

**ECONOMIC AND SOCIAL PLANNING - AIMS AND METHODS**

(A paper read at the Fourth Annual Summer Course of the I. C. T. U.

Johnstown Castle, Co. Wexford, Monday, July 19th 1976)

by

**R. N. Vaughan**

**Research Officer**

**The Economic and Social Research Institute**

**Confidential: Not to be quoted  
until the permission of the Author  
and the Institute is obtained.**

## Economic and Social Planning - Aims and Methods

R. N. Vaughan

### I. Introduction

The questions which I shall seek to answer here are the following. What is economic planning and is there a need for such planning? What are the essential components of a plan, and what are therefore the major differences in the type of plans that may be proposed? May we learn anything from the practical planning experience of other countries? In answering these questions I propose to split up the discussion on the following lines -

In Section II, a planning framework is set out

In Section III, the relationship between macro-plans and certain investment projects is considered.

Section IV examines the theory of indicative planning and the implementation of such plans in France and Japan.

Finally, in Section V we discuss the problem of why some plans are successful, whilst others fail.

In the title of this paper one may find the word "social"; I intend to salve my conscience at this stage by saying that I intend to interpret social as referring to the social impact of economic planning, and leave explicit concern of problems of planning for the elderly, the sick and other such services to the last speaker of this course.

I have aimed at an examination of what I believe to be the essential components of any plan and an analysis of why plans in the free-market economy turn out to be failures or successes. Subsequent speakers will talk on particular aspects of the planning process, and on the planning experiences in certain countries.

---

I am indebted to K. A. Kennedy for his comments on an earlier draft of this paper. The views expressed here are, of course, not necessarily shared by Dr. Kennedy.

The essence of "economic planning" is that a central planning body first reviews the nation's resources to ascertain what they are, and what they should be. This body then attempts to influence the allocation of resources both at macro- and micro-economic levels so as to maximize the welfare of the nation.

The origin of the planning techniques applied today spring from two main sources: Russian communist planning and Western macro-planning. Soviet planning was designed to guide in detail the production processes of a whole country, taking advantage of a completely publicly owned productive apparatus, and was based on a general background of Marxian ideas. At the time the communists took over there did not exist any elaborate system of planning and it had to be built up on the basis of practical experience, with some influence exerted by the experience of military planning during the First World War.

Western macroeconomic planning had its basis in the desire to understand the fluctuating fortunes of the capitalist economies - given great impetus by the Depression of the 1930's. It was highly influenced by the statistical concepts relevant to national or social accounts, and by the ideas of Keynes. A basic belief was held that many detailed decisions could and should be left to the decentralized system of single enterprises, and that guidance by the government should be confined to indirect intervention.

Recently, influences have been at work to bring the two systems somewhat closer together. Soviet planners have gone through a number of experiences which have led them to think somewhat more in terms of macro-variables and to accept some decentralization. Westerners have been influenced by the more detailed research methods involved in input-output analysis and the possibilities created by better statistics and better computing machines.

One notable connection between the evolution of the two systems of planning, is that development has been in response to crises of one sort or another. In the case of the Soviets, the trauma of the first world war and the subsequent struggles against the counter-revolutionaries made it necessary to build an economy capable of withstanding external threats. Hence the subsequent concentration on heavy industries. In the Western case, modern planning, as noted, received its theoretical *raison d'etre* from the Keynesian arguments relating to the inability of capitalism to be self-regulating; but perhaps of more practical import was the influence of the Second World War, particularly the reconstruction phase of the devastated economies of Western Europe (and Japan).

Despite their different beginnings there are similarities between Western and Soviet Planning, and in the following sections we attempt to outline the basic components of any plan, whatever its inspiration.

## II The Planning Framework

Any plan of action, we may argue, may be broken down into three essential components: (i) the objectives of the plan; (ii) the instruments to be used in attaining those objectives; and (iii) the constraints on attaining the objectives. These components apply not only to economic planning, but indeed to any problem in which an object is desired and intelligence is used to attain those desires. Before considering the analysis of an economic plan in this manner, we may consider the example of driving a car from point A to B. The objective of the plan is, in this case, simply to arrive at point B. There may be additional objectives, e.g. must arrive at B within six hours, say, of departure; must stop at point C en route, etc. The instruments to be used in this instance, are the controls of the car accelerator, brake, clutch, steering wheel, etc. The constraints in this case are the technical specifications of the car, miles per gallon, acceleration capacity; the inputs petrol, oil, etc. In addition, the car may be constrained to move only on certain surfaces, i.e. restricted to roads, rather than moving across country; in

addition we have external influences which likewise act as a constraint on the driver obtaining objectives, these include the weather, and the behaviour of other vehicles. In this case, given cognizance of the objectives, the instruments, the constraints, the driver controls the car via the instruments to enable the car to perform this particular feat. In the case of the management of the economy, the objectives of the plan are measures such as the level and growth of national income, the level of employment; the instruments utilised, fiscal and monetary policies, sanctions of law, purchasing power of the government; whilst constraints on policy are e.g. the available resources of land, labour, and capital and the attitudes of the community in regard to such matters as living standards, life style, etc. The objectives, instruments, and constraints of the economy will, of course, differ as between countries; indeed the major difference between Soviet and Western planning is in relation to the instruments that are used to pursue particular objectives; and this leads to a major classification of plans according to type. Let us now turn to a listing of these elements in detail, and the problems that occur in their formulation.

