54. J. Friedmann, *Venezuela, From Doctrine to Dialogue,* Syracuse: Syracuse University Press, 1965. See also his "The institutional context," *Action Under Planning: The Guidance of Economic Development,* B. Gross, ed., New York: McGraw-Hill, 1967.
55. Report of the Preparatory Commission for a National System of Coordination and Governmental Planning 1958, quoted in J. Friedmann, *ibid.,* p. 15.
56. J. Friedmann, *Venezuela from Doctrine to Dialogue*, p. 36.
57. B. Gross, *Ibid.,* p. xv.
58. *Ibid.*, p. 39.
59. *Ibid.*, p. 49.
60. *Ibid.*, pp. 32–33.
61. *Ibid.*, p. 49.
62. *Ibid.*, p. 4.
63. F. Levy, *Economic Planning In Venezuela,* New York: Praeger, 1968, pp. 99–100.
64. *Ibid.*, p. 62.
65. *Ibid.*, pp. 68–69.
66. "ODEPLAN, (Chile's Oficina de Planificación Nacional) conceived as a technical body without political authority or the least control over the budget, was the easy victim of the traditional manner in which the Christian Democratic government attempted to carry out the basic lines of its development policies–namely, through the appropriate semiautonomous state corporations." O. Sunkel, "Cambios Estructurales, estrategias de desarrollo y planificacion en Chile (1938–69)," *Cuadernos de la Realidad Nacional,* 4, June, 1970, p. 47.
67. *Ibid.*
68. *Ibid.*
69. B. M. Gross, "The dynamics of competitive planning: a prefatory comment," *Mexico, Mutual Adjustment Planning,* R. J. Shafer, Syracuse: Syracuse University Press, 1966, pp. xv–xvi.
70. It should be noted that since his work on Venezuela, Friedmann appears to have taken his analysis to its logical conclusion. In an article on "The future of comprehensive urban planning: a critique," *Public Administration Review,* 31, May/June, 1971, he asserts that the flexible and opportunistic style of decision-making characterized by negotiation, bargaining, and political pressures necessitated by clashes of social interests and the inability of the organization or government to control and foresee external forces and conditions "holds nothing in common with comprehensive planning which may now be seen for what it really was, an old-fashioned, static ideology devised chiefly to advance the interest of a few professions in climbing to positions of dominating influence in the society."

EIGHT

Finance Versus Planning

The budget process is a crucial element in the calculations of all those concerned with government whose activities and aspirations depend on having enough money when they need it. The way the budget is shaped and implemented, therefore, is important in determining their behavior. The strengths and weaknesses of the budget are reflected in those of the entire government structure.

The budget is no less crucial for planners. Unlike departments and agencies, however, they need the budget less to finance their own organization (not one planner we interviewed even mentioned this) than to put their plans into practice. Plan implementation depends upon planners' ability to insure that the public sector moves consistently toward plan objectives; governmental resources must be directed toward this end, and not diverted away from plan purposes.

If the plan is to be meaningful, it must be reflected in the budget. If the plan goes one way and the budget another, the plan simply is ignored. Planners strive to influence budget allocations, but their efforts are in vain if the budget itself is without meaning. If the budget controls but a small part of public expenditures, if the pattern of expenditures at the end of the year bears little relation to initial budget figures, and if budgetary classification hides more than it reveals, the budget cannot help planners no matter how much influence they gain over it.

Because of these concerns, planners want to substitute systemic modes of choice for hurried rule-of-thumb judgments, a plan for piecemeal bargains, and a multi-year perspective for an annual hurdle race. They cannot rest content with budgetary largesse (which in itself is hard enough to obtain); the very rationale for their existence demands that planners should be super budgeters.

Planners rarely have extended their ambitions to the whole budgeting function, but they have concentrated on a more limited and practical perspective—public sector capital investment—which is often equated with the general development effort of a country. The calculations of economists focus upon it; the public works it represents—expensive projects such as roads, schools, airports—provide visible evidence of achievement; and it is the area most likely to receive foreign aid. Hypothetically, capital investment represents uncommitted funds, and thus it is the object of the fiercest battles as politicians and administrators, including planners, vie to establish commitments within it.

As it happens, there is an admirable mechanism at hand for planners. Many poor countries have capital budgets. Identifying the capital budget with the investment portion of a nation's effort (namely, those expenditures defined as contributing most to the nation's economic growth) may easily turn it into the development budget. Here, then, is the portion of the nation's expenditure that belongs properly to planners, whose task is development. Whether the planning commission ends up with this bundle all to itself or whether it has to share with the finance ministry, planners have staked out their own claim to bridge the gap between plan and budget; the planning commission has found its own form of special funding, just like everyone else.

Institutional Rivalry

Two major institutions with claims on the budget immediately create problems of power; both cannot get their way. More for one means less for the other. They may talk about increasing the size of the pie in the future so that both regular and development expenditures can grow apace, but, at any one time, there is only so much to go around. This last statement is incorrect, however, if it suggests that total expenditure is fixed independently of the desires of the participants. The major item of controversy is likely to be the size of the total budget, because that helps determine how much is available for investment.

The struggle to control the budget would be less severe if participants shared the same perspectives, but often they do not.

The planning commission must make everything add up to more than a hundred so there will be greater national income in the future. Finance must make sure everything comes out to a hundred so that there will be no need for sharp increases in taxation or for the deficit financing which leads to unacceptable inflation. It is pessimistic in order to keep spending and taxes down, insisting that revenues will be lower and expenditures higher than the planners think. Its task is to spend now so as to have more later; if that means taxes have to be raised or various groups will be deprived of customary benefits from government, others must deal with the consequences. The development budget not only takes away money from the current budget, but it also creates substantial future recurrent expenditures. Investments deprive the finance ministry of resources not only in the present, but in the future. The reverse is also true. Current expenditures eat up funds available for investment. The less invested now, the less will be available in the form of increased national income later. At the moment of choice, finance prefers stability and planning chooses growth. Balancing these competing claims is not easy. Profound differences in role and task (see Chart 8-A) reinforce the struggle for power between finance and planning.

The conflict is reinforced by attitudinal differences which stem from variations in the kind of personnel recruited for the two institutions. The finance ministry is likely to get accountants, lawyers, and low-level technicians on their way up through the bureaucracy. The planning commission is likely to include economists and other men with advanced degrees whose rationale is to overcome the faults of the regular apparatus. Planners are given to talk in terms of public interest and comprehensive approaches, while bureaucrats speak of political necessity and administrative convenience. Bureaucrats probably have been educated at home, planners abroad. Each side is likely to accuse the other of being unrealistic in terms of its own values and modes of thought.

CHART 8-A. Finance Wants Stability While Planning Prefers Growth

Comments by Participants

Chile: "In all countries, ministries of finance follow a conservative strategy of price stability, and it is no different here. On the other hand, the planning institutes are interested in the development of the economy."

CHART 8-A. *Continued*

Ghana:	"Planning wants to see development and expansion. Finance wants to hold all development expenditures down. They are stingy; they will sometimes refuse to release voted capital budget funds on the grounds that they are not satisfied with overall economic conditions, or they will claim there is no cash in the treasury." "The planners are unrealistic in calculating total revenue, and the amount that should be devoted to development. Planning assumes that recurrent expenditures are predictable and can in fact be controlled and contained. What they [planning] prefer to forget is that the recurrent budget is continually disrupted by the unforeseen. Recurrent expenditures jumped considerably to accommodate ministerial and statutory salaries with the return to civilian rule. Secondly, planning assumes that an even cash-flow is possible. The pattern of the last three years has been particularly erratic because of debt, devaluation, and floods which affected cocoa receipts. With a large part of revenue dependent on foreign aid and cocoa exports, planners should realize the fickleness of revenue. Yet, they put the burden of control on finance. A third point is that planning's estimates of revenue are inaccurate. Planning doesn't trouble itself to go directly to revenue sources for information. Budget is the only one to get daily bank balances, and to check customs, lotteries commissions, and other revenue departments weekly. We're the ones who know how a credit can turn into a debit overnight."
Malaysia:	"We have a higher figure for the GNP growth rate than the treasury or the bank. We therefore feel that the potential for development, that is the size of the development expenditure, could be higher as the revenue should also be higher."
Thailand:	"Development expenditure makes up about 45 per cent of the nation's total budget. The NEDB [planning organization] has been trying to increase this figure but, unfortunately, we are not yet in the position to do so."
Costa Rica:	"The ministry of finance very often tries to limit expenditures to the level of revenues. However, it interferes with the planning process by limiting the percentage increase in expenditure for each ministry to the overall percentage increase in total revenues. This in fact amounts to an attempt on the part of the ministry of finance to play the role that the planning office should play. We always wished that the ministry of finance would just concentrate on raising revenues and leave setting of priorities to the planning office."

CHART 8-A. *Continued*

Nepal:	"Finance has always been conservative, has always been aware of the reluctance of others to raise taxes." "Planners have been more ambitious and wanted to spend more than the ministry of finance."

Power

In budget conflicts, the ministry of finance is likely to be in an extremely strong position.[1] Although little has been written on the subject, everything we know suggests that ministries of finance are often the most powerful governmental institutions in their country. Waterston finds that in Turkey finance "enjoys pre-eminence among the Ministries second only to the Prime Minister."[2] In his study of Mexican finance, Shafer concludes that "the Ministry of Finance—as in many countries throughout the world—is involved in much more than the passive handling of the traditional finance functions. . . . It is an active growth-oriented organization alive to the political realities, the economic refinements, and the technological aspects of domestic expansion and international negotiation."[3] Accentuating the obvious, a Chilean official stated that "the ministry of finance is powerful because it hands out the resources. This means that it has more influence than other institutions over the different state organisms."

Occasionally one hears of a weak ministry of finance which simply adds up the totals provided by the spending ministries and sends them on to the government for action. A finance ministry that doesn't really feel itself part of the government responsible for determining the pattern of expenditure, however, such as Baldwin reported for Iran,[4] is most unusual.

The finance ministry has significant advantages over any competitor. It is usually the longest-lived and most stable bureaucratic organization in the country. An Argentinian reported, for example, that "finance has not changed its structure in about thirty years, which gives it tremendous stability; I entered twenty-three years ago. The only time that people were moved out was after the accession of Peron, and their places were taken by people already in the organization." Finance has often built up political power through long-term relationships with various interests in society and in the bureaucracy. Its rhetoric—of dire need and necessity to hold down expenditure—speaks easily to national leaders. Planners, by contrast, lack historical legitimacy. Their language may seem more exotic and hence less understandable by those who must make the final decisions.

Yet planners are not without their own advantages. Certain interests may cluster around the projects they sponsor. The large and visible nature of their efforts may make it easier for them to rally a public clientele. Their fluency in the language of planning makes them able to deal with the World Bank and other institutions that give foreign aid. The promises they can make, the happy vision of the future they can conjure up, may give them standing with leaders who feel overwhelmed by the trauma of everyday life in poverty-stricken nations.

Down to earth the vision dissipates. Because they are weak, planners have more trouble than budgeters in getting correct data on time. In one country it was reported that planning was undermined "by extensive delays in passing information to us. We sent to the ministries questionnaires which asked about their levels of revenues, projects under consideration, and estimated level of expenditure. They sent back replies such as 'we have no idea how to fill out your questionnaire,' or 'we will fill out these forms when we have time, which will be in three months.' Then at the end of three months they would delay another six months."

The occasional man who has worked in both planning and finance notices immediately that power differentials are reflected in the ability to gain information. "When I worked in the planning organization, we met no success when we asked for information. But when I ask for this type of information from my place in finance, we get the information we want." Planners in other countries suggest more direct mechanisms. Since "we are not within the communication network of the ministry," a planner informed us, "we would like to have more power, especially by making provision of information we request obligatory."

The finance ministry, with its control of the treasury, is likely to prevail over planners who, in Nepal, complain, "We make the plan and somebody else holds the purse." When compelled to choose, ministries will go where the money is, as a candid Thai official recognizes:

> The NEDB [National Economic Development Board] does not have power. Even if the NEDB approves our projects we may still not get money for them. This is a very crucial problem which undermines the NEDB since we are rather reluctant even to ask the NEDB to help clear the passage for our important projects. Since we know that the NEDB is not powerful in terms of allocating money, we often fall into the habit of overlooking NEDB policies and recommendations. We know that what counts in getting money lies in our dealing with the BB [Budget Bureau].

