consideration in the preparation of these budgets. We will further examine the implications of these observations after first discussing briefly the history of planning in the Philippines.

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[20] See Armand V. Fabella, "Problems of Plan Implementation," The Philippine Economic Journal, IV (Second Semester, 1965), p. 343.

A Short History of Planning in the Philippines

Interest in planning started early in the Philippines.[21] Already in 1934, when the preparations for the establishment of the Commonwealth were apace, the Philippine Economic Association recommended the planning of certain key sectors of the economy. This remained only a proposal. In 1935, soon after the inauguration of the Commonwealth, the National Economic Council (NEC) was established as the body responsible for preparing development plans.[22] No comprehensive plans were drawn during the prewar period in spite of recommendations to that effect advanced in 1938 by a group of American and Filipino experts (called the Joint Preparatory Committee for Philippine Affairs). With the outbreak of war in the Far East in 1941, all notions of long-range economic planning were suspended for the duration of the war.

Following independence in 1946, the pace of "planning" accelerated. At that time, the United States was still playing an important role in the Philippine economy. The two major reasons for this were that the structure of the Philippine economy leaned heavily on exports to the United States and the Americans had commitments in connection with the rehabilitation of the

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[21] In writing this section, I relied primarily on the works of Sicat, Golay, and Fabella. Their findings and opinions are summarized in the following papers: Gerardo P. Sicat, "Attempts at Economic Planning," (mimeo)(1958?); Frank H. Golay, "Obstacles to Philippine Economic Planning," *The Philippine Economic Journal*, IV (Second Semester), pp. 284-309; and Fabella, *op. cit.*

[22] Waterston maintains that in the establishment of the NEC the authorities were stimulated by the New Deal atmosphere in the United States where the Tennessee Valley Authority was established. Waterston, *op. cit.*, p. 30.

Philippine economy. Therefore (and also because of the Philippines' dependence on the U. S. forces for external security), Americans continued to influence the shaping of the country's economic policies. In 1947, the Philippine American Finance Commission made proposals concerning government and private investments. These were incorporated in what came to be known as the Hibben Plan and the Beyster Plan. Both covered the same period, 1947-1951, and neither was officially adopted, save for a few individual projects under the Beyster Plan. (The Hibben Plan was too general for this purpose.)

Only in 1948-49 did the NEC enter into the planning picture with the Cuaderno Plan (1949-1953). Although it was approved by the government, "there was little enthusiasm to implement it."[23] One probable reason for this was that the data and assumptions on which it was based were unrealistic. Incidentally, all three plans provided for a low rate of investment, 6.7 per cent, 6.0 per cent, and 5.0 per cent of national income, respectively.[24]

The main function of the Cuaderno Plan was to meet the requirements of the International Bank for Reconstruction and Development (IBRD). The main function of the two subsequent "plans" was, in turn, to meet the requirements of the U. S. government. The so-called Yulo Plan (1950-1954),

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[23] Sicat, op. cit., p. 1.

[24] Golay, op. cit., pp. 285-286.

for example, followed the recommendations of the U. S. Economic Survey Mission of 1950. The Rodriquez Plan (1955-1959) was primarily designed to meet the requirements of the U. S. aid mission. This plan, although said to have been "personally adopted" by President Magsaysay, never received legislative support or approval. Government agencies, including the Central Bank which was the licensing agency, ignored the plan's priorities in licensing and supporting industrial projects. A proposal made by a government commission to reorganize the NEC and make it the overall coordinator of public and private economic activities did not lead to the expected results.[25]

There were a number of other so-called plans during the Magsaysay administration, but none was officially adopted or taken seriously by the government.[26]

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[25] Fabella, op. cit., pp. 342-343.

[26] These were:

Year of Promulgation	Name	Author
1955	Cabinet Committee Plan	Ad-hoc Committee headed by Secretary Araneta.
1956	Montelibano Plan	Alfredo Montelibano, NEC Chairman.
1956	Roy Plan	House Committee on Economic Planning headed by Rep. Jose Roy.
1956	Puyat Plan	Office of National Planning and Senator Gil Puyat.

One of the authors recently disclaimed that the document bearing his name was ever intended to be a plan as the term is usually understood.