### II.1 The Objectives of a Plan

It would be ideal if the choice of one economic policy over another could be evaluated in terms of a single goal that is well-established, identified, and agreed upon. In fact, there are always many relevant planning objectives. These are often conflicting, and the importance of each one is rarely made precise before decisions are made. Public policy is often formulated on the basis of a mostly qualitative integration of numerous economic, political, social, and technological objectives. Explicit trade-offs between partially complementary and conflicting objectives are not always clear. This leads to selection and implementation of plans which fail to meet many of the objectives to the extent originally envisaged.

The following may be suggested as measures of objectives of macro-economic planning:

- (i) National economic growth;
- (ii) Aggregate consumption;
- (iii) Distribution of income;
- (iv) Employment level;
- (v) Regional development;
- (vi) Environmental quality;
- (vii) Price stability.

When specified in macro-economic terms, these aims may, however, be seen in certain cases to be somewhat amorphous, e.g. national output is an aggregate of many types of goods, how is the distribution of income to be measured? Are we content with improving the employment level, shouldn't the government be concerned with types of employment? How can a concept such as environmental quality be measured? A second step would, thus, be to disaggregate these objectives. Thus, objectives in employment levels may be broken down into totals related to the demographic composition of the population, or to specific types of job; the aggregated consumption into particular categories of goods; and environmental quality into particular measures of pollution in named localities. Secondly, whilst the ultimate objective may be increases in aggregate income and employment, an operational plan may be found in specifying intermediate objectives. There is a saying that if you look after the pennies the pounds will look after themselves. Thus, a catalogue of specific investment projects with consequent employment consequences, may be started which will, in itself, have consequences for employment. In this manner, governments have also specified their objectives in terms of output of particular sectors, believing that if such objectives are attained, then employment consequences are beneficial.

If the aims of the plan are complementary then no great problems arise in formulating plan objectives, i. e. if the objectives of a plan were to increase aggregate consumption, investment, and employment, and these varied directly with a measure of output of the economy - by working to increase output the government is also working for the other objectives of the plan. This may not usually be the case however, e. g. increases in GNP may lead to a decline in environmental quality or to a worsening of the economic status of certain sectors of the community.

In the face of such conflicts between policy objectives, what is the answer of the economist. Two possible ways out are as follows. First, the planner may suggest to the policy-maker that he attach weights to particular objectives, thus allowing the planner to trade-off so much employment against so much output; output against pollution. This allows us to aggregate disparate measures, e. g. employment in man-hours; output in value; into one overall measure of benefit. However, such a measure implies agreement on the weights, agreement in fact on an overall view of social welfare; agreement which may be hard to find even among members of the same government. An alternative method, is therefore to view certain objectives as constraints, e. g. maximize output subject to unemployment not exceeding  $x\%$ , subject to some limits on the degree of inequality.

In discussing objectives, one thing is apparent that although objectives are specified in quantitative terms we have not yet discussed their actual quantitative levels. Should output growth be set at 3%, 6% per annum; what should the unemployment level be? And indeed how should these quantitative levels be set? There is possibly a fallacy that the plan is just a particular set of quantitative targets and that a plan fails if these are not met. However, the quantitative targets cannot be set independently of the available instruments and

constraints on the economy, and such targets set are, of course, contingent on the numerical values included in the plan. Let us return to our car analogy. Suppose the aim is to expand the economy at its highest possible growth rate. An analogous problem for the car would be to drive the car as far as possible in one day. Now to set a target of say 5% or 10% for the economy without taking account of instruments or constraints, is equivalent to setting out to drive from Dublin to Galway with half a gallon of petrol in the tank, at 2.30 on Sunday morning, i.e. quantitative targets can only be set with quantitative inputs into the instruments and constraint sector. Secondly, we should not confuse the quantitative aspect of the plan, with the plan itself; this is equivalent to confusing the art of driving a car, with the particular speed with which one drives along a particular stretch of road; that speed will vary depending on the weather, the time of day, and the utilisation of the road by other motorists. Accordingly, the fallacy may have grown up that because Ireland is a small open economy subject to variable extraneous circumstances, planning is unsuited in such circumstances.

So such stress should not be placed on quantitative targets, the values chosen are almost accidental at any particular time; what is important is the art of driving the economy or car.