The finance ministry (sometimes called the treasury) has the resources to reassert its power. Finance controls the level of taxation and spending that determines whether there will be a surplus for investment; it determines individual ministry spending, thus choosing the projects that can be supported; it usually controls the foreign exchange that regulates other spending. Pratt's account of the Tanzanian experience is directly to the point:

> . . .strain. . . existed between the Directorate of Planning and the Treasury. The planners had kept to a minimum the role of the Treasury in the production of the Plan. The Treasury was not asked to assess for the Plan the recurrent requirements of the spending Ministries, nor did it review the figures of the various capital projects mentioned in the Plan. The planners and senior Treasury officers disagreed on a number of crucial issues. No effort was made to work towards a resolution of these differences in order to present to the Economic Development Commission a consensus on them. Instead the planners set the pace, leaving the Treasury to comment upon their proposals, often at quite short notice. Finally, ...the draft plan. . . included proposals relating to taxation policies which had not been discussed with the Treasury at all.[5]

The Tanzanian Directorate of Planning apparently was strong. It was granted power in June, 1964 to direct the works of other ministries and to formulate general fiscal, monetary, and borrowing policy required for plan implementation. But planners quickly came up against the problem of insufficient funds for their plan. Since the treasury was responsible for negotiating foreign aid and controlled most of the sources for local capital, it was in a prime position to decide the crucial question of priorities for plan projects. The treasury thus was able to reassert its powers over planners and, by its "greater concentration of executive, administrative and financial competence," was able to take on new responsibilities.[6]

Planners, whose fortunes are highly variable, move from periods in which they are largely ignored to moments when they are at the center of decision, only to fade away again as the nation's destiny changes hands. A report by the Inter-American Planning Society in 1961 showed planning authorities at their low point. "Although nearly all Latin American governments now have central planning units, many are little more than paper organizations; frequently, they are out of touch with, and ignored by, the heads of ministries, official agencies and even the chief executives; they are always undermanned and their staff underpaid and undertrained."[7] Although written nearly a decade ago, this picture fits many poor countries outside Latin America today. Planners try to use the development budget as one way to break out of their isolation and to win some institutional power. Let us see how they have fared.

Planners and the Development Budget

One way to avoid conflict between planners and finance personnel is for them to treat the "development" and "ordinary" budgets as mutually exclusive preserves, but economic life is indivisible. A project may require not only large construction and initial start-up costs but also substantial maintenance and operating expenditures. The Kenya development plan contains estimates of ratios of recurrent to capital expenditures that run from three to one in education and health to ten to two in roads and waterworks.[8] What good is a school without teachers, or a factory without transport if the roads that lead to it are not maintained? Looking at the problem the other way around, expenditure may be encouraged because there is a surplus one year in the development account and a deficit in ordinary expenditures, or vice versa. One time buildings go up without people to put in them, and another time people are hired without any place to work.

A strong ministry of finance, trying to stay solvent, will fight to keep its hold over the budget; this year's development expenditures must not swallow up both the development and recurrent funds for

several years ahead. Yet one should not make the mistake of assuming that a planning organization is well served by a weak ministry of finance. Without a meaningful budget, there can be no meaningful plan, for such a ministry of finance will not simply be weak in relation to planners, it will be unable also to maintain control over the budget during the year so that budgeted funds are in fact used for purposes for which they are allocated.

A major problem is military pressure for funds. When a nation faces a serious problem of internal order, it is not hard to justify defense expenditures in economic terms. After all, if ordinary activities cannot go on unmolested, then no sort of economic growth is possible. This situation accounts for what would otherwise appear to be an incredible comment from Walinsky. "Since any increase in law and order resulting from higher military expenditures would almost certainly contribute more to economic output than would any other investment, there was little reason for the planners to be concerned about them."[9] Better put, planners have every reason to be concerned about these expenditures, but there isn't a thing they can do about them. One example is the failure of a recent attempt by the National Economic Development Board in Thailand to get the defense fund classified into security and nonsecurity expenditures, so that the budget bureau and the NEDB could exert some pressure against the expenditure of defense funds for nonsecurity purposes.

Indonesia under Soekarno provides another example of what happens when the ministry of finance is too weak to stave off pressures from all sides. "A minister who wants to spend more can usually force his will on the Finance Ministry by threatening to resign and thus upset the political balance. . . . it was not unknown for the Army to appear at the Treasury in force and successfully demand more money. This lack of budgetary control has permitted an expansion of government employees from roughly one hundred and forty thousand during the Dutch period to nearly one million at present."[10]

Planners thus will usually be no better off with a weak ministry of finance. First, they will be unable to rely upon the ministry to follow a consistent policy or to enforce its decisions upon government agencies. Second, planners are unlikely to be in a very good position in open competition for funds and power. A Peruvian planner speaks with feeling about the political situation that prevented implementation of the 1967–70 medium-term plan. "All the ministries and the agencies within them acted like sovereign powers on the international scene. Each one was a feudal fiefdom, unwilling to accept interference from outsiders. Planners were treated like foreigners." And in Argentina an avowedly weak ministry of finance did not help those who flatly stated: "We planners have practically no intervention in the short-term selection of projects to be placed in the budget," and "there is no interaction between each ministry and the planning office when the budget is made out each year."

There is, however, one exception to this generalization: where a ministry of finance is so weak as to be useless, planners sometimes can take over the budgeting function altogether. Planners became budgeters by default in Iran, where the ministry of finance was content simply to add up and pass on the requests of ministries. Another example comes from Peru, where resources in the 1962–68 period were severely strained by the demands of congress and the weakness of the executive. Following the military coup of 1969, planners won considerable influence in budgeting. The *Instituto de Planificacion* (central planning agency) participated in a special commission with the head of the budget bureau and the *Contraloria General* to make final budget decisions; it sent instructions to its sectoral offices on how to prepare estimates in accordance with the medium-term plan; its representatives participated in budget hearings with the ministers; and it took part in discussions with the ministry of finance on interagency transfers and budgetary amplifications during the year. The proposed ministry of planning expected to encompass the budget bureau. But of course as planners lose their advisory status, we might expect them to take on the preoccupations of budgeters as they accept their responsibilities.

In most countries, however, finance has made sure that while planners may participate in the budgeting process, it will retain the decisive voice. Wilcox reports that in Pakistan:

> The last word . . . was spoken by the Minister of Finance. If the Minister's estimates indicated that the domestic resources or the foreign exchange available for development purposes would be smaller than had been expected by the planners, he required that the development program be curtailed. If nondevelopment expenditures were larger than expected, the planners had no authority to insist that they be cut. If tax revenues were smaller than expected, the planners could not insist that tax rates be raised or new taxes imposed. So too with foreign exchange. More might be allocated for nondevelopment uses and less for development than specified in the annual program. When this determination was made, however, the planners might not be represented; if represented, they did not have a vote.[11]

Green contends that most former British African states have strong finance ministries. "The dominance of the Treasury has consistently led to an emphasis on budgetary and relatively short-run financing problems, and often to a preference for cutting capital rather than recurrent estimates. Ministers with considerable autonomy in preparing their own estimates have regarded the plan figures—especially the recurrent totals—as optional advice. . . ."[12]

The existence of a joint ministry may change the picture but little. The two components remain separate, for example, in the Ghanaian Ministry of Finance and Economic Planning. Here planners would appear to be in a strong position. Economic planning has complete control over the composition, though not the size, of the development budget. It does not initiate or conceive projects, but it ascertains whether finances are available for projects proposed by the ministries. Implementation of the development budget, however, is controlled by finance, to whom ministries must make separate application to gain release of funds for each item in the capital budget. Planners feel keenly this lack of "purse strings." Without control over development budget releases, they are in effect reduced to a routing center for project proposals.

The clearinghouse role was evident in several other countries we visited. Although planning officials do not take part in budget hearings on recurrent expenses in Uganda, they act in parity with finance officials in regard to development estimates. New projects must be approved by the planning commission and conform to the priorities of the development plan. But planners are only advisory. Once official budget hearings are over, finance holds ministerial consultations, following which it presents the budget to the cabinet. At either stage, changes may be made. Similarly in Thailand, while the NEDB (central planning agency) is responsible for evaluating and coordinating projects, the Thai Bureau of the Budget chooses which projects will receive funds. Planners in Nepal are still weaker. The planning commission receives the development budget but "this is more ritual than a process for making substantial changes. All the planning commission can do is protest to the cabinet."

Where planners despair of gaining control of the budget, they hope by persuasion to induce finance to accept their preferences. A planner described this dual strategy. "On one hand we try not to let them reduce the total amount of investment and on the other we try to get them to fix the ceilings according to our standards." The central planning organization (ODEPLAN) in Chile, for example, is in an extremely weak position vis-a-vis the budget, taking no formal part in budget hearings and participating only through membership of its head in the *Comite Economico*, which reviews the budget after it is made. Yet ODEPLAN does have informal discussions with finance officials after ministerial submissions are in, and finance often uses ODEPLAN's priorities to cut estimates, since it is interested mainly in the global amounts. Again we note the inability of planners to work through formal institutional arrangements and their need to rely on personal relations to retain influence.

In Thailand, for instance, the NEDB's influence would appear to be insured by reporting directly to the prime minister and sitting in the cabinet. Yet we learned that this arrangement is not particularly effective: "In the Thai system of bureaucracy, the prime minister and the cabinet are supposed to coordinate so many things that they could not possibly devote their time to any particular matter including the important matter of coordinating development plans with the national budget." More important in insuring close contact is the fact that the previous director of the budget bureau has become secretary-general of the NEDB. His efforts to recapture supervision over part of the defense budget for either finance or planning have not, however, been successful. We must not forget that the two organizations in which we are interested by no means exhaust the roster of public or private powers.

The need of planners to accommodate themselves to the finance ministry may explain why they put so much stress on personal relations. Many times we were told by planners that "agreement was facilitated by the fact that we have good personal relations with people in finance. The fact that we were student friends helps more than any formal arrangements that may exist." When planners met

with some approval, the explanation was invariably a personal one. "I would attribute this new attitude to the personality of one man who is the head of this office. He completely dominates planning in the whole ministry, and has convinced them of the need for planning and coordination."

The relationship between planning and finance is generally one-sided; finance usually holds most of the cards. It will allow planning influence up to the point of actual decision, but it will keep for itself the power to make decisions regarding overall distribution of resources and the prerogative of responding to emergencies. This is one reason why planners have found it hard to make the budget carry out the plan.

The Budget and the Plan

The annual budget rarely does what the plan intends. The variance in overall amounts planned and budgeted on capital account in the Ceylon ten-year plan was huge; barely half of the plan was budgeted. A comparison of actual and planned expenditure under the First Singapore Plan, 1961–64, also indicates how hard it is to keep expenditure within a projected pattern. Whereas the amount spent on utilities exceeded by over 10 percent its allotted proportion of public sector expenditure (27.4 percent instead of 17.0 percent), the proportion spent on industry and agriculture fell far short of their target.[13] More subtle relationships within the data are also possible. There was, for instance, hardly any *net* discrepancy between planned and actual outlay under the first three Malaysia plans. But the scale of discrepancies was many times larger if comparisons are made in terms of sectors. The amount spent on water, electricity, and transportation has consistently outstripped plan allocation, while spending on social services failed to reach the projected levels in all three plans. Agricultural expenditure has fallen short of target in the last two plans, despite government emphasis upon it.[14]

The lack of connection between finance and planning in Nepal comes out vividly in B. P. Shrestha's contrast between actual and planned expenditures during the first five-year plan. There is virtually no connection between them. Since planning held the purse strings during the period of the second plan, however, appropriations in the formal budget approximated the planned amounts. Actual expenditures, however, were only two-thirds of those in the budget. The original situation was restored by the third plan, in which something less than two-thirds of the planned amount appeared in the corresponding budgets and even less was actually spent.[15]

Another way to see how the plan influences the budget is to measure the effectiveness of the plan as a major policy instrument of the government. The plan must result in appropriate adjustments of government policy along the lines suggested. Here, too, it would seem that plans have often failed the test. In Thailand we were told that "the First Annual Plan hasn't brought about any major fresh policy adjustment. The First Annual Plan therefore has been relatively ineffective." The story was similar in Argentina. "The plan had set up some priorities in line with long-term goals, such as increasing social investment and decreasing economic investment, but these priorities were not reflected in the 1970 budget; nor will they be reflected in the 1971 budget."

What are the reasons for the disparities between budget and plan? One lies in the power conflict between planners and budgeters, much of it centered on the struggle for funds, especially on planners' efforts to enlarge development expenditures and determine their allocations. But more is involved than brute force. The fact that planners feel a need to control the budget indicates that they would make different decisions than would finance officials. We may, therefore, look for the roots of the conflict in the different ways in which planners and budgeters go about things. Does present budgeting practice, we have to ask, aid or impede planning?

From the point of view of planning, the major fault attributed to budgeting is that the process increases uncertainty. The complaint is connected with the timing of the budget schedule. For ministries to be able to plan and prepare estimates properly, they need some idea of the resources available to them at an early date. This is only possible when firm ceilings are set at the beginning of the budget process. In Argentina, however, firm ceilings were not established until December, *after* initial submissions had been made without any idea of available resources. In Chile it was accepted that initial ceilings established at the beginning of the budgetary process would be drastically altered by an "alternative budget" which would compensate for inflation. In Thailand, the amount of money forthcoming from the bureau of the budget to the ministries was not known when they prepared capital expenditure estimates for the NEDB; thus plans were made without reference to available resources by placing projects in order of priority.