Increasing experience and technical competence led to more comprehensive plans. The first such plan was the NEC's Five-Year Socio-Economic Plan (1957-1961), prepared in 1957. The plan, however, was not approved by President Magsaysay who preferred the Five-Year Budget Plan drawn the same year by the Budget Commission. The latter became the guide for the year-to-year fiscal operations of the government. Such a plan, even if followed closely (which was not quite the case), is at best a regulator of public expenditures only (although inevitably affecting private sector activities) and not a comprehensive plan.

Each of the last two administrations promulgated a socio-economic plan soon after coming to power. The Macapagal administration's Five-Year Socio-Economic Plan (1962-1967) differed from earlier plans because it was specifically requested by the President even before he assumed office. Moreover, a few months later he established the Program Implementation Agency (PIA), which was assigned the task of executing the plan. It is of particular relevance for our paper that one of the major functions of the PIA was to serve as a clearing house for the integration of private projects with the national plans. Similarly, the Marcos administration promulgated a new development program of its own with the support of the President. This plan was prepared hastily by the NEC. Following criticism from the IBRD and the International Monetary Fund (which leaked to the press),[27] the

[27] These criticisms were directed primarily at the inconsistencies in the plan document.

plan was tightened with the help of the Presidential Economic Staff (PES), which was the new name given to the PIA. At the time of this writing, a revised administration code has been submitted for the approval of the Congress. The revisions include proposals for increased effectiveness and coordination of statistical and planning offices.

In the discussion that follows, we will have in mind primarily the latest plans because they were comprehensive and had the support of the government; i.e., they were intended to provide a guide for government action, unlike some of the previous plans.[28] Also, these plans were predicated on the abolition of the foreign exchange restrictions and, in general, relied much more on "conventional" economic policies than had previous plans. In other words, the recent plans have envisioned the methods of government direction of the private sector in a way which accords with our definition of the sectors.

Measures Taken During the Macapagal and Marcos Administrations

The policy guide during the first two years or so of the Macapagal administration was supposed to be the Five-Year Socio-Economic Program which President Macapagal adopted upon assuming office.[29] The related policy

[28] Roxas says, however, that the quantitative targets of the Macapagal plan were put there for "persuasive purpose" only. Roxas, op. cit., p. 379.

[29] The following details covering that period are based on Sixto K. Roxas, "Review of Progress and Definition of Future Imperatives: A Terminal Report," which was issued together with his Organizing the Government... volume, mentioned earlier. Mr. Roxas was both the architect of the Macapagal Plan as well as the enunciator of the most comprehensive critique of the whole field of economic planning in the Philippines.

measures and objectives during that period were the following:

1) The lifting of the exchange controls which terminated the "speculative atmosphere" caused by the "gradual decontrol" (essentially a multiple exchange rate system) begun by the Central Bank in 1960;

2) The rehabilitation of enterprises which suffered from the decontrol;

3) The diversification of manufacturing, especially through development of basic and intermediate industries;

4) The increasing of agricultural productivity for provision of wage goods and the increasing of markets for industrial goods.

Besides implementing decontrol, the role of the government in enhancing these objectives was conceived as follows:

1) "Rationalization" of infra-structure planning and project execution and of governmental development services, such as agricultural extension. This required, *inter alia*, coordination among the various agencies;

2) Improving government administration at all levels of planning;

3) Expanding financial resources through better and wider tax collection, through expansion of government borrowing by the sale of bonds, or through resort to the world money and capital markets;

4) Manpower development and training;

5) Research and surveys "to identify the areas for project development in the future."

As a result of the decontrol, prices went up with the anticipated differences among different commodity groups; prices of imported goods rose primarily because of the higher exchange rate. The greater demand for the exported goods caused a sympathetic rise in related materials used for domestic consumption. Both the production of exportables and exports increased (at least on the basis of the value of declared exports), and the balance of trade improved. Decontrol helped in achieving two main objectives: (1) It stopped speculation about future changes in exchange rate and (2) It encouraged "basic industries" using local raw materials.