## II. 2 The Instruments of the Plan

Having certain objectives in mind, the problem then arises as to what methods the planner may use in achieving these objectives. The list essentially catalogues the possible avenues of influence of the state on individual persons and firms. All matters outside the influence of the state, e.g. certain technological relationships between inputs and outputs, demand by foreigners for domestically produced goods, may then be viewed as constraints. A government can influence the national economy in several distinct ways:

- (i) Fiscal and monetary controls; e.g. taxation, government spending, credit controls.
- (ii) Complete government control (not necessarily a direct one) over certain sections of the economy, such as nationalisation of an industry.
- (iii) Legislation and government regulations with legal sanctions;
- (iv) System of administrative controls where certain actions are penalised and others rewarded, or where some actions are subject to administrative permits.
- (v) Consultation with the business community and "public relations" with the consumers, i.e. attempts to persuade the community to act in a particular way, e.g. "Save It", or "Buy Home Produce".

Thus the instruments of control are extremely numerous, but can be divided into two broad categories:

Direct Controls: Where specific categories of economic enterprise are ordered, permitted, or forbidden to take particular steps; and

Indirect Controls: Where the controlling body does not give direct orders to the business community, but creates such a situation in the economy, e.g. by fiscal and monetary controls that the community will be induced to take a particular action because the altered market conditions will render the old behaviour uneconomic.

This, in essence, is the distinction between planning in Eastern and Western countries. Western planners have attempted to induce people to behave in a particular way, in essence by modifying the price system that rules in the economy, whilst Eastern planners rely on direct commands.

Instruments of Western planning are thus essentially: (i) fiscal and monetary controls; whilst Eastern bloc countries rely on (ii) where ownership of means of production is in government hands. Of course, this is not a rigid distinction there are rather varying shades between countries; all rely to some extent on each of the five methods. One point that may be noted here is that a plan can also become an instrument of policy - as we shall consider below.

### II.3. The Constraints on the Plan

The third element of the plan are the constraints on the system. This is something of a catch-all term. As we have noted, the constraints are those aspects of the economy, variables and behavioural relationships, which are not under the control of the government. In addition, certain objectives may be written in as constraints on the system. Among possible constraints the following may be delimited:

- (i) Technological constraints - e.g. between required inputs and output of a particular good.
- (ii) Behavioural constraints - certain empirical regularities in the way individuals spend their income has been noted e.g. the proportion spent on food or housing. These are related to the standard of living to which people have become accustomed.
- (iii) Profitability constraints (in a capitalist system) - firms, over a reasonable length of time, must work at a profit, otherwise they will not remain in business. In order for a plan to be successful, it must therefore ensure that profits are made.
- (iv) Stock constraints - account must be taken of the existing stocks of human and capital resources.
- (v) External balance constraints.
- (vi) Objective constraints - if certain objectives are transferred to the constraint section.

### II.4 The Costs of a Plan

We have outlined above a method for the analysis of an economic plan; it is equally, of course, a procedure for developing a plan from scratch. The development of such a plan however would require certain inputs of information and skill, which cost money. A large literature exists with regard to the method by which such a plan is constructed; the econometric techniques which are used in the forecasting of the outputs of the various sectors, the input-output methods used in trying the various sectors together; and the method of consultation between government, industry, and organised labour to ensure cooperation in planning objectives.

This leads us to the critical question of whether, firstly, the construction of a workable plan is feasible, given the necessary inputs of information and qualified manpower; and secondly, if feasible, do the benefits outweigh the costs. Information is not free; there may be difficulties in getting the firms to divulge information; there may even be difficulty in getting the civil service to divulge information. There is also, as you well know, a phenomenon in industry called increasing returns to scale, whereby the cost of a product may fall as production expands. A similar phenomenon occurs with the process of planning. The paperwork associated with a plan may be nearly as great for a small as for a large country. For small countries therefore the cost of plans of equal quality to those of larger countries may constitute a real problem. In such circumstances are there any ways in which the financial burden of planning may be eased. The major costs of planning relate to the collection of information; and from the above analysis of an archetypal plan, the major new informational demands would appear to be the numerical estimates of the constraints. Virtually no new information is required with regard to the monitoring of objectives, since such is already collected; neither with regard to instruments, we may reasonably assume that those in use are measured by the authorities. However, a study of planning experience in other countries may suggest that the actual raw data fed into the plan, and the numerical projections that come out are the least important aspect of the plan; such certainly appears to be the case in Japan, for example. Far more important would appear to be the causal connections between instruments, constraints, and objectives; i. e. knowledge of how a mixed economy works and the necessary stimuli, fiscal or otherwise, that need to be applied to ensure certain behaviour on the part of firms and individuals. This analytic aspect of the plan perhaps surprisingly, is far cheaper to purchase than data; although naturally, some data input is required. The benefits of a plan do not rest only on the forward numerical projections made; but also on the appraisal of past performance and the implications for policy.