The time schedule of the budget may also prove an impediment to planners because of its one-year perspective. The budget for one year is barely underway in January when it is time (in March) to begin preparing estimates for the next year. Budgeters and planners alike have little time to carry out analyses of projects within the time limits. The budget year itself, particularly in countries with dry and rainy seasons, is sometimes out-of-phase with the cycle of economic activity.

Timing is crucial; if budgeting procedures are slow, resulting delays may be expensive. In Nepal, for example, it often takes a year to get funds released, after which they revert to the treasury before work can be begun. Before releasing funds, the ministry of finance has to establish that past funds have been used properly and to account for them. Yet the accounts of unspent balances held by foreign donors and the finance ministry, and those in the department's possession usually do not agree the first time around. Months go by while efforts are made by some sleight of hand to reconcile the three accounts. In the last days of the fiscal year desperate efforts are made to fine tune budgets so that funds that have lapsed will be available the following year. Necessary field information may take weeks or months to arrive in the capital. More than one project has floundered because of failure to rerequest continuance of unexpended funds in the new fiscal year. A year (sometimes two) may go by while officials are still trying to locate what happened to carry-overs twelve months before, to learn whether they had been properly identified, and to discover to whom (if anyone) they had been distributed.

Budget processes may also cause increased uncertainty where the parties involved do not understand what has happened to their promised funds. Planners in Thailand complained that they rarely knew how much money was left for each project. "This makes it rather difficult for us to coordinate work with them since we may find out that a fund that was promised for a certain project doesn't exist anymore or has been cut to the point that it would be impossible to carry out the project."

The most telling charge, of course, is that the ministry of finance does not budget in accordance with the plan. Planners in Nepal, for example, feel they are ignored by the finance ministry. "The finance ministry doesn't look at the plan," says a planner. "We don't bother with them," says a finance man. "Sometimes we wait for their reaction but, if it doesn't come, we go ahead; if we don't like it, we proceed anyway."

The complaints of planners give us an idea of how they would like the budgeting function carried out. Planners told us essentially that the "investment budget was drawn up without feasibility studies, without an idea of sectoral priorities, and without draft projects that were thoroughly discussed. It was a summation of the projects requested by the executive agencies that make the principal investments." They want to put in what has been left out. Their efforts to introduce such methods into the budget have met with mixed success, not only because of opposition from finance, but also because planners themselves have not always been able to pursue their objectives.

Enter the time element again; it is not uncommon for plans to arrive too late. As we were told in Ghana: "The function of planning is to form goals and define their implications—their social and economic costs—so that government can assess political costs and select between goals. The plan should be the means of moving society toward the goal. But as things have turned out, the budget has preceded the plan, and the plan justifies the budget." The 1968 fiscal year in Thailand began in October, but the annual plan was not approved by the NEDB until February. The plan and budget for 1970, in Peru, we were told, were well coordinated but not perfectly so. "The concept of perfect coordination," a planner mused, "would be in effect when the annual plan preceded the national budget and not the contrary."

It may not be possible to apply its priorities automatically should the plan arrive on time, so that when finance people try to connect the budget to the plan, they claim they cannot do it. "The plan doesn't have all the meat," one man said. "The plan talks about desirabilities; we must deal with necessities." Lack of administrative capacity and financial resources often dictate priorities more effectively than the calculations of the plan. Thus in Ghana, despite planners' preference for a list of projects arranged according to

cost-benefit ratios, priority went to existing projects ready for implementation. Even if planners could play a greater part in capital budgeting, their plans would be seriously limited in Chile by existing large investment commitments in copper and agriculture. Referring to the standard manner in which resources are allocated, a planner observed that many departments live off earmarked revenues which call for certain types of expenditures. "Once projects are begun," he concluded, "the planning capacity drops." Prior financial commitments take up most expenditures, leaving only a small margin to be affected by planners. That is why planners cannot get their preferences into the budget overnight. They must hold onto power over a period of years before they can gradually replace the preferences of their predecessors with their own.

Some planners would like to take over the budgetary function themselves. "We want," a planner told us, on the condition that we would not mention his name, "the sectoral planning offices to take over much of the budgeting power from ministerial budget offices. In this way, the sectoral planning office can begin to make each year's budget fit into the plan at a much lower level. This would increase our control substantially." Anticipating "a certain resistance from those who are affected," this planner sought help. "That is one of the advantages of a military government. Overnight it can draft a law of this sort, promising it the next morning, and it is a fait accompli." Other planners hope to get their way by merging planning and budgeting. They told us:

> It is wrong to have sectoral planning offices in the ministries, where they are like foreign cysts—in the sector but not really of it. These offices should deal not just with planning, but planning and budgeting both. For these two functions to be in an organic relationship, the director of administration in the ministry and the planner should be the same person. He would adopt a more overall perspective, orient the policies of the units, foresee needed investment, and control the budget.

In the last chapter we shall discuss arguments for and against merging finance and planning organizations in a single ministry. Here we are concerned with the currently fashionable assumption that planning should lead budgeting.

Budgeting on the Defensive

During the 1960s, concern with improvement in budgetary practices centered on the relationship between budgeting and planning. As the crucial importance of budgets for plan implementation was realized, defects in budgeting were seen as the exact obverse of the virtues of planning. Budgeting would have to improve by taking on the features of planning.

The reports of United Nations Budgeting and Planning Workshops testify to a multitude of complaints against budgeting authorities in all parts of the world. Ministries of finance enjoy a bad reputation in many countries. They have been castigated for rigidity, arbitrary behavior, overcentralization, and delay. Their presence has presented a major block to creative thinking. Their conservatism appears to their detractors as a total lack of flexibility. Their red tape jeopardizes projects in progress; their lack of vision, an inability to go beyond purely monetary considerations, aborts others. The budgets finance concocted, even where they related to reality (and did not simply appear after the event), provided little information as to the efficacy of expenditures. Finance, its critics said, was still preoccupied with housekeeping, or at best managing, in an age which needed a much more sophisticated approach, in keeping with the role of the state as the promoter of economic development.

Planning, it appeared, was far superior in technique to budgeting. Whereas budgeters could stretch their imaginations only as far as the current year, thereby arbitrarily chopping up long-term project funding into annual appropriations, planning could apply a systematic analysis to claims and projects, quite different from the ruthless, indiscriminate cuts of the insensitive bureaucrats in budgeting. Planning could introduce the rationality of an overall vista in place of the haphazard results of the current negotiations, bargaining, and politicking which characterized budgeting.

The vocabulary of plans is far more attractive than that of budgets. Planning implies benefits while budgeting suggests costs. Plans talk of expanding employment in the public sector while budgets imply the need to cut costs and thus employment. Plans attract foreign aid with their promises, while honest budgets repel assistance because it is clear that the recipient nation cannot pay. Plans are good for fuzzing up allocations so that essential choices are made invisible

through seemingly complex procedures; they promise to give something to everyone and suggest a happier future. With the budget it is all too simple and all too clear; everyone can see what has been lost.

It is easy to understand why politicians love planning and hate budgeting. Plans create employment for intellectuals at home and experts from abroad whose presence is a prerequisite for getting foreign aid. Plans show a modern spirit and a vigorous, forward-looking stance. Plans fortunately take a long time to develop and last at least five years, according to a mystical law developed in the Kremlin. Thus plans are able to give something to everyone because they span many years; at the same time they commit no one to anything and are long out of date by the time the starting day rolls around. Indeed, that day is the time for a new plan.

Politicians in poor countries have many reasons to hate budgets. Their financial resources are meager and the demands on them are great. They enter the modern era upon a wave of grand promises and would hate to exit on a disastrous budget. Since realistic budgets show only how desperate things are, political leaders have every incentive to provide a show of words and numbers to dazzle those abroad and at home who look for signs of the times. The answer is not a miserly budget but a generous plan.

But budgets, however unpleasant, cannot be abolished; income must be related to outgo. Budgeting must be reformed in order to facilitate, not hinder, planning.

Budgeting, by assimilating some of the attributes of planning, may take on some of its aura. Program budgeting has been one adventure in this direction. Budgeting can adopt multi-year budget outlooks, providing long-term instead of one-year estimates; the budget document can include appendices showing the state of the economy, assessing past (and probable future) trends in key variables such as taxation and welfare expenditure. Budgeters also can use the tools of planning: cost-benefit analysis, sectoral models, and so on; they can learn to quantify progress on projects in terms of broad economic, as opposed to narrow financial, criteria. Note the emphasis; planning once again takes the lead. Proper coordination between plans and budgets, however imperfectly conceived,[16] would assure rational resource allocation.

Why has this happy state of affairs failed to materialize? In Chapters

6 and 7 we saw that planners could not really deliver the goods. They might tell others to adopt a long-term view; but the difficulties of doing so were all too apparent even to themselves. Indeed, current reforms in planning dictate shortening, rather than lengthening, perspectives.

The general recommendation that budgeters should pay more attention to (and behave more like) planners might be more valid than it is if budgeters acted irrationally. Ministries of finance may, it is true, sometimes behave capriciously or insensitively, make mistakes, be overcautious, or act without realizing the implications of their actions but, as we have seen, they usually have good reason for such practices as cutting estimates, conservative revenue forecasting, repetitive budgeting, and so on. Their rationale lies in the acute shortage of cash and in their inability to forecast revenues and expenditures accurately for the near term—in brief, in the environment of poverty and uncertainty which leave nations dangerously little reserve on which to fall back.

In the effort to bring budgeting and planning closer together, proponents ask: How can budgeting respond more to planning? How can budgets be better aligned with plans? The answers are given in terms of setting up new machinery and telling people what to do—to look to the long term, to coordinate, to use systematic criteria. These directives are not only vague and difficult to put into practice, but they ignore the underlying rationale of current practices and assume the virtues of planning as a matter of fact. The question, in other words, may be wrongly framed, and to ask it may be doubly misleading. On one hand, it looks at actual budgeting practices without considering the reasons for them; on the other, it looks at planning as an ideal set of precepts to be applied, and not at the characteristics of planning as actually practiced (in line perhaps with the view that planning has never really been tried).

But planning is more than an ideal. In poor countries it has crystalized into a definite form with its own characteristics and orientation. Planners do not stand outside the system; they are part of it. Like other participants they are trying to win a larger share of influence and funds. Strengthening their own position is a basic preoccupation. They must be concerned with institutional power, lest without the possibilities of acting their ideas will continue to languish. Planning is not only a technique; the conflict between

planning and finance stems not merely from different ways of doing things, but from basically different attitudes toward public spending.

The Consequences of Institutional Conflict

Ministries of finance usually have the upper hand, but the conflict with planning is neither static nor resolved. The relative strengths of each may have important consequences for the financial stability and growth of a country, which are by no means easy to assess. For a single country one needs considerable information about the extent of planners' influence and the attitudes and behavior of the finance ministry. Data are also required on indicators of growth and development, and on the contribution of planners and budgeters to movements in them. To make such an evaluation for the large number of countries we have covered is clearly outside the compass of this book. We may, however, deduce from typical behavior in planning and finance hypotheses on the consequences of their ingrained institutional conflict.

In order to understand something of the variety of relationships that may exist between finance ministries and planning commissions, and the consequences these may entail, we shall construct a heuristic table. Although gradations in strength are no doubt important, we shall confine ourselves to cases in which the finance ministry and the planning commission are either strong or weak, in the sense that either can prevail in its claims on the budget. In each transaction between them (see Table 8-1), we shall ask what the consequences are for conflict, tax rate, investment, stability of the currency, and recurrent expenditures.

With a strong finance ministry and a weak planning commission, investment is low compared to recurrent expenditure. In order to keep the tax rate down and maintain financial stability, finance keeps investments low enough so the nation can afford the recurrent expenditure it generates. Conflict between the two institutions is low because the power of the finance ministry is acknowledged. Investment and recurrent expenditures are very high because neither institution can resist the blandishments of those who insist on doing more. Tax rates, however, are low because neither institution is strong enough to insist that the nation pay for what it wants. Financial instability is the rule rather than the exception. Conflict is low because there is no real need for it. Both institutions get what they want—on paper. Each satisfies its own clientele in the immediate future. The situation cannot continue, however, because the nation will eventually run out of money and there is a limit to the amount of inflation that can be absorbed.