A potentially very important move was the establishment, in August, 1962, of the Program Implementation Agency (PIA). In cooperation with the NEC and the Budget Commission, and with assistance from resident World Bank mission, the PIA helped achieve:

1) The conversion of planning from the previously broad and unoperational general statements to "concrete planning";

2) The introduction of project evaluation for public and private projects in connection with applications for governmental financial support;

3) "Overall programming" (i.e., scaling of projects by priorities);

4) Initiation of "debureaucratization" of government agencies concerned with development, and coordination among them. In the process, the PIA initiated a number of bills which were submitted to Congress.

The financial aspects of the plan were boosted by the formation, in March, 1963, of the Loan and Investment Council; the Private Development Corporation of the Philippines (mid-1963); and the National Investment and

Development Corporation, a subsidiary of the Philippine National Bank. These were designed to supplement the existing governmental financial institutions in providing loans for deserving projects.

In the field of agriculture, the new Agricultural Land Reform Code, actively encouraged by the PIA, was approved July 12, 1963. This law was designed to foster agricultural productivity through promotion of owner-cultivator plots on existing estates and large plantations on underdeveloped, chiefly government, lands. Particular attention was to be given to the food staples--rice and corn--to increased productivity of land already under cultivation, and to the expansion and regulation of irrigation projects. A survey of water resources was undertaken with AID help, as were surveys of the feasibility of milk collection schemes. Also undertaken were improvement programs for rationalizing fishpond production. Particular emphasis was to be given to improved and expanded agricultural education and research.

In the field of industry, a research project, approved and assisted by the U.N. Special Fund, sought to determine power requirements and resources in Luzon. The Industrial Development Center (IDC) was abolished (as per agreement with AID), and the founding of the Economic Development Foundation (EDF) was contemplated (and later materialized). The functions of the EDF, as they evolved, have been: (a) to make industrial project feasibility studies; (b) to do "business clinic" work for companies in difficulty; (c) to collect business statistics; and (d) to conduct training programs.

Hardly any new plans for action were evolved during the latter part of the Macapagal administration. The preoccupation with political matters consumed much of the attention of the administration. This preoccupation had some economic repercussions such as deficit spending and politically timed importations of rice. To counteract the inflationary impact of deficit spending, a severe tight credit policy was imposed on the financial institutions, thereby leading many companies into financial straits. What characterized the policies during that period was their ad-hoc quality, inasmuch as they bore no relation to any development plan.

The first year of the Marcos administration was marked by a substantial reduction in the government deficit, combined with easing of credit. Although there is a development program, it does not seem to guide government actions and policies more than was the case during the Macapagal administration. The tendency seems to be to concentrate on few key areas, especially building roads, increasing agricultural staple production, and reducing smuggling. Some operating departments claim that their actions are guided by the development plan. It is too early to judge to what extent this is true.

III. PROBLEMS OF PLANNING THE PHILIPPINE PRIVATE ENTERPRISE ECONOMY

Since production in the Philippines is almost exclusively in the hands of the private sector, any discussion of plan implementation--so far as it exists at all--should reflect this fact. In other words, government measures designed to affect production can be classified as policies rather than as direct administrative commands. Most, but not all, such policies operate through the market. However, some policies, especially during the control period, came close to direct administrative allocation. Among these were, for example, the allocation of foreign exchange at favorable rates to preferred companies and the regulation of economic activities through licensing and quotas.

Direct government action in the economic field concentrates mainly on infra-structure projects such as roads, railways, irrigation, and other water supply. However, parts of the social services in the Philippines are in private hands, including substantial parts of the telephone service and electricity supply.

Political and Administrative Factors

Critics contend that the organization of the Philippine government renders it incapable of either drawing or implementing plans.[30] A non-Filipino scholar who studied the Philippine economy has arrived at a similar

[30] These include Sixto K. Roxas who was himself involved in many of the measures mentioned in the last section. His opinions on the subject can be found in all references to his writings mentioned in this paper.

conclusion. "The Philippine economic planning must be assessed as a failure in the limited sense that none of the plans produced has served even as a framework for a coordinated effort to mobilize the available powers, resources and institutions of the public sector to promote economic growth and development."[31]

These writers ascribe such failure, as well as many other signs of deficiency in the Philippine economy, to noneconomic factors, especially political, administrative, and sociological. Without attempting to contradict them, it would still be well to get some perspective.