### III. Macro-planning and Project Analysis

In discussing aspects of planning thus far we have concerned ourselves with economy wide aspects. The next question we propose to consider is the relation between such plans and particular investment projects. How disaggregative should the plan be? Should the plan concern itself only with the main macro-economic indicators such as employment and output; should it deal with particular sectoral outputs; or should it concern itself with particular investment plans or projects. On the one hand, it may be argued that as long as the government sets the general pattern of economic development, the evaluation and choice of particular projects can be left to the private firms and individuals. However, in the case where there is a public sector which undertakes investment, then naturally evaluation and selection will devolve directly on the government. It can also be argued that all, large projects, public and private, must be centrally scrutinized, decided upon, and fitted into an investment programme, if government planning is to have any meaning - a sound plan, it is maintained, requires a great deal of knowledge about existing and potential projects. Realistic assumptions about the level of investment which can be effectively carried out, and the connection between this investment and output, presuppose a knowledge of the rate at which good projects can be planned, designed, built, and brought to capacity operation.

#### III.1 Criteria for Project Selection

What then are the criteria by which projects should be judged? We shall approach this problem by first considering how a private profitability analysis is conducted. The starting point of the analysis is to specify all the expected inputs and outputs of the project, and to put a price on each. In this way one arrives at anticipated expenditures and receipts. These will be spaced over time from the inception of the plan to the economic demise of the projects. It is now generally accepted that from the view of an enterprise, the best method of thus combining the data is that known as "discounted cash flow" (DCF).

The principle upon which DCF evaluations are based is that money has a time value; £100 received now is worth more than a £100 received in a year's time, because it can be used in the meantime to earn a return. If money can be invested at 10% p.a. then £121 received in two years' time can be said to have a 'present value' of £100; the future sum being discounted at the rate of 10% p.a. The discounting process is thus simply compound interest worked backwards.

The first step in carrying out a DCF evaluation is then to record year by year throughout the expected life of the project all expected expenditure payments for goods and services for the project (including capital expenditures) and all expected receipts from the project. For each year, the subtraction of the former from the latter shows how much cash the firm gains or loses as a result of the project. The second step is to discount future cash flows back to the present. For this purpose the enterprise must select a rate of discount. This is the rate of return which it deems prudent to earn on its new investments, given the financial conditions for obtaining cash and the investment opportunities likely to be open to the firm in future years.

Thus, by the process of discounting, expenditures and receipts which occur at different times throughout the construction and operation of the project (and are to that extent incomparable) are all revalued to make them comparable to present expenditures and receipts. They can then all be added up to give a single figure which is therefore named the present value (PV) of the project. It comes to the same thing to subtract expenditures from receipts to give a net cash flow for each year and then discount these cash flows back to the present - hence the term 'discounted cash flow'.<sup>\*</sup>

---

\*

Further discussion of investment criteria may be found in Little and Mirrlees (see references).

It can also be useful to calculate a second measure of profitability, the internal rate of return (IRR) - that is the 'yield' of the project. By definition this is the rate of discount which makes the present value of a project zero. One reason for calculating the yield is that investors are more used to judging their investments by yield rather than DCF. Another reason is that the PV gives no indication of whether a project is close to the margin of acceptability. Two projects may have the same PV, one being a large project with an IRR just above the discount rate, while the other is a very small project with quite a high IRR. If the management is unsure of its target rate of discount, then it is useful to have this information.

In general, when comparing projects, those with the highest PV or IRR should be chosen; but of course a modicum of common sense has to be applied in using any criteria, and a perusal of the structure of the time streams of costs and benefits is also a necessity.

### III.2 Social Project Selection

Let us consider the case of a project which has been subjected to private investment evaluation in the above manner; how would a public investment appraisal of the same project differ.

The first point to note is that in private investment analysis the costs and benefits of a project are evaluated at ruling market prices, or rather at market prices as anticipated by the entrepreneur or investor. The government is not so constrained. In fact it may choose any set of prices to evaluate a project. For instance, the government may take the view that widespread unemployment denotes that the free market wage would be lower than the ruling market wage. If ruling prices are taken to evaluate projects, then there is a danger that projects will be chosen which will not reflect the

true opportunity costs to the nation of the resources thereby utilised. The government may thus choose to evaluate projects at what it believes to be those prices which would lead to full utilization of the country's resources.

Secondly, the discount rate may also be viewed as a market price, and of course the government's view of the correct social discount rate for any project may differ from that of the market.

Thirdly, differences may occur in the particular stream of costs and benefits when viewed from a social rather than private point of view. An example is the firm which omits to count the cost to society of pollutants which it emits in to the environment, which would be taken into account in a social cost benefit analysis.

Given the possible disjunction between social and private evaluations of particular projects, what courses of action are open to the government if it sees what in its opinion are misuses of resources in the selection of projects. Firstly, it can itself initiate projects or directly inhibit certain investments through the use of licences and other such measures. Secondly, it can attempt to influence project selection through varying the price variables that enter into private investment appraisal, - either by fiscal or monetary means.