TABLE 8-1. Hypothetical Relationships Between Planning Commissions and Ministries of Finance

			Finance Ministry	
			Strong	Weak
Planning Commission	Strong	Investment	Medium high	High
		Recurrent expenditure	Medium high	Low
		Tax rate	Medium high	High
		Stability	Medium low	Low
		Conflict	Medium high	Low
	Weak	Investment	Low	High
		Recurrent expenditure	High	High
		Tax rate	Low	Low
		Stability	High	Low
		Conflict	Low	Low

What happens when both finance and planning can make strong claims on the budget? One answer is compromise. The conflict between them is moderate because each has something the other wants and each is able to defend its own territory. The result is a reasonable balance among tax rates, investments, and recurrent expenditure. In this happy story the nation makes real but stable progress. It may be true that the best way to secure cooperation and reasoned decisions is for each participant to be powerful and talented. The level of discussion would be elevated and policies recommended by either side would be pretty good.

At least one other alternative, however, should be seriously considered; when both are powerful they may snipe at each furiously. They neither consult nor compromise but undermine each other wherever possible. The tax rate is high because planning wants to spend more and finance wants to balance the budget, but investments and recurrent expenditures compete with one another for even higher limits. The result is periodic monetary instability.

Investment gets out of kilter with the ability of the nation to support it. The finance ministry gets the upper hand for the moment and pushes through a program of retrenchment. When this becomes too painful the planning commission takes over and drives up investment again. It is, in any event, difficult to assure the proper balance between finance and planning.

Neither planning nor finance ultimately is responsible for resolving conflicts over the budget. Though the attitudes of planners and budgeters themselves may be influential in deciding whether the plan is reflected in the budget, the final outcome results from commitment of the political authorities and their ability to get their way.[17] Frequently political leaders will tend to favor finance over planning; the plan with its fixed long-term commitments is for show, while the budget may be used flexibly to cope with day-to-day problems of a government in charge of a highly vulnerable economy.

The preoccupation of those who try to budget is not solved by the intervention of planning, which brings with it its own set of troubles connected with efforts to accelerate the pace of development. Attempts to get budgeters to plan better are also unlikely to help, for the conditions which would let them do so are frequently absent. Telling politicians to lengthen their time perspectives is not useful unless they can follow the advice. To choose conservatism and stability is to run the risk of stagnation; to choose a higher investment program may entail inflation and eventual financial and then political disaster. Formal planning can cloak fundamental problems in a different terminology whose adept use substitutes for fresh thinking. If planning is part of the problem instead of the solution, why is it continued? Why do the governments of today place their future hopes in yesterday's failures?

Footnotes

1. For a discussion of the relative strengths of planners and budgeters in the United States, reflected in the battle over the introduction of Planning, Programming and Budgeting Systems, see S. K. Howard, "Planning and budgeting: marriage whose style," *Planning and Politics: Uneasy Partnership*, T. L. Beyle and G. T. Lathrop, New York: Odyssey Press, 1970, pp. 155–7.
2. A. Waterston, *Development Planning: Lessons of Experience*, Baltimore, Maryland:

NINE

Planning Is Not the Solution: It's Part of the Problem

In poor countries the concept of planning stands between actors and their societies. It conditions the way they perceive social problems and choose solutions. The way they understand planning determines their choice of questions to ask, and it colors the answers they find. It leads them to evaluate their experience, including their attempt to plan, in certain ways rather than others. The difficulties they experience in society are related to their understanding of the mechanism—planning—they believe will help them solve its problems.

Men think through language. They can hardly conceive of phenomena which cannot be expressed in words. The ways in which they think about planning affect their actions just as their attempts to plan affect the way they think about it. Their problems with the word mirror their problems with the world.

Planning is often used (though this definition is rarely made explicit) as if it were equivalent to rational action. Once norms associated with rationality are identified—efficiency, consistency, coordination—any process of decision may be appraised according to the degree to which it conforms. The assumption is that following these norms leads to better decisions. But defining planning as applied rationality focuses attention on adherence to universal norms rather than on consequences of acting one way instead of another. Attention is directed to the internal qualities of decisions or to the procedures used in making them and not to their external effects.

These definitions are not merely different ways of looking at the same thing. They are not just words. They imply different standards for planning. If planning were designed to make goals consistent on

paper, one would judge it quite differently than if its purpose were actually to achieve social goals in the future. To define planning as future control, as we do, does away with the distinction between drawing up plans and implementing them, setting goals and achieving them. The emphasis is on fulfillment, not merely on promise. Planners naturally prefer to emphasize intention over accomplishment. Unable to act in the present to control the future, planners have resisted a criterion that would brand them as failures. After all, who else is forced to make public predictions that rarely turn out right? Planners want credit for a noble effort so they grope toward a definition which stresses the activities in which they do engage. The focus of meaning can then shift from events in the world to their own exemplary behavior. The result of this self-protecting usage—planning as process—is to blur the distinction between planning and any other purposeful behavior. Planning becomes a hypothesis that cannot be tested.

If a definition covers all attempts to plan, whether they succeed or not—planning as goal directed behavior—planning does encompass whatever men intend to do in the world. Since practically all actions with future consequences are planning actions, then planning is everything and nonplanning can hardly be said to exist. Nonplanning exists only when people have no objectives, when their actions are random and not goal-directed. If planning is everything, if it is practically synonymous with human behavior, then it is nothing, for it loses the capacity words must have to distinguish one phenomenon from another.

The Paradox of Planning

The dilemma of planners may be clarified by paying attention to certain remarks they make about planning itself. "Planning?" a practitioner wonders aloud. "They call it that. But it's never been tried. Not really." "Why do you ask about planning?" another experienced man said without expecting an answer. "You don't look like a fool. No one takes it seriously. Everyone but you knows that. Actually, it has never been tried."

How extraordinary! The men who made these comments were part of formal planning mechanisms that had existed in their countries for over two decades. They did not (and could not) mean that there were no planners, plans, or planning commissions. Yet planners have a point. How can they control the future if they don't have what it takes? Without requisite resources, knowledge, and power, they won't be able to devise a good plan and move the nation along with it. Now we know what planners mean when they insist planning has never been tried. They appear to plan; they go through the motions; but they are never allowed to work under conditions that would permit success. What surprises us is not that some things are missing, but the expectation that these things ought to be there before planners can plan.

An essential paradox of planning is that it is expected to create the conditions necessary for its own success. This paradox explains why planners always seem to be making the same complaints. Whether one goes to different countries at the same time or the same countries at different times, one hears about the same lacks—time, staff, support, money. The lacks are the same because planners are still trying to overcome the same disabilities that did not let them plan in the first place; that is, their countries are still poor.

It may be argued that a primary task of planners is to help forge the missing links. It is their job to build a reliable information network, to promote administrative reform and the restructuring of government, and to bring home to the country's leaders the paramount need for economic growth. And it might further be argued that what planners need, the country needs also; in pressing to fulfill the demands of planning, they are acting in the best long-run interests of the whole society.

The problem is that planners can't wait; they have to cope with the conditions they find around them. It is, of course, hypothetically possible for planners to say that "the country is not ready yet—don't plan. When you have fulfilled the following conditions, then call on us." But to do so would not only be perhaps to lose the opportunity altogether, but in some curious way to admit defeat. Planning is intended to aid poor countries now, alleviate current poverty, not to step in at some later date when the situation is more propitious.

How, then, can planners succeed? No one wants to play with a stacked deck. They dare not shelve altogether the demand to show results, but in the short term at least it is impossible to produce the necessary transformation of society. If they cannot change the world around them, however, there is another course open to them; they

may respond by changing their own terms of reference. If the demands of planning cannot be met, they can be reduced; the nature of planning itself may be altered to make it more reasonable. And if the results in hard terms of directed economic growth are too difficult to achieve, attention may be diverted from them toward the softer dimensions of planning as an end in itself. In the process of planning can be found the means of creating simultaneously the criteria and the conditions required for its success. If success in planning depends not on winning but on how the game is played, if following correct procedures is the purpose of planning, then practitioners who obey the rules can succeed. Planning may be saved by adaptation.

Adapt—

Planning As Adaptation

Formal planners may be viewed as rivals for control of policy with other government agencies and private groups. They will be nothing if no one listens to them; they may be used by others but have no independent force of their own. Planners may be everything; they may become the government and exert most of the public force in their nation. Although planning theory sometimes suggests that planners would need this position in order to carry out their purposes, and though planners in moments of frustration may wish they had this power, it would be fair to say they do not really count on total control. They see themselves rather as a small but dedicated band which somehow enables the nation to meet goals by bringing it to its senses when necessary. They have in mind a regulator role of the type found in cybernetic systems; there is a small but sensitive device down in the vast complex of machinery that returns the system to its true path whenever it strays. The sum of the corrections made by the planners at critical times adds up to achieving the original goals. France and Germany might well adopt this thermostatic view of planning. But poor countries require far more than occasional correction; they need large inputs of energy in order to build important components of their systems. Thus planners vacillate between the thermostatic view (more in accordance with their potential) and the assumption of total power (beyond their grasp) when the small changes they can cause are overwhelmed by large ones over which they have little control.

Planner / State balance of power ~planning is embedded

Planners and politicians may compete for the right to attempt to plan, but there may be no victor to claim the spoils. All may try but none may succeed. Perhaps failure occurs because planning demands too much knowledge, power, and resources years ahead of time. Maybe these stringent requirements can be reduced. What, then, should be the scope of planning in society? Put differently, what is it necessary to control and for how long into the future? Should governments or other planners be expected to envisage future conditions and maintain unswerving devotion to their initial preconceived goals? Or may planning itself be adaptive, a continuous process whereby planners constantly adjust goals and decisions as new circumstances unfold?

Rarely is it possible to pursue objectives on a once-and-for-all basis. Relative success in meeting goals depends on new actions in response to changing circumstances. Learning, adjustment, and adaptation are the keys to accomplishment. What happens to the original objectives when behavior changes in the light of new conditions?

Until now we have taken for granted the existence of future objectives, all neatly labeled as if they came out of a great national sausage machine in the sky. The time has come to find out how objectives are set.

vague cost/benefit analysis

One way to determine future objectives is to extrapolate present trends. The goal in the future is to go where society was headed in any event. The very idea of planning, however, suggests that one doesn't let things go any which way, but that one intervenes to make them move in a different direction, or faster or slower in the same direction. You don't need to plan to get you where you were going to be anyway. How, then, do we create new objectives?

There are no rules. The rules we do have for resource allocation—efficiency, productivity—assume given objectives, and specify: achieve a "given objective" at lowest cost or achieve as much of a given objective as possible from a fixed amount of resources. They posit relationships between inputs and outputs; they do not say what the outputs should be other than to get the most out of the inputs related to them.

Suppose government leaders simply pick any set of goals that appeals to them. What validity should be accorded these objectives? The obvious answer is that they are authoritative if proclaimed by leaders who will work to achieve them. This amounts to saying that

they are valid if the government says so. Yet one resists any such thought, which seems to invalidate the very idea of planning, with its connotations of reason and intelligence. Presumably, formal planners must relate objectives in some way to the capabilities of the nation as well as to the desires of its leaders.

An objective may be worthy but unobtainable. The result of seeking it may be a waste of resources. Fidel Castro publicly accepts blame for setting a quota of sugar cane so high that cutting went far past the time and use of resources that were economically justified.[1] But no one knows what a proper level would be. If sights are set too low, less may be done than desirable. If too high, too much effort may be devoted to the task. Like Goldilocks, leaders would like to come out just right. But that is too complex a task, so they simplify by allowing experience to modify the goals they set. Essentially, an arbitrary objective or goal is set and then is modified with experience or sometimes just abandoned.

Another approach is to think of objectives as distant rather than near targets. Leaders spell out objectives and hope to achieve them sometime, even if not in the period specified in the plan. Some might call this utopian, but others would say it represents a society going in a predetermined direction, though the pace of that effort is subject to change. This approach may be reasonable, but it subverts the basic element of control which is supposed to differentiate planning from just mucking about.

What is the point of saying that the seven-year plan has been achieved in twenty-two months or that a certain industry has exceeded its quota or that it will take over nine years to achieve some part of a five-year plan? Presumably the idea of planning is to get where you are going when you say you will and in the manner specified. Can it mean also that you get some other place faster, or the same place slower, and in a way you didn't anticipate? This is not a quibble; it goes to the heart of the idea of formal planning.

What has happened is that goals and the means for obtaining them are no longer fixed but have become subject to modification. The original sets of objectives are considered merely starting points, to be altered on the basis of experience and necessity. A new regime, a change in commodity prices, discovery of a new theory, accumulation of changes in national cultural mores, all may signify the desirability of changing objectives and the policies to implement them. Adaptation to changing circumstances is certainly a virtue of the intelligent man. But it smacks of ad hoc decision making.