First, it should be recalled that the Waterston team was hard put to find countries which really had good plans, much less countries which implemented such plans. Thus, while the Philippines have political and related difficulties, other countries, also, have difficulties--of a similar or somewhat different nature--which produce equally poor results. Therefore, we should not rule out the possibility that the emphasis on detailed and comprehensive planning, itself, may be unrealistic in most countries, including the Philippines.

Before continuing on this theme, some further comments on the Philippine political structure and administration are appropriate. It may not be of consolation to the Philippines, but it should be pointed out that the Philippine civil service is by no means the worst in the world. Nor is

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[31]Golay, op. cit., p. 287.

the proliferation of many governmental entities working at cross purposes, which is a major complaint of the critics, unique to the Philippines. In the United States, for example, there are also a number of government entities concerned with economic policies, and coordination among them is minimal. This refers not only to entities which are constitutionally independent of the executive, such as the Federal Reserve Board, but also to departments within the executive branch. It might also be relevant to mention that the attempts made at coordination have not been entirely successful. Few people have ever heard of the Advisory Board on Economic Growth and Stability which was formed in 1953 to effect such coordination.

It is also important to recognize that many of the political problems which interfere with the smooth implementation of desired policy objectives are not entirely unique to the Philippines. Many of them can be found, of course, in the United States whose system of government served as the model for the Filipino system. While other political systems may look brighter to the outside observer, they, too, have their drawbacks. In other words, many of the political-institutional obstacles to planning mentioned by Roxas and others are also to be found elsewhere.

Another frequently mentioned obstacle to planning in the Philippines is the "family system." The major obstacle this system is said to cause springs from its placing of the interests of the family before those of the nation. This, too, is not unique to the Philippines. What seems peculiar to the Philippines is the combination of these two major factors, namely--a "traditional" social structure, saddled with an American type of government which was hatched in a rather different kind of society and under different historical circumstances. This is, undoubtedly, a major obstacle to planning as it is generally understood. The American system of government is not very conducive to effective "comprehensive planning" even in the United States, much less in the Philippines.[32]

The conclusions from this brief comparison need not be pessimistic. Great strides have been made in the United States in recent years towards coordinated economic policies in spite of the difficulties inherent in its political system. Although it is true that the economic conditions and problems faced by the Philippines are entirely different from those of the United States, a brief note about the progress made in the United States might be helpful.

In recent years, especially since the institution of the Council of Economic Advisers, some thought has been given to the U. S. equivalent of economic planning. Although the major policy objectives have been stability, employment, and, later, also corrections in the balance of payments, the economic studies done by and for the Council have been substantially broader. Both in Washington and in the universities aggregative models of the U. S. economy have been developed. The increasingly quantitative nature of these models has greatly encouraged data collection and analysis. As a result, and in spite of the extreme complexity of the U. S. economy, the economic

[32]Two other phenomena are common and probably typical of the American political system. One is its two-party system, which does not seem to draw any ideological distinctions between the two major political parties. The other is the "spoils" or "pork barrel" system which militates against rational allocation of budgetary funds.

advisers are becoming increasingly confident about what advice they should give to the President.

The Need for a Model of the Economy

The above rather inadequate description of the recent developments in the United States is designed simply to show that it is being recognized increasingly that meaningful coordination of economic policies is both required and achievable, even in a society where much of the economic power is decentralized. It also serves to point out that some of the deficiencies of Philippine economic planning may exist already at the drawing stage. There is, as yet, no clear model of the Philippine economy, nor are there adequate data which can guide the drawers of a plan. Greater effort should be made toward improvement in data collection and macro-economic analysis.

It would be presumptuous to attempt to present here a proper model for the Philippine economy that was something more than a few suggestions for its broad outlines. The basic economic sectors seem to be: (1) Staple agriculture and fishing; (2) Primary exports; (3) Industry; and (4) Services. The importance of Sector (2), which was historically the "engine of growth," suggests that some version of the "small, open economy" model would be useful for the analysis of the Philippine economy. When such a model is properly developed, it should clarify the contribution which the income and the inflow of foreign exchange, generated by the primary exports, made to the development of industry and services. It may clarify the degree to which the

Philippine economy has depended on the foreign trade sector.[33] Another characteristic of the model is the importance it attaches to the "agricultural hinterland." It underlines the importance of increased staple productivity so as to enable the transfer of food and labor to the nonfarm sector. Such a transfer would expand the base for industrial development which would, in turn, entail substantial capital investments, not only for producer's goods but also for the infra-structure that goes with rising urbanization, such as roads, water supply, housing, transportation equipment, and power.