#### IV. Types of Planning

Evidently, from the many possible permutations of objectives, instruments and constraints, a wide variety of plans may issue. However, it is usual to attempt to categorise plans according to the instruments used in their implementation. The major distinction is between what have come to be termed "indicative" plans, and those that have been termed "imperative". This distinction can be exemplified by the position that governments of different persuasion would take with regard to the disjunction of social and private

evaluations of particular investment projects noted above. Imperative planning would entail direct action, initiation of projects, licences etc. Indicative planning would attempt to influence the environment in which investment decisions are made. We propose to concentrate here on this latter type of planning; we briefly outline the theory behind indicative planning, and then go on to consider two particular examples, planning in France and Japan.

#### IV.1 Indicative Planning

An interesting aspect of indicative planning, or so the story runs, is that by the mere act of planning, the plan itself becomes an instrument for its own fulfillment, what has been termed the "announcement" effect. The theory of indicative planning thus rests on the assumption that a published forecast is different from an unpublished one; the plan itself influences expectations and publication thus changes the forecast that would otherwise be made. There is thus an aspect of the economy attempting to lift itself by its bootstraps. The government has a plan for faster growth - the main instrument of government policy to ensure this growth is the plan itself, via its influence on expectations and uncertainty. In a decentralised market economy, expectations are generated and held by individual economic agents and there is no way in which differing expectations can be reconciled ex ante. Firm's investment plans, for example, must be based on forecasts of future demand and cost conditions. In the absence of a mechanism for securing ex ante consistency, one of two things will happen. Firms which over-estimate future demand at the going price and invest accordingly will find that supply exceeds demand and the price will fall, if prices are flexible; or, if prices are not flexible, some of the new capacity will remain unused; in either case, profits will be lower than expected. Firms which under-estimate future demand will find either that prices rise or that

queuing develops. Profits will be abnormally high in the first case and lower than they could have been in the second. On the conventional analysis, if demand remains at its new level, these mistakes will tend to be eliminated, either by a change in the rate of investment or by the entry and exit of firms from the industry. But in the interim, the system will clearly be less efficient if these mistakes could have been avoided ex ante rather than repaired ex post.

The information which the firm needs if ex ante consistency is to be achieved is of two kinds, relating on the one hand to demand for the product of the industry, and on the other to the volume of competitive supply from the other firms in the industry. An indicative plan attempts to provide both kinds of information: the first by essentially an exploration of the industrial input-output implications of the global output target, the second by an industrial survey which attempts to add up the supply plans of the firms in each industry. The confrontation of the two, and the consequential revisions of plans, is it is claimed the crucial step in avoiding inefficiency.

So much for the theory of indicative planning;<sup>\*</sup> however, there is rarely a case where the government of a country has relied solely on the "announcement" effect of a plan. France and Japan are usually referred to as the countries with "indicative" planning, however in these countries the "announcement" effects of the plan are also supplemented by various instruments of direct and indirect government intervention. I now propose to discuss briefly plans which have been implemented in these countries.

---

\*

A discussion of the theory of indicative planning may be found in Meade, (see references).

## IV.2 Planning in France

France has now had thirty years of continuous economic planning. So great was the devastation of France by the time of liberation in 1944 that detailed government control of the programme of reconstruction was clearly needed. Thirty years later Plan 6 (1971-75) has drawn to a close and Plan 7 (1976-80) has now begun. The concept of economic planning has changed enormously over the intervening years. Originally, there was a simple programme giving priority to the economy's 'basic sectors' - coal, steel, farm machinery, electricity, transport and cement - but now the planning exercise has mushroomed into a complex integration of all major expenditure, whether social or economic, in both the public and the private sectors. Early plans were rather narrowly economic and industrial in character, but successive plans have widened their approach to embrace more social, demographic and regional aspects and to make long-term provisions for future years. Once the government has indicated its general order of priorities, most of the detailed preparatory work is done by a series of 'vertical commissions' - one for each major sector, such as agriculture, housing, transport - and 'horizontal commissions' - one for employment, one for finance. The preparation of a Plan from inception to final completion now takes over four years, so that work on Plan 8, which will take effect in 1981, begins this year.

The first plan (1947-53) focussed on the reconstruction of a few key sectors. Very little data were available and the plan was little more than the aggregation of the investment plans of the nationalised industries. In addition to a concerted investment component (as in the first plan), it attempted to cover the rest of industry too. The third plan (1958-61) contained few innovations, merely a technically better version of the second plan. The fourth plan (1962-65) was the one that attracted major international attention. It contained very detailed physical output projections and made a

first attempt (as far as the plan was concerned) at social investment programmes. The key features were the establishment of demand expectations, the role of plan targets in the application of these, and the apparent self-fulfilling nature of the plan which came about through the involvement of industry in its preparation.