When planning is placed in the context of continuous adjustment, it becomes hard to distinguish it from any other process of decision. By making national planning reasonable, we have made it indistinguishable from the processes of decision it was designed to supplant. One plans the way one governs; one does the best one can at the time and hopes that future information will enable one to do better as circumstances change. Some call this adaptive planning; others call it muddling through.[2] Under the criteria of adaptation, almost any process for making decisions in a social context can be considered to be planning.

The United States does not try to reach goals as stated in a national plan; but that doesn't mean the United States has no goals which its decision makers try to achieve. There are institutions—the Federal Reserve Board, the Council of Economic Advisers, the Office of Management and Budget, congressional committees, and more—whose task is to find goals and policies that embody them. There are specific pieces of legislation dedicated to full employment, ending or mitigating the effects of pollution, building highways, expanding recreational opportunities, improving agricultural productivity, and on and on. When these goals conflict, new decisions must be made concerning how much of each to try to achieve. Even a single goal like full employment may not be capable of achievement because there is not enough knowledge to do it or because it entails other costs, such as inflation, that prohibit it. Moreover, these shorter-term goals are related to ultimate objectives. The Preamble to the Constitution of the United States specifies national goals and the body of the document presents an institutional plan for achieving them. The government of the United States wants to have domestic prosperity and to protect its interests overseas. While these broad objectives remain constant, the intermediate goals change in response to forces in society.

Plans change — broad goal may be more constant

At this level of description there appears to be no significant difference between the United States (and most any other government for that matter) and societies which engage in formal planning. When planning is conceived of generally as goal-directed behavior, almost any decision-making process will be found to contain similar elements.[3] How then can we evaluate planning?

If planning is to be judged by its consequences, by what it accomplishes, we must return to the problem of causality. What has planning caused? What has happened because of the presence of plans, planners, and planning commissions that would not have taken place without them? What, in the economist's language, is the value added by planning?

Evaluation of planning is not possible so long as it refers to mere effort. The only sportsmanlike response to a runner who has given his all, is "good try," especially if he has fallen around the first turn. Only if planning is defined as completed action, achieving a set goal, can its relative degree of success be appraised.

If we are willing to equate national planning with a formal plan, it is possible to ask whether the interventions specified in it have been carried out, and whether they have come close to achieving the desired ends. Evaluation of formal planning depends on forging a valid link between intentions expressed in the plan and future performance of the nation.

Planning As Intention

Judging plans by their intentions has strong attractions. The plan itself has the inestimable advantage of existing in time and space and being separable from other phenomena. The plan speaks of accomplishing certain things in particular ways and one can ask whether these future states have indeed come about. If the plan predicts a rate of economic growth, supported by the development of certain sectors of the economy, propelled by various key projects, one can find out if that rate has been achieved, whether the sectors singled out for special attention have grown in the way predicted, and whether the projects have been built and are bringing in the return that was claimed for them. To the extent that the plan is not impossibly vague and that relevant information is available, it may be judged by the degree to which its intentions have been realized.

Yet how easily the criterion of intention may prove superficial. Let us suppose that a plan has failed the test of accomplishing goals set down in it. How might one explain that failure? It is evident that the plan, seen as a series of predictions, has not come true. Yet calling a bad prediction a failure in an uncertain world seems harsh. More to the point would be a statement that planners were unable to move a nation in the directions they intended. The claim of success could still be made, however, even if results fell short of initial aims. Imagine a situation in which under Plan I a 4 percent growth rate was postulated and only 3 percent achieved, while in Plan II a 10 percent rate was set out and one of 6 percent achieved. Plan I was more successful in the sense that the growth rate came closer to the target, but Plan II was more successful in the greater overall rate of growth. Assume for the moment that both levels of growth can be credited to the plan. Why should one set of planners be criticized because of their higher level of aspirations when their actual accomplishments are greater? When the intentions in plans are not realized, it is hard to know whether failure is due to poor performance or to unreasonable expectations. Did the nation try to do too little or too much? Were its planners overambitious or underachieving?

Strategy of vagueness

Planners are exposed. Unless they take care to make their goals too vague to be tested, their failures show. They must spend their time not in explaining how they have succeeded but in arguing away their evident failures. We can learn a lot about fulfilling intentions as a criterion of planning by noting what happens when early optimism is replaced by later rationalization.

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When a venture runs into trouble, there are a number of classic explanations without admitting failure. The usual tactic is to claim that the venture has not been tried hard enough, that doing more of the same would bring the results originally envisaged. If bombing North Vietnam doesn't weaken the will of that government to resist, the answer evidently is not to stop but to do more of the same. When poverty programs in the United States lead to disappointing results, then the answer must be that not enough money has been poured into them. It is always hard to know if the theory behind the policy is wrong, so that additional effort would mean only throwing good money after bad, or whether greater input of resources would reach the critical mass presumed necessary to make it successful. The same argument is made in regard to formal planning; if only there were more effort, more dedication, and more commitment, things would be better. This argument, however, is tautological; for if things were as they were supposed to be, planning would not be needed. This argument recalls a practitioner's play with words about planning around the world; in Russia it is imperative, in France it is indicative, and in poor countries it is subjunctive.

Discount strategy

The usual way of justifying formal planning in the absence of (or contrary to evidence about) accomplishment is to shift the focus of discussion from goals to processes. The critic of planning, it is said, has evidently mistaken the nature of the enterprise; by focusing in his simple-minded way on the intentions of planners he has missed the beneficial effects of the processes through which the plan is made. (A similar argument is heard about the United States space program; not merely reaching the moon, but all the wonderful things learned on the way out and back—that is, technological fallout—justify the cost of trying.) Planning is good, therefore, not so much for what it does, but for the creative way it goes about not doing it.

The process of planning is supposed to develop mental discipline leading to more rational choice. Officials presumably are sensitized to the doctrine of opportunity costs, to what must be given up in order to pursue certain alternatives, and to the notion of enterprise as a productive force in the nation's economy. Time horizons can be expanded because the future is made part of present decisions. Because plans and planners exist, data may have been collected that otherwise would not have been; men with economic skills have been introduced into government. Those who come in contact with these new men are said to benefit from their new ways of looking at the world. To ask if these spinoff benefits are made tangible would be to retreat to the fallacy—comparing intentions of planners with their accomplishments—that the process argument was designed to subvert.

There is another way of getting around the problem of intention and its realization; instead of merely saying that intentions specified in the plan are not the real ones, one could argue that planners are not the people whose intentions count. An interest-group leader or a politician may have hidden agendas the plan is supposed to achieve. The plan thus becomes an instrument for the purposes of others, and its provisions should be judged by the degree to which it serves their needs. To determine whether planning was successful or not would, therefore, call for specific knowledge of the real purposes for which it was used and no *a priori* judgments from afar would be appropriate.

Plans and planners in this context are simply one element in a repertoire of responses in the political arena available to those powerful and clever enough to use them. Plans may be weapons wielded by one political faction against another. The forces of logic, reason, and rationality may be used by a president against a recalcitrant ministry or by one ministry or region versus another. The possibilities are endless. The national leader who wishes to be thought modern, for instance, wants a document with which to dazzle visitors—charts, tables, graphs, regressions to be trotted out—although no one who matters pays attention to them. The plan need not be a way to cure the nation's ills, but rather it may become a way to cover them up.

By taking the argument one step further, we can dissolve the idea of plans as intentions entirely. One no longer asks whether intentions in the plan are carried out, but which of many competing intentions is validated, if indeed any are. Here there is no single act of intentions, any more than there is a general will to be embodied in a single plan; there are different wills and various interests which compete for shares in planning. Some of these "wills" are adopted as government plans for a time, and later they are altered or revised. The great questions then become: Whose intentions are realized? Are anyone's plans made good by the unfolding of events? Once conflict over goals is admitted, intention evaporates as a useful criterion for judging the success of planning. Planners lose their hold over intention which, no longer immutable, becomes a subject for bargaining, a counter in the flux of events. The stage shifts from intentions specified in the plan to a multitude of actors outside the formal planning authority whose intentions are alleged to be the real ones. The success of planning depends entirely on whose plans one has in mind.

Our discussion of intention may be rejected, not necessarily because it is misleading (though that may be so), but because it is seen as irrelevant. Sophisticated people, critics might suggest, have long since abandoned both the idea of national planning and of national intentions. They may go along with it for its symbolic value but they know it does not work. "So why bother to spend all this time discussing it," one can hear them say; these planners have a much more modest conception—to reduce the scope of efforts by concentrating on individual sectors of the economy and to move toward dealing with relatively small and circumscribed problems. They look for an actual opportunity to elaborate a few alternatives and to discuss their probable consequences in a limited way. They

cut their costs of calculation by vastly reducing the magnitude of the task they set for themselves.

This basically conservative approach takes for granted the existing distribution of wealth and power. It works with whatever price mechanism exists, and it tries not to influence many decisions at once, but only a few. Now the ordinary men who would otherwise (in the absence of planners) have made these decisions also concentrate on a very narrow area of specialization; they also consider a few different ways of doing things; they also estimate probable consequences in a limited way; and they also choose the alternative that seems best under the circumstances. It appears that once again we have made planning indistinguishable from ordinary decision-making processes by making it manageable. Of what, then, do the advantages of planning consist?

Maybe we have been looking at planning in the wrong way. The place to look for the virtues of planning is not in the world, perhaps, but in the act of planning itself. Let's try this: planning is good because it is good to plan. Planning really should not be defended for what it does but for what it symbolizes. Planning, identified with reason, is conceived to be the way in which intelligence can be applied to social problems. The efforts of planners presumably are better than other people's because they result in policy proposals that are systematic, efficient, coordinated, consistent, and rational; words like these can convey a sense of the superiority of planning. The virtue of planning then is that it embodies universal norms of rational choice.

Planning As Rationality — deconstruction of terms associated w/ rational planning

We run across certain key terms over and over again; planning is good because it is *systematic* rather than random, *efficient* rather than wasteful, *coordinated* rather than helter-skelter, *consistent* rather than contradictory, and above all *rational* rather than unreasonable. In the interest of achieving a deeper understanding of why planning is preferred, it will be helpful to consider these terms as rules for decision makers. What would they do if they followed them?

Be systematic! What does it mean to say that decisions should be made in a systematic manner? Words like "careful" or "thorough" will not do because planners shouldn't be assumed to be more careful or thorough than other people. Presumably, we don't want to distinguish between a haphazard and systematic administrator on grounds of personal qualities, such as thoroughness, but rather on access to knowledge or methods that lead to inclusion of the proper factors in making decisions. Perhaps "orderly" is better; it implies a checklist of items to be taken into account. (But of course anyone can make a list.) Being systematic does imply further that one knows the right variables in the correct order to put into the list, and that we can specify the relationship among them. The essential meaning of systematic, therefore, is the embodiment of qualities of a system, that is, a series of variables whose interactions are known and whose outputs can be predicted from knowledge of their inputs. System, then, is another word for theory or model explaining and predicting events in the real world.[4] To say that one is being systematic thus implies that one has causal knowledge.

Here we have part of the answer. Planning is good because inherent in the concept is the possession of knowledge that can be used to control the world. But since knowledge is hard to obtain (the mind of man being small and simple while the world is large and complex), one is tempted to imply by a cover word possession of the very thing, causal knowledge, that is missing.

Be efficient! Modern man has a deeply rooted belief that objectives should be obtained at the least cost. Who can quarrel with that? But technical efficiency never should be considered by itself. It does not tell you where to go but only that you should arrive there (or part way) by the least effort.

The great question is: Efficiency for whom and for what? Some goals (destroying other nations in nuclear war, decreasing the living standards of the poverty-stricken in order to benefit the wealthy) one doesn't want achieved at all, let alone efficiently. Efficiency, therefore, raises once more the prior question of objectives.

The most notable characteristics of national objectives are that they tend to be vague, multiple, and contradictory. Increasing national income is rarely the only social objective. It has to be traded off against more immediate consumption objectives, such as raising the living standards of rural people. Cultural objectives, such as encouraging the spread of native languages and crafts, may have to be undertaken at a sacrifice of income. Political objectives, such as the desire to improve racial harmony or assert national independence, may lead to distribution of investment funds to economically unprofitable regions and to rejecting certain kinds of foreign aid. A great deal depends on which objectives enter into national priorities first, because there is seldom room for emphasis on more than a few. We see, therefore, that stress on efficiency assumes that objectives are agreed upon, an assumption we've already suggested to be untrue. The very national unity to which the plan is supposed to contribute turns out to be one of the plan's major assumptions.

Coordinate! Coordination is one of the golden words of our time. We cannot think offhand of any way in which the word is used that implies disapproval. No one wishes his children to be described as uncoordinated. Policies should be coordinated; they should not run every which way. Many of the world's ills are attributed to lack of coordination in government. Yet, so far as we know, there has never been a serious effort to analyze the term. It requires and deserves full discussion. All that can be done here, however, is barely to open up the subject.