Applying such a model to the historical development of the Philippines does not mean that planning for the future should attempt to perpetuate the existing structure of the economy. The model and the data collection encouraged by its study will clarify the constraints to achieving the objectives considered desirable by the policy makers. One possible objective could be the diversification of exports and the production of those import substitutes which can be produced in the Philippines on a large enough scale. The model would indicate which existing flows and allocations need change from the historical pattern and which bottlenecks have to be overcome in the process.

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[33] Incidentally, the uncertainty usually associated with the openness of the economy mentioned earlier in this paper does not apply to at least one important Filipino export--sugar. It has quite a secure market in the United States and at prices usually far above the free world prices.

The National Planning Association's (NPA) research team in the Philippines is conducting intensive empirical research as a basis for developing an appropriate model of this type. The NPA national income accounting system rearranges and supplements standard national income data to highlight those features of the Philippine economy which are unique and important for its development. The research is inductive in nature; insights into the dynamics of growth are derived from investigation of the postwar performance of the economy (in terms of the data framework). We have found that a prerequisite for effectively building and employing such a policy-oriented model is improved data. The current lack of coordination between the various government offices engaged in data collection hampers research, but there are hopes for improvement.

When a satisfactory growth model has been constructed for the open, dualistic economy of the Philippines, alternative strategies for the long-run development of the economy can be formulated. Through application of the development strategy most appropriate to the Philippine milieu, better and more realistic plans can be evolved. Equally important, guidance will be provided for formulation of a wide variety of economic policies having development implications.

Sociological and Cultural Factors and the Private Sector

The political and administrative obstacles to planning are less serious in an economy which is based primarily on the private sector than they would be if the government owned and operated substantial portions of the productive sector. The noneconomic factors which are more relevant in a private enterprise underdeveloped economy are those which may prevent a proper response to policies.[34] The postwar experience in the Philippines gives ground to optimism on this issue. Whether one may agree with the direction of some of the policies, the fact remains that a sufficient number of people responded to policy incentives in a fashion predictable by the usual assumptions made in economics.

During the control period in the 1950s, there was no dearth of entrepreneurs willing to take advantage of the favorable policies. Although the incentives were quite generous, the fact still remains that completely new industries were started and they prospered. This is important because it demonstrates a willingness to break out of the traditional patterns in the presence of sufficient incentive to do so. Some of the traditional arrangements spilled over to the new industries, but this is not necessarily bad. For example, most companies are still family firms which might be the

[34] The possibility of erroneous policies perpetrated by political considerations continues to exist, of course.

right thing during a transitional period.[35] Moreover, even within the short span of time since the early 1950s, many changes have already occurred. Family firms tend increasingly to hire outside specialists in management and sales, and some outsiders are even put on the boards of directors. Although many investments are done in "groups," such groups are composed of people who are not necessarily related and are of different nationalities.

The changing circumstances brought about changes in response and organization. The firms tend to be bigger and resort increasingly to outside financing, not only in the form of loans but also through the sale of shares. This is a welcome development in that it expands the base of the investing public. There are reasons to believe that such expansion would accelerate further in the future. We may say, then, that while "maximum planning" has not been very effective in the Philippines for a number of reasons, there is adequate scope for planning through policies. This is both possible and welcome since, short of a revolutionary upheaval, the Philippines will continue to be committed to a private enterprise economy. With better data and with a clearer picture of the overall structure of the economy, proper government policies can be expected to achieve substantial improvements.

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[35] A recent article on Lebanon contends that the evidence from that country shows that some traditional norms, such as the family firms, may reinforce industrial growth. See Samir Khalaf and Emilie Shwayri, "Family Firms and Industrial Development: The Lebanese Case," Economic Development and Cultural Change, 15 (October 1966), pp. 59-69.