Following the fourth plan, the French replaced the emphasis on the demand expectation approach, by placing greater attention on the promotion of industrial competition, particularly international competition, and the removal of factors which impede it. The growing importance of prices and exports focussed attention on increasing productivity and lowering costs.

Industrial policy was a key component, developed and strengthened in the fifth and sixth plans. In the fifth, the emphasis was placed on allowing firms sufficient profit margins to finance investment and on changing the size of firms to promote more efficient production units. The plan contained a number of sector programmes and to aid their implementation 'programme contracts' were introduced in July 1966. These were agreements between firms and the government that, for the period of the plan, firms would be allowed to raise their prices (in order to finance investment) provided they complied with the plan's objectives on output, investment and exports. Agreements were signed in a number of sectors: steel, electronic computers, merchant vessel construction, cars and electrical appliances. These were not all with single firms; in some cases, the industry's trade association was party to the agreement.

The sixth plan's industrial policy can be discussed under three headings: first, there are measures to remove legal and other barriers to competition. Secondly, there are improvements in the environment of industry - a doubling of the capacity for training and retraining labour; more flexible arrangements for obtaining medium and long-term funds; guaranteed government expenditure on roads, ports and telecommunications, specifically to assist industry, as well as more public expenditure on research and development. Thirdly, there are the criteria to guide government action, characterized by 'help the strong, not the weak'. These criteria are to consolidate firms in which France has a strong position in the market; to accelerate the decline of marginal firms; to provide financial assistance to dynamic firms; to encourage the creation of new firms likely to diffuse technological innovations rapidly; to encourage French firms to invest abroad; and to provide special assistance to primary sectors.

The new plans are, therefore, on a particularly selective basis. The full range of instruments of French industrial policy are not particularly novel. Looking first at general instruments, there are direct and indirect measures. The direct instruments including building permits in Paris, annual price agreements negotiated between the government and trade associations or sometimes single firms, and the distribution of government economic forecasts, particularly to firms involved in government contracts.

Indirect measures include policies aimed at influencing the environment in which industry operates, rather than industry itself - budget policy, government contracts, savings policy, monetary policy, general taxation.

Moving on to specific policy instruments. We may note three which have attracted particular attention. First, there are programme contracts negotiated between the government and nationalised industries. Secondly, financial support to medium-sized firms for a limited period. Thirdly, a whole battery of financial and fiscal incentives. They include grants proportional to investment and employment. They also include "contracts" as noted above, i.e. agreements relating to prices conditional on certain courses of action of the firm.\*

Although guidelines for wage rises have been laid down in the plans, these have not always been adhered to. If wages and consequently costs thus get out of line with France's major competitors, the government has used devaluation as an appropriate policy response. We may note that the largest union in France, the Confederation Generale du Travail, is communist dominated and will not participate in negotiations leading to control on incomes.

#### IV.3 Planning in Japan

The role of the government in Japan's growth process has been a matter of some dispute. The image of a centrally directed "Japan Inc." in which the government in close consultation with business virtually determines the allocation of resources among productive activities is certainly overdrawn. At the same time, the government does place the highest priority on rapid economic growth and on the expansion of exports, acting as a lubricator and stimulator of this process. Its five-year projections have served as targets in guiding business decision making and in addition to macroeconomic policies aimed at full employment and price stability, it has adopted a coordinated set

\*

Elaboration of the points noted above may be found in Liggins, (see references).

of microeconomic policies designed to accelerate structural change in favour of promising high growth sectors. Historically, the Japanese government has taken an active interest in economic planning. At the end of the nineteenth century Japan was a poor weak country with little in the way of industry, technology, or natural resources. To maintain her independence, her leaders felt compelled to catch up with the West; for both military and economic reasons, industrialisation was a necessity. This step resulted in early government involvement in promoting industry and early development of close relations between government and business; e.g. the government imported and set up modern textile mills which were later sold to private enterprise.

The official planning period in Japan has varied. Some plans have been officially announced for a period of ten years - the "Doubling the National Income Plan 1961-1970" - or for five years e.g. the "Economic and Social Development Plan", 1967-71". The planners frankly admit that any plan is essentially an extension of past trends and relationships and will accordingly have predictive power for only a very brief time after the period on which the calculations are based. Because of this fact as soon as a plan is constructed work starts on adjusting the data and even the conceptual basis of the predictions. If the private sector's performance deviates from the plan it is the plan which will be given the push; a new plan will then be prepared; thus we have a system of "rolling plans", the planners accepting the latest trends as starting points.