Policies should be mutually supportive rather than contradictory. People should not work at cross purposes. The participants in any particular activity should contribute to a common purpose at the right time and in the right amount to achieve coordination. *A* should facilitate *B* in order to achieve *C*. Four important (and possibly contradictory) meanings can be derived.

If there were a common objective, then efficiency (see previous discussion) would require it to be achieved with the least input of resources. When these resources are supplied by a number of different actors—hence the need for coordination—they must all contribute their proper share at the correct time. If their actions are efficient, it means they contributed just what they should and no more or less.

Coordination, it would then seem, equals efficiency, and it is highly prized because achieving it means avoiding bad things: duplication, overlapping, and redundancy which result in unnecessary effort and outlay of resources that might be used more effectively for other purposes. But now we shall complicate matters by introducing another criterion that is (for good reason) much less heard of in discussions of planning. We refer to reliability, the probability that a particular function will be performed. Heretofore we have assumed that reliability was taken care of in the definition of efficiency. It has been discussed as if the policy in mind had only to work once. Yet we all know that major problems of designing policies can center on the need to have them work continuously at a certain level of reliability. For this reason, as Martin Landau has so brilliantly demonstrated,[5] redundancy is built into most human enterprises. We ensure against failure by having adequate reserves and by creating several mechanisms to perform a single task, should one fail.

To coordinate complex activities demands redundancy. Telling us to avoid duplication is no help at all; it is just a recipe for failure. What we need to know is how much and what kind of redundancy to build into our programs. The larger the number of participants in an enterprise, the more difficult the problem of coordination, the greater the need for redundancy.

Participants in a common enterprise may act in a contradictory fashion because of ignorance; when informed of their place in the scheme of things, they may be expected to behave obediently and properly. If we relax the assumption that a common purpose is involved, however, and admit the possibility (indeed the likelihood) of conflict over goals, then coordination becomes another term for coercion. Since actors *A* and *B* disagree with goal *C*, they can be coordinated only by being told what to do by someone else, and then by doing it. The German word, *Gleichshaltung*, used by the Nazis in the sense of enforcing rigid conformity, can give us some insight into this particular usage of coordination. To coordinate one must be able to get others to do things they may not want to do. Coordination thus becomes a form of coercive power.

When one bureaucrat tells another to coordinate a policy, he means to clear it with other official participants who have some stake in the matter. This is a way of sharing the blame in case things go wrong. (Each initial on the documents being another hostage against retribution.) Since these officials cannot be coerced because their organizations have independent bases of power, their consent must be obtained. Bargaining must take place to reconcile differences with the result that the policy may be modified, even at the cost of compromising its original purposes. Coordination in this sense is another word for consent.

Coordination means achieving efficiency and reliability, consent and coercion. But telling another person to achieve coordination

doesn't tell him what to do. He doesn't know whether to coerce or bargain or what mixture of efficiency and reliability to attempt. Here we have another example of an apparently desirable trait of planning that covers up the central problems—conflict versus cooperation, coercion versus consent—that defining it is supposed to resolve. Planning suffers from the same disability that Herbert Simon illustrated for administration.[6] Like proverbs—look before you leap, he who hesitates is lost—each apparently desirable trait may be countered by its opposite. An apt illustration is the use of "consistency."

Be consistent! Do not run in all directions at once. Consistency may be conceived as horizontal (relative to several policies at a moment in time) or vertical (a single policy over a series of time periods extending into the future). Vertical consistency requires that the same policy be pursued over time, horizontal consistency that it mesh with others existing at the same time. The former requires continuity of a powerful regime able to enforce its preferences, the latter, tremendous knowledge of how policies interact. These are demanding prerequisites. One requires extraordinary rigidity to ensure continuity, the other, unusual flexibility to achieve accommodation with other policies. Be firm, be pliant, are hard directions to follow simultaneously.

The divergent directions implied in consistency suggest, as with the other terms, that the virtues of consistency should not be taken for granted. It may well be desirable to pursue a single tack with energy and devotion, but it may also prove valuable to hedge one's bets. Consistency secures a higher payoff for success, but it also imposes a steeper penalty for failure. If several divergent policies are being pursued in the same area they may interfere with each other, but there also may be a greater chance that one will succeed. The proverb "be consistent" may be opposed by another, "don't put all your eggs in the same basket."

Consistency is not always compatible with the virtue of adaptability. While it may be desirable to pursue a steady course, it is also commensensical to roll with the punches. There is the model of the unchanging objective pursued by numerous detours and tactical retreats but never abandoned and ultimately achieved. There is also the model of learning in which experience leads men to adapt to changing circumstances altering their objectives as well as the means of obtaining them. They may come to believe the cost is too high or they may learn they prefer a different objective. Apparent inconsistency may turn out to be a fruitful change of objectives. If both means and ends, policies and objectives, change simultaneously, consistency may turn out to be a will-o-the-wisp that eludes one's grasp whenever one tries to capture it.

It is, by the way, often hard to know when inconsistent actions are taking place. Leaving aside problems of accurate information, we find serious conceptual difficulties. Policies often are stated in general terms which leave ample scope for varying interpretations of their intent. Ambiguity sometimes performs a political function by letting people (who might otherwise disagree if everything was made clear) get together. There is also the question of conflicting perspectives among actors and observers. The observer may note an apparent commitment to a certain level and type of investment and see it vitiated by diversion of funds to wage increases. To the observer this means inconsistency. The actor, however, may feel consistent in pursuing his goal of political support. Given any two policies that lead to conflicts among two values, one can always find a third value by which they are reconciled. Investment seemed to bring support when it was announced, and so does spending for other purposes when its turn comes. The actors' values may be rephrased as "the highest possible investment so long as it does not seriously affect immediate political support." In view of the pressures to meet the needs of different people variously situated in society, most decisions undoubtedly are made on such a contingent basis. This is what it means to adapt to changing circumstances.

Consider alternatives! Which ones? How many? Answers to these questions depend partly on the inventiveness of the planners; the acknowledged constraints (such as limited funds, social values); the cost in terms of time, talent, and money that can be spent on each; and on available knowledge or ability to develop it anew. While it used to be popular to say that all alternatives should be systematically compared, it has become evident that this won't work; knowledge is lacking and the cost of the comparison is too high. The number of alternatives considered could easily be infinite if the dimensions of the problem (such as time, money, skill, and size) are continuous. The exact number of alternatives to be considered depends on the intersection of a number of constraints; limitation of funds, inventiveness, personnel, or time may decide the question.

Let us suppose that only a small number of alternatives will be considered. Which of the many conceivable ones should receive attention? Presumably those will be selected that are believed most compatible with existing values and most efficient. But this presupposes that the planner knows at the beginning how the analysis will turn out; otherwise he must reject some alternatives to come up with the preferred set. At the same time there are other matters up for decision, and choices must be made about whether they are to be given analytical time and attention. The planner needs rules telling him when to intervene in regard to which possible decisions and how much time to devote to each one. His estimate of the ultimate importance of the decision undoubtedly matters, but also it requires predictive ability he may not have. He is likely to resort to simple rules such as the amount of money involved in the decision and an estimate of his opportunities for influencing it.

We have gone a long way from the simple advice to consider alternatives. We realize that this command tells no one which decisions should concern him, how many alternatives he should consider, how much time and attention to devote to them, or whether he knows enough to make the enterprise worthwhile. To say then that alternatives should be considered is to suggest that something better must exist without being able to say what it is.

Be rational! If rationality means achieving one's goals in the best way, it refers here to technical efficiency, the principle of least effort. As Paul Diesing argues,[7] however, one can conceive of several levels of rationality for different aspects of society. There is the rationality of legal norms and of social structures, as well as political rationality which speaks of maintaining structures for decision, and economic rationality which is devoted to enlarging national wealth. What is good for the political system may not be good for the economy and vice versa.[8] The emphasis upon economic growth in Pakistan may have contributed to the relative neglect of the question of governmental legitimacy in the eastern regions. Any analysis of public policy that does not consider incompatibilities among the different realms of rationality is bound to be partial and misleading.

Strict economic rationality means getting the most national income out of a given investment. The end is to increase real national income (no matter who receives it), and the means is an investment expenditure (no matter who pays for it). To be economically rational is to increase growth to its maximum, thus implying economic development.

The economic system measures value (or utility) under the price mechanism operating through supply and demand. Positive economic theory specifies relationships between inputs and outputs in the market place. Normative economic theory supplies principles for maximizing the relationship between inputs and outputs under specified market conditions. Economic rationality, is, therefore, another name for economic theory, or, more simply, economics.

This is not the place to discuss the contribution that economic theory might make to increasing wealth in poor countries. Economists themselves disagree on which theories are relevant and to what extent it would be profitable to use them under various conditions. But it is clear that economic rationality depends on the existence of markets and prices. To the extent that markets are manipulated by administrative means, prices no longer represent "true," that is economic, values, and economic theory becomes much less useful.

Most planners in poor countries are economists. If they have a special contribution, it lies in applying economic theory to policy problems; but the less a nation relies on the price mechanism, the less planners-cum-economists have to offer. They can hardly try to maximize unknown economic values which cannot be known apart from the markets that generate them.[9] Hence, in a dreary series, the more nations stray from the criteria of the market place, the more they need planners to give direction to the economy, but the less planners are able to help them.

Speaking of economic rationality is a way of smuggling in identification with the goal of economic development without saying so. For economic rationality to signify more than a tautology, it must be used under conditions regarding the applicability of market criteria. These are subject to much controversy in poor countries whose leaders rarely are agreed on how far pure economic growth should be pursued apart from other goals. In the end, the norm of economic rationality stands only for unresolved conflict.

Rationality—to go back where our discussion started—is also used in the broader sense of reason. The rational man has goals which he tries to achieve by being systematic, efficient, consistent and so on. Since rationality in the sense of reason has no independent meaning

of its own, it can have only such validity as is imparted by norms that tell us what reasonable action is.

The injunction to plan (!!) is empty. The key terms associated with it are all proverbs or platitudes. Pursue goals! Consider alternatives! Obtain knowledge! Exercise power! Obtain consent! Be flexible but do not alter your course! Questioning the meaningfulness of planning is likely to lead to impatience on the grounds that it does, after all, represent man's best hope. "What have you got to offer in its place?" is likely to be the response. Putting the question that way suggests that planning solves problems. But planning is not a solution to any problem. It is just a way of restating in other language problems we do not know how to solve.

But where's the harm? If planning is not the epitome of reason, it seems innocuous enough. If some people feel better in the presence of formal planning, why not let it go on?

Formal Planning: Costs and Benefits – Not really rational in practice

Not much lit on negative consequences of planning

Who is against planning ahead? It seems so intellectually virtuous. Yet if we leave out the old controversy over whether centrally directed economies are better or worse than reliance on a price mechanism,[10] then we find there has been virtually no discussion of possible adverse effects of formal planning. Certainly, there is no literature on this subject in regard to low-income countries. Although planners are often economists who internalize the idea that there is a cost for everything, they have not applied this insight to their own activity. It may be instructive, therefore, to list a few of the possible costs of planning.

The plan may substitute for action. Working on it may justify delay as the cry goes out: "Let's not act until the plan is ready." Delay may result because the planning commission becomes one more checkpoint in an already cumbersome administrative apparatus. If planners' consent or comments are needed and its people are overburdened, speedy adaptation to emerging events—so essential in the volatile environments of the poor countries—may be discouraged by the plan's very existence.

Planning may drain important human resources. In nations where talent is chronically scarce, men who might be contributing to important public and private decisions may be wading through huge bodies of data or constructing elaborate models whose applicability is doubtful at best. The planners take up not only their own time, but that of others. They call in people from the operating ministries who must spend time answering their questions and, if necessary, run around opposing their advice. Time, attention, and talent that might otherwise go to improving the regular administration on which the nation depends may have to be invested in internal hassling with the planners.

Costs · wasted time · Econ problems to country

The direct financial cost of paying planners and their consultants may seem small, but long-run financial costs to the nation can be high. Planners tend to be spenders. Their rationale is that they will help promote current investments which will lead to future increases in income. Therefore, they have a vested interest in increasing the total amount of investment, and they may become yet another lobby for spending. Frustrated at the efforts of the finance ministry to keep spending down, planners have an incentive to get hold of their own sources of funds. Thus they contribute to one of the basic financial problems of poor countries—the fragmentation of national income—and they become another independent entity able to resist whatever central authority exists.

Investments may come in large or small packages, in humdrum improvement of human resources, or in spectacular projects. The tendency of planners is to seek the large and loud over the small and quiet. Their talents are better suited to analyzing big projects with substantial impact on the economy that, by their cost, justify expensive analytical attention. Also, there are too few people to supervise a multitude of small projects whose total impact may nevertheless be more important to the nation than the few big projects. Fame and fortune depend on identification with visible objects which are not to be found in the rural classroom or the feeder road.