Although it has been stated that the execution of the Japanese plans rests solely on its announcement effects, it would be a mistake not to note that the government has made extensive use of policy instruments, as noted above. At the end of World War II Japan was confronted with the need for rapid industrialisation and substantial economic development. Economic growth required high rates of investment and export promotion if capacity was to be expanded rapidly and imports were to be financed. But Japan's capital stock was small and only the

banks had the necessary funds. Therefore the government, through the Bank of Japan encouraged the debt financing required for high investment rates. In addition, tax reforms continually altered the progressive nature of Japan's income tax to favour capital accumulation and high savings rates. Interest income was taxed at lower rates than was salary income, and capital gains were often not taxed at all. Companies also received favourable tax and interest rate benefits for exports. The programme was particularly successful because it favoured those firms that grew fastest and were effective exporters. The fastest growing firms used the most debt and received the most tax benefits; they could thus price lower relative to competitors and achieve the same return on equity, even if costs were the same. They could then undersell competitors both domestically and overseas. As their volume increased, their unit costs become lower and they could further lower prices, grow faster, and benefit from government tax policies. Conversely, slow growing firms had to repay loans and deferred taxes. The government itself favoured private investment over public investment. The government consistently underestimated growth rates and thus fiscal revenues. Budget surpluses were then returned to the private sector via tax cuts. The cost of this growth was underinvestment in public facilities and high rates of industrial investment instead of personal consumption.\*

High debt levels thus fostered competition. Japanese managers became accustomed to rapid growth and to realize the adverse consequences of failing to grow with the market; they invested heavily in anticipation of demand. As investments were uneven, temporary excess capacity developed; but since fixed costs were high (all labour costs viewed as fixed in Japan since the firm offers employment for life; also high interest charges), little can be gained by not working at capacity. Prices are very flexible downward, leading to extreme price competitiveness and rapid industry shakeouts of the luckless firms. The

---

\*

Analysis of planning in Japan may be found in Bieda and Frank, (see references).

government's policies in effect accelerated the impact of internal forces on Japan's development. Economic growth increases incomes, labour skills, capital stock, and technical sophistication; and further raises consumer expectations. Japan's high growth policies accelerated these demand and supply shifts.

#### V. Why Plans Succeed or Fail

From experience of planning in other countries, what are the major points to be noted as to the reasons for the success or failure of plans.

1. Firstly, we believe planning has succeeded where it has ensured that it is in the interests of the private citizens to follow the plan. Successful planning prescribes a course of action that is in their long-term interest to follow. The carrot which ensures that private entrepreneurs stick to the path laid out for them by the government is, of course, profit. Deviation from the path will lead to lower profits. Thus, the planners do not push against the pressures that are inherent in a capitalist system, but manipulate these pressures to the advantage of what the planners believe to be the benefit of the society as a whole.

2. Secondly, we have the realisation that planning cannot be only considered in physical terms; i.e. a plan which delineates physical targets, for the whole economy or particular sectors will not be attained unless account is also taken of the prices of inputs and the price at which the output can be sold. Thus, in a capitalist economy, if planned outputs are to be actualised then certainly it must be profitable to operate at these levels.

3. Early planning in France emphasised demand conditions, however, there has recently been a greater emphasis on supply conditions.

This always appears to have been true with regard to Japanese planning. The primary force generating growth is not domestic demand expansion, but price cutting relative to major competitors - the aim is to expand your share of the market for particular products irrespective of the growth in the total market.

4. The emphasis on a particular list of projects to be undertaken. Particular projects add concreteness to any development plan. Such a strategy is more evident in Japan, and the projects delineated were simply those that had previously been undertaken in more developed countries. Thus, major industries were targeted as growth opportunities based on previous European or U.S. experience.

5. Discouragement of foreign direct control of industrial enterprise. This should not be seen as an example of national chauvinism but as an acute awareness of the dangers inherent in what may be termed "subsidiarisation". When a firm sets up as subsidiary in a particular country, then that subsidiary will not compete with the parent company. Thus, in the case of Japan e.g. one would not expect to find such penetration of the American or European markets by Japanese cars if the Japanese auto industry were controlled by Americans or Europeans. If the latter were true, the subsidiaries would be content with supplying the Japanese domestic market and the countries on the periphery of Japan. "Subsidiarisation" costs jobs. As an aside, the Irish government may take note, for example, of developments in the Irish food and confectionery industries, and certain restrictive trade agreements that act as barriers to the expansion of these industries.

6. We have the widespread use of monetary and financial instruments to engender a favourable climate for growth. Only by such influence over the banking sector could, e.g. the policy of debt financing required for high investment rates be pursued.

7. We may note that the plans have been pursued in Japan and France without an effective incomes or wage policy. In France, as noted, although guidelines for wage rises have been laid down these have not always been adhered to. In Japan's private sector, unionisation has been on an enterprise basis, although there has been recent movement towards centralisation. Wage-bargaining has therefore been on a firm-by-firm basis. The success of the firm has usually been identified with the success of the employee. If a firm goes out of business, the worker may lose his privileged "permanent" status and become a "temporary" worker in another enterprise. Wage-rates are thus set in line with productivity gains and to ensure that the firms costs do not appreciate in excess of its competitors which would lead to a decline in the firm's market share.

8. Although preferring to leave the development of enterprise in private hands, in the absence of entrepreneurial drive in a particular direction, the state has been prepared to initiate its own projects. Such policies were particularly evident in the early development of Japan.

9. There is an advantage in preparing the groundwork for plans well in advance, and for a continual planning and monitoring process. The initial French and Japanese plans were modest affairs, and thus relatively cheap; they were later expanded as expertise in planning accumulated.

10. With respect to the instruments that the Japanese and French have utilised, there are none that are not already in the hands of the Irish government. Emphasis may, however, be drawn to the particular planning agreements made between firms and the government, e.g. such may make price increases conditional on investment plans being undertaken. The possible stabilisation of output through an Industrial Marketing Board may also be noted.

11. The use of policy instruments to directly stimulate growth cannot be overemphasised. Firms which do not grow are simply penalised through the use of fiscal instruments. Such mechanisms speed up the capitalist process; in studying the Japanese economy one derives the impression that the planners and government economic ministers have digested their Marx very thoroughly; in much the same way as a police manual can be put to good effect by criminal elements.

Now, I have stressed the role of profit in the planning process, and have stated the belief that French and Japanese plans have succeeded for the major reason that they have ensured that it is profitable for firms to accede to the plan; indeed that only by acceding to the government guidelines can they eventually stay in business. Planning by this method appears to be particularly brutal, no "lame ducks" (at least where "lame ducks" have a strong domestic brother). Perhaps, in studying the more genteel planning of the Scandinavian countries a different answer may have emerged. However, unless foreign businessmen have a great sense of social responsibility and run their businesses as philanthropic enterprises, using the carrot of profits would appear to be the only way of ensuring voluntary compliance with the plan. I would be interested to hear of any counter-examples from a capitalist country.

Now such implications may appear disturbing to trade unionists or socialists. May not this view of planning simply be seen as a method of appeasing the capitalist class. The argument may continue that we require socialist planning, planning that will ensure a greater equity in the distribution of goods produced by society, that will ensure continuity of employment and better employment prospects for our children. There does appear to be a dilemma here. One could, of course, argue that increased profits, provided they are invested, lead to greater employment and a better future life. Increased profits also may lead to greater inequalities in the distribution of income and

wealth. As long as we are constrained to work within a community in which production is not socially held, then the only answer would appear to be wider distribution of shareholdings. The trade unions themselves could initiate such a process. One should also remember that as long as the only method of transport is a donkey and cart, to feed the donkey a carrot now and again need not denote any particular love for the beast.

I have, thus far, avoided discussion of the specific problems facing the Irish economy; however, to conclude I will make a few points which may initiate future discussion, and which relate to points noted above.

First, two well-known analyses of the Irish economy. The Irish economy has traditionally been one with a surplus of labour and shortage of capital. This problem has been accentuated by the relative success of the Irish economy in the past decade, in that people who would have left did not, and their children, and children's children are now coming along. Ireland is, therefore, faced with the prospect of a rapidly expanding labour force. To provide jobs for these people, the government must, therefore, raise the rate of investment to provide more capital and thus more jobs. Parallel to this argument that capital-scarcity is the major cause of long-run unemployment, we have the shorter-run Keynesian demand-deficiency argument allied to the balance-of-payments constraint. Unemployment arises because there is insufficient demand for the country's products. The government cannot increase demand, because such expansion would suck in extra imports, and such imports cannot be financed by further borrowing from abroad. However, it can be argued that, though these theories have elements of truth, they have deeper roots related to the price and cost structure of the Irish economy. Firstly, the argument concerning the shortage of capital. It seems rather inappropriate to blame capital deficiency for unemployment at a time when firms are not at present

working at capacity; even before the current depression there would appear to have been great under-utilisation of the existing capital stock. With regard to demand-deficiency, there are arguments that assert that Ireland's share of overseas markets are so small, there would be no difficulty in expanding this share. Further, there appears to be great import penetration of the Irish market by foreign firms; if there is a demand deficiency why can foreign firms sell similar products so successfully? In both cases, the reason may be found in the cost structure; capital is not used intensively because manufacturers find it not profitable to do so; Irish firms do not expand their sales in domestic and foreign markets not because there is no demand for products, but again because of profitability. Tackle supply and not the demand problem is, therefore, the call to Irish planners; if policies are advanced to expand domestic demand, the results will be that the market for foreign competitors will be increased whilst domestic output and employment will show no marked change.

We are again back at the problems which have attracted so much attention in both Japanese and French plans; the question of supply price.

References

The Analysis of French Planning:

D. Liggins, National Economic Planning in France.

R. Courbis, Compétitivité et Croissance en Economie Concurrencée

Planning in Japan:

K. Bieda, The Structure and Operation of the Japanese Economy.

I. Frank, (ed.) The Japanese Economy in International Perspective.

Project Appraisal:

I.M.D. Little and J.A. Mirrlees; Project Appraisal and Planning  
for Developing Countries.

Theory of Indicative Planning:

J.E. Meade, The Controlled Economy.