The stock in trade of the planner is the big model. Sometimes it appears that the larger and more complex the model (though actually it may be nothing more than a long list of variables), the more important the planner. Since he alone can interpret it, he may gain a kind of status from being its guardian. Bad decisions may result because such models are taken beyond any real merits they might have. A spurious specificity may ignore bad data, relevant calculations that cannot be performed, or a model inappropriate to the

situation at hand. When the devil quotes scripture, holy writ becomes suspect.

The planner makes his way by talking about the need to consider the future in present decisions. Yet poor countries have great difficulty understanding where they are (even where they have been) in terms of income, expenditure, manpower, and the like. Instead of helping solve real problems in the recent past, planners may work hard to create what turn out to be imaginary future problems as a way of gaining additional influence over forthcoming decisions.

The optimism of planners may be desirable in order to give the nation a sense of hope despite crushing burdens. This optimism, however, may simply result in unreal expectations. Demands may be made in anticipation of future income which does not materialize. Subsequent disappointment may create political difficulty where none need have occurred.

Though their formal plans may be irrelevant, their actions as an interest group may have impact. There is no need for us to argue here that planners are necessarily wrong. It's enough to stress that they have their own built-in biases, which sometimes lead to unfortunate consequences. Why, then, is the cost of formal planning so rarely questioned?

Biases of planners

In the poorer countries of the world today, the national plan is the stylish thing; every nation has got to have one. By all accounts these plans are failures; they do not do what they set out to do; the nation does not move in the directions indicated, or in the manner prescribed. Nor is there other evidence that they do any good, however "good" might be defined. Yet no one thinks of giving them up. The desirability of national plans and planning commissions staffed with people called planners remains a cardinal article of faith.[11] The word "faith" is used advisedly because it is hardly possible to say that national planning has been justified by works.

When people go on doing things that do not help them, the subject cries out for investigation. Neither the governments nor the people they rule are presumed to be masochists. Why, then, do they not change their behavior?

Formal planning may be useful as an escape from the seemingly insurmountable problems of the day. If life is gloomy today, a plan may help by creating a brighter vision of tomorrow. Groups which cannot be indulged in the present can be shown the larger places they can occupy in future plans. Formal planning also can be a sandbox routine for those believers in rational choice, involving tasks that keep them away from the real decisions.

The reputation of a nation's leaders may depend on their having a glowing plan. International elites may expect it as evidence of competence and dedication to determine control of the future rather than letting things slide. International prestige may rest to some degree on one of the few national products that is visible and transportable—a beautifully bound set of national plans.

A government may find uses for planners as a group apart from the regular bureaucratic apparatus. Planning machinery may be a way deliberately to introduce a competitive element into the administration, either as a means of provoking reform or of blocking departmental ambitions. Planners may be used as a source of ideas outside regular administrative channels (as a kind of general staff for the executive), bypassing the normal chain of command. All this, however, has little to do with their ostensible reason for being, namely, planning, but much to do with the fact that since planners do exist, they may as well serve the purposes of others.

Planning perpetuated by national and int'l leaders/elites

Trivial functions aside, planning might have withered from disappointment and disuse had not new clients insisted on it. When the United States made foreign aid fashionable, a number of poor countries were in a position to secure sums of money that were large in comparison to their small budgets. This created a need for institutional mechanisms that could do two things: spend surpluses and obtain foreign aid. The United States would not, of course, do anything so simple as to give money just because a country said it needed it; capitalist America insisted upon a plan. Since an existing bureaucracy had no experience in putting together these documents, it was necessary to create a mechanism for preparing them. It didn't matter whether the plan worked; what did count was the ability to produce a document which looked like a plan, and that meant using economists and other technical personnel. If these skills were not available within the country, they had to be imported in the form of planners and foreign-aid advisors. A demand existed and an entirely new industry was created to fill the need. Thus national planning may be justified on a strict cash basis; planners may bring in more money from abroad than it costs to support them at home.

These uses for formal planning suggest that we have been looking at plans, planners, and planning commissions naively, as if their existence actually did depend on some success in controlling the future. We have been assessing (in the language of the sociologist) their manifest functions, the purposes they are supposed to serve. Formal planning has latent functions also; it serves other purposes as well.

These latent uses of planning have inherent weaknesses. Man can live on promises only so long. Trust soon gives way to cynicism when life and the plan go their separate ways. The shadow, rather than the substance, of planning grows stronger; the self-respect of planners is eroded. No grown men want to make pledges they cannot carry out or issue misleading reports as a lifetime's work. If they persevere, it must be because their will to believe triumphs over their experience.

Planners are men of secular faith. If the world contradicts the word, so much the worse for the world. They are confirmed in their beliefs no matter what happens; planning is good if it succeeds, but society is bad if the plan fails. That is why planners so often fail to learn from experience; to learn one must make mistakes, and planning cannot be one. The feeling that the world is not worthy of the plan helps explain why, despite decades of experience, some planners still maintain that planning has never really been tried.

The task of relating processes of decision to the social conditions in which they must operate is hampered because rational planning is supposed to stand as universal truth not subject to alteration through experience. It thus becomes difficult to evaluate experience; departure from the norms of planning are suspect as contradicting reason. Discussion of what seems to work in a particular context is inhibited because it may be inconsistent with "good planning practice." Rather than face up to actual conditions, planners are tempted to wish them away. If planning is a universal tool, planners find it reasonable to ask why their countries cannot live up to the requirements of rational decision making. If planning is valid, they feel, nations should adjust to its demands rather than the other way round. They do not stop to inquire whether the apparent successes of planning in richer countries may not in fact be attributed to other factors, nor whether the tasks confronting these societies are analogous to those in poor countries.

Although we have geared our remarks to conditions applicable in poor countries, they apply to rich ones as well. Formal planning aside, they are better able than poor nations to control their future. Governments in rich nations have more resources on which to draw, more adequate machinery for mobilizing them, and more trained people to make use of them. They can afford more failures as well as capitalize on their successes. Their prosperity is not guaranteed, but their chances to do well for themselves are much higher than they are in the poor countries. It is possible that the failure of formal economic planning in rich countries actually has been hidden by their wealth. This is not the place to present a detailed argument on the failures of planning in the very countries, France and Japan, in which success appears most assured.[12] But we can summarize our conclusions—they don't meet their targets or follow their plans. Whatever economic growth they have achieved has not been affected in any way by their plans.

Significant control of the future demands mobilizing knowledge, power, and resources throughout a society. It does no good to propose measures that require nonexistent information, missing resources, and unobtainable consent. The planner cannot create, at the moment he needs them, things his society does not possess. He can, however, assume them to be true in that artificial world created in the plan. But planning is not a policy. It is presumably a way to create policies related to one another over time so as to achieve desired objectives. The immense presumption involved, the incredible demands, not merely on the financial, but on the intellectual resources of societal organization, explain the most important thing about national planning; it does not work because no large and complex society can figure out what simple and unambiguous things it wants to do, or in what clear order of priority, or how to get them done.

Formal plans: terrible track record

If formal planning fails not merely in one nation at one time, but in virtually all poor nations most of the time, the defects are unlikely to be found in untalented planners. Nor can a failure be argued away successfully by saying that the countries in question are not prepared to behave rationally or to accept the advice of rational men called planners. That is only a way of saying that formal planning as practiced in these countries is badly adapted to its surroundings, that is, is not rational. It cannot be rational to fail. Rational behavior

would be to adopt policies and follow procedures that lead to more desirable outcomes in the world. If that world includes the poorest countries, the theory and practice of government action must be adapted to their circumstances. If they are poor, uncertain, and unstable, then planning must not argue those conditions away but rather make them the central focus.

The experience of rich countries suggests a trade-off between power and knowledge. Those with enormous power vis-a-vis the rest of society can use it to depress consumption in favor of investment. But the very totality of their control makes it hard for them to learn about difficulties. People are reluctant to admit error. Communications tend to be unidirectional; they run from the government to the people but not the other way around. Rich nations that possess internal criticism in superabundance, like France, suffer from the opposite trouble. Their governments must listen to so many different voices that their actions tend to be inconsistent.

Yet there is one thing most rich nations can do that most poor ones cannot—make a realistic budget. It is at the level of formal budgeting that real differences between poor and rich show up. Since planning depends on budgeting, a closer look at that phenomenon is in order.

Budgets As Plans

If planning, which tries to be all things, ends up as nothing, does budgeting, which aims at less, end up as everything? Is budgeting modest, practical, and realistic, while planning is boastful, utopian, and idealistic? Is budgeting invulnerable because it sets no goals, aside from surviving the year with money on hand to pay bills? Is there budgeting because there is a budget, but no planning although there is a plan? Have we, in other words, set up planning for a fall in order to deify budgeting? No.

Like a plan, the budget is composed of pieces of paper on which are written numbers and figures. Whether the numbers refer to the figures or the figures to the numbers, or whether any of these correspond to conditions in a given country, is an empirical and not a definitional matter. Indeed, the failure of budgets to have predictive value, that is, to calculate expected national income accurately, to relate expenditures to it over the year, to allocate these resources to

Poor Country lack means for proper budgeting

various purposes, and to have them spent as authorized is a noteworthy phenomenon in many poor countries. To speak of the budget as "a great lie," as a noted Brazilian once did,[13] is sometimes no exaggeration. There need not be any connection between what is stipulated there and what happens in the world.

Poor countries have trouble budgeting because they lack accurate information on expenditures and revenues, knowledge of economic changes, political continuity, and resources to hedge against uncertainty. The difficulties they have with planning are reflected in miniature in the field of budgeting.

Trying to relate expenditures and revenues to each other, and to program through a series of expenditures during a single year, may appear to be unworthy goals. Yet poor countries who could do this would see significant improvement in their governmental affairs. How can nations plan if they cannot budget? How is it possible to relate revenues to expenditures for years if it cannot be done for a single year? How can actions in one sector of the economy be related to others years ahead when current relationships are but dimly perceived and wreak havoc with budgets? How can continuity of policy be maintained far into the future when it breaks down many times within 12 months?

Budgeting precedes planning!

Budgeting precedes planning. Budgets can be made without long-range plans, but those plans cannot work without budgets. If planned expenditures don't get into the budget, chances are the plan will die. Budget makers can live without controlling the plan, but planners cannot be effective without a say in the budget. When multi-sectoral, comprehensive plans are unrealistic, a few planners are unhappy; when budgets lose touch with reality, a nation is in deep trouble.

That budgeting is more crucial than planning does not necessarily imply the superiority of one set of documents or processes over another; this superiority in practice resides both in the nature of the task attempted and in the relative capacities of the men in charge to execute them. Because budgets cover one year instead of many, they are less likely to be out-of-joint with current conditions when the time comes to act on them. Should it become necessary to alter the direction of decision making, it is much easier to change the budget because it is a much simpler document in which the number of interdependencies (one thing depending on another) is far fewer than

Budgeting greater than planning

in the plan. Budgeters in the finance ministry are much better able to gain information or exact compliance than planners because, whether or not the document is realistic, budgeters make the daily financial decisions on which the fortunes of departments depend. While planners may be useful for charting bold new directions, it is budgeters who must be called on to make the adaptations to new circumstances from which new decisions flow. Although planners and budgeters could exist in a mutually supportive harmony, conflicts among them are likely to be resolved in favor of the finance ministry. Finance has more resources—not merely money but political connections, manpower, access to information on current events—than does planning.

The greater muscle of budgeting does not mean that it should escape criticism; on the contrary, it must be the prime target for reform. Since the budgetary process represents one of the most significant ways in which decisions are made, every effort must be bent toward improving it. Without adequate budgeting, little else can be done. Nothing we have said suggests that budgeting is good, only that it is vital. Those who wish to suspend judgment on planning must still recognize that their ideas cannot be put into practice without significant improvements in budgeting.

Footnotes

1. *The New York Times*, 25 January, 1971, p. 55.
2. See C. E. Lindblom, "The science of muddling through," *Public Administration Review*, **29**, Spring, 1959, pp. 79–88.
3. See, for instance, the description of the policy process in R. Rose, "The variability of party government: a theoretical and empirical critique," *Political Studies*, **17**, **4**, Dec., 1969, p. 415.
4. See D. J. Berlinski, "Systems analysis," *Urban Affairs Quarterly*, **7**, **1**, Sept., 1970, pp. 104–126.
5. M. Landau, "Redundancy, rationality, and the problem of duplication and overlap," *Public Administration Review*, **29**, July, 1969, pp. 346–358.
6. H. Simon, "The proverbs of administration," *Public Administration Review*, **6**, Winter, 1946, pp. 53–67.
7. P. Diesing, *Reason in Society*, Urbana: University of Illinois Press, 1962.
8. For further discussion of this point, see A. Wildavsky, "The political economy of efficiency: cost-benefit analysis, systems analysis, and program budgeting," *Public Administration Review*, **26**, Dec., 1966, pp. 292–310.

9. We assume here that national leaders want to depart from market prices. If they do not, and local markets are distorted, economists can work out proxies (called shadow prices) based on international markets.
10. We believe the dichotomy is a false one. Every economy of size uses prices. The moral question is: What values do they reflect? The economic question is: Do they allocate resources in a productive way?
11. Several readers have questioned this statement in virtually identical words. "This is hardly so," a reader says, "unless you talk to people on an official basis. Most experienced personnel recognize the futility of what they are doing, off the record." Other readers insist that we caricature planning and condemn planners unfairly. We think it is time to get what "experienced personnel recognize" on the public record, so that those who say we are beating a dead horse (because everyone knows that planning is meaningless) and those who say it rides well (when not maligned by foolish critics) can openly confront one another.
12. On France see A. Wildavsky, "Does planning work?", *Public Interest*, **24**, Summer, 1971, pp. 95–104, and the splendid book it reviews, S. Cohen, *Modern Capitalist Planning: The French Experience*, Cambridge, Massachusetts: Harvard University Press, 1970. See also I. Miyazaki, "Economic planning in postwar Japan," *The Journal of the Institute of Developing Economies*, VIII, 4, Dec., 1970, pp. 369–85.
13. A. Baleeiro, quoted in A. Wildavsky, "Budgeting as a political process," *International Encyclopedia of Social Sciences*, New York: Macmillan and Free Press, 1968, 2, pp. 192–198.

TEN

Converting Obstacles into Opportunities

If we were asked to design a mechanism for decisions to maximize every known disability and minimize any possible advantage of poor countries, we could hardly do better than comprehensive, multisectoral planning. It calls for unavailable information, nonexistent knowledge, and a political stability in consistent pursuit of aims undreamed of in their experience. Thus this kind of planning turns the most characteristic features of poor countries into obstacles to development. Somehow, planners say, these nations aren't good enough to make planning work; they must become more rational to fit the plan; their people constantly misperceive their own interests for, if they didn't, they would do what planners think is good for them. The customer, it appears, is always wrong.

We must reject the view that people who present obstacles are irrational and unthinking, that their behavior is inexplicable. The implicit theory behind this view is that economic growth is unambiguously good for everyone. Anyone who does not recognize the benefits that will accrue to him, therefore, is a fool or worse.

Social scientists must reject the assumption that repetitive patterns of behavior (not mere individual cases of deviance) are unmotivated. That would make a mockery of their vocation. How can human behavior be explained if (apparently) it is randomly generated? Believers in human dignity must reject the view that ordinary people, when given a chance to find out, do not know what is good for them, for if they did they would act consistently to serve their own interests.

If we do not understand why citizens or bureaucrats act the way they do, the problem does not lie with them but with us. They see clearly, after a number of experiences, where their interest lies. They choose what experience reveals is best for them. They are wise; we are ignorant. It is as if observers were playing pin-the-tail-on-the-donkey without knowing what it looked like, and later claimed irrationality when a cow, unaware of the purpose of the game, objected to having a nail implanted in its rear end.

Are we devotees of peasant wisdom, then, who think the poor are always right? Hardly. Interest in peasant wisdom need not lead us to support peasant technology. People in poor countries themselves are justly concerned with the inability of their societies to achieve widely shared goals. Their actions in pursuit of their own best interests may have unfortunate consequences. Our point is not that their behavior (any more than our own) is always desirable, but rather that it can be understood and turned to advantage.

If we understood prevailing beliefs about the consequences of acting one way or another, we would not be surprised so often that people choose what helps them rather than what we naively expect. If severe underspending leads to large unobligated balances, for instance, the seemingly tortuous process of releasing funds becomes explicable (though not necessarily desirable). Why should the finance ministry release funds to those who may not have used their last allotment? Once the relationships between various elements in the budgetary system are known, it becomes clear that the release of funds cannot be attacked apart from other phenomena like underspending, auditing of unexpended balances, and unreliable data on the progress of projects.

Our purpose in this chapter is to use the bits of theory we have accumulated about planning and budgeting to suggest changes.

What Should Be Done About Planning?

What would we recommend if we really believed in our own analysis?—the abolition of comprehensive multi-sectoral planning. We do not advocate the disappearance of national plans out of a desire to denigrate the capabilities of planners. On the contrary, we believe they are too valuable a national resource to be wasted on a self-defeating exercise. If the planners are removed from the centers of decision, the advice they proffer is ignored. When they enter the decision-making apparatus, they tend to become indistinguishable from the environment they were supposed to transform. Maintaining adherence to formal planning produces not enhanced rationality but increased cynicism.

What can be done with planners? It will be no easier to remove government support from planners than to deprive any vested interest of its privileged status. Nor will it be a simple matter to divert their energies from less to more productive tasks. Planners have a trained incapacity. They are specialists in macroeconomics, in large aggregates, in fiscal policy. Yet there is only a small demand for big thinkers. Planners could move into the technical ministries to help make up for the lack of project evaluators. But microeconomics, project analysis, is not their forte. They have not been trained to think small.

Nevertheless, planners may be the only national group capable of an informed opinion about the economic desirability of undertaking certain large projects. Perhaps the World Bank or some foreign government demands a feasibility study before granting funds. The president or an individual minister may wish a project evaluation. The most important client for evaluation, however, must be the finance ministry, for without its support the recommendations of planners are unlikely to be accepted.

We believe there are unexplored potentials for cooperation between finance officials and planners if they were merged in the same ministry. Since many projects must be rejected in view of limited resources, finance may welcome help from planners in eliminating the worst ones. Where political criteria alone are used for project selection, each minister can insist that his sector must have first priority, a circumstance that makes life difficult for the finance ministry. Finance can get off the hook by rejecting projects on the grounds that they have received a low rating from the planners who presumably know what is good. Also there are times and countries in which there are not enough projects from which to choose. Finance then may welcome help from planners in generating more projects to provide more choice among projects.

The motives relied on in this marriage of convenience may appear ignoble; no doubt each participant in governmental decision making should want what is best for his country. But we forget that people often do not agree on what should be done and that finance faces the most extreme pressures for daily action. Tying project analysis to the institutional needs of the finance ministry, we suggest, is a better way of getting more of it into the system of action than handing out gold stars for splendid motives.

At this point, questions crowd in. Who will perform the various functions previously entrusted to the planning commission? How will planners become more than a decorative appendage to the finance ministry? Let us try to answer them.

How can we do away with formal planning without losing creative use of the economists who once did the work? The first step is to convince foreign donors not to insist upon formal planning as a prerequisite for aid. Surely an appraisal of their own would convince them they have not profited from mountains of paper plans. Perhaps lending organizations like the World Bank ultimately will ask whether the vast and growing gap between their disbursements and actual expenditures in poor countries may not have something to do with their support of aspirations (in the form of paper plans) over achievement. Should they remain adamant about requiring formal plans, however, there are ways of producing a similar product at a lower cost with no one in the host country fooling himself into believing that the plan is anything more than a mode of attracting foreign currency.

How can countries attract foreign aid? Make better project proposals in which the planning section of the finance ministry participates. Suppose the donors insist on a plan? Try to talk them out of it. Suppose they continue to insist? Give them the fancy brochure they want; detail several people from the planning section and hire a few consultants for the purpose, if the aid in view is large enough to justify the expenditure. What if people do not feel right without seeing the word "planning" somewhere on the governmental table of organization? Change the name of the finance ministry by adding "and planning" to its title. What is in it for planners? They take part in a necessary activity that helps provide a workload for them and makes them valuable to their fellows. What is in it for the finance ministry? Their importance is enhanced, as is their ability to control the relationship between the amount of domestic currency necessary to fill out the foreign aid they hope to receive and the foreign aid itself. They can influence the process through which the tail of foreign aid wags the domestic-expenditure dog.

What would become of the planning commission? It would go out

of business. Who then would do long-range planning? No one, effectively, as is indeed the case today. The difference is not between ability to control the future and unwillingness to try, but between degrees of presumption. No one knows how to relate sectors of the economy years in the future in a meaningful way so that present decisions are improved. If individual projects call for estimates of future supply and demand, the projection can be made by the affected ministry, or by the planning unit in the finance ministry, as well as it was in the past, though with less effort because the scope of the study has been reduced. There is, of course, no reason why the talent represented by the planning commission should move in a single bloc to the ministry of finance; other ministries too might share in the distribution, enhancing policy making throughout the governmental system. Finance is better suited to test-and-check than to make studies of initial project suitability. But that depends on how much talent there is to go around. Doing less is better than doing more when no one knows what to do or when the margin of error is so large as to defeat every sophisticated operation.

What about interconnections between projects? Who will look after them? We should remind ourselves that poor countries are not overloaded with projects. Almost anything that will benefit the country in and of itself is a good idea. It will be a long time before projects begin bumping into each other or producing significant external diseconomies. This is one of the few advantages of underdevelopment.

Yet one project may affect another adversely in ways that could be avoided or with effects that could be mitigated if action were taken in time. How shall these vital relationships be discovered? One way is to develop a theory relating projects to each other under specified conditions and local circumstances. But we doubt that such theory is available. We suspect it calls for more data, trained people, and faster reaction than can be had. It would be better, in our opinion, to develop indigenous expertise in observing the actual effects of projects. As each interconnection is discovered, attempts may be made to take advantage of it or get around it. The inquiry can broaden as difficulties are encountered or narrow as measurable consequences prove difficult to discover. If the external impact of a project is too subtle to be observed, it is probably too insignificant to need action.

The problem of planning is only partly one of political power.

Planners, it is true, have rarely been able to get themselves into a position in which they can push through their plans. But planners who might work from a position of strength cannot get the world to behave as they wish. Even if they can get their recommendations into the budget, they will have difficulty getting the projects built and functioning so as to achieve the good consequences predicted for them. No one knows enough to make long-range comprehensive plans work. The abolition of paper plans need therefore provoke few regrets.

Instead we recommend that, given the opportunity, planners follow the Ceylonese model where paper plans have been abandoned. Indeed, the Ceylon Division of Plan Implementation (an odd name in view of the fact that there is no "plan" to implement) has followed a two-pronged strategy; one is the improvement of budgeting and the other is a procedure for expediting projects. As long as underspending exists at high levels, the potential of the limited funds available for investment is not being realized. Why worry about exotic economic models when you cannot program through the money you have? Similarly, why create an ambitious ten-year plan (once highly admired though utterly misleading and never executed) when modest yearly goals have not yet been achieved? Project analysis is poor, construction is chaotic, management is erratic, sales are neglected, and cost accounting hardly exists. The task of planners is to seek improvements at all these stages, not merely at the sectoral or even project level. If planners are not also implementers, they will fall victim to the classic schizophrenia—torn between delightful documents and sordid circumstances.

The Ceylon Division of Plan Implementation tries to encourage better project analyses, but it doesn't stop there. It helps work out schedules for construction. It sends expediters into the field for firsthand observation. Borrowing the Malaysian technique of the operations room, it keeps visible records of progress. Its success in reducing underspending depends on the support of cabinet level and secretarial committees. If top-level support wavers, the effort lags. But without concentration on implementation, support from on high (when it exists) would have no effective outlet. No mode of operation by itself guarantees improvement, but better use can be made of opportunities when they arise.

We do not suggest or expect an era of universal harmony between those responsible for short-run stability and those more interested in long-run growth. Planners and budgeters are bound to disagree on spending totals. Planners normally constitute a pressure group for increased investment while budgeters are certain to insist on expenditure limitations. The two sets of participants have internalized the nearly universal split between stability and growth, between playing it safe and trying to break the bank. Planners and project managers identify with more spending; tax gatherers and financial controllers with less spending. How can this natural competition be structured? Are we better off allowing the rival tendencies to conflict within the same organization, or is it better to give them independent institutional expression?[1]

If planners are merely to spin their own webs, it hardly matters what institutional form they take. If planners alone have no control over project funds, they are better off in the finance ministry where they have some chance of shaping decisions. Where planners have their own money in the form of a development budget, problems of coordination (that is, consent, coercion, and information) multiply. There are now two organizations competing to control the budget. Planners claim the long-term as their own but discover that they are constantly being undermined by the short-term decisions of the finance ministry, which in turn claims that its effort to achieve financial stability is being thwarted through pressures to spend. The hapless operating department is caught in crossfire between conflicting demands to meet short-term crises and long-term plans. Yet, day-by-day decisions must be made in which the short- and long-term considerations inherent in every action are traded off against each other.

Again we ask whether it is good for two separate agencies to represent these conflicting tendencies? That depends on the nature of the problems in particular countries. Is there a lack of advocacy for large projects and the substantial investments to go with them? If so, placing within the government a group with the desire to spend and the ability to resist cuts makes sense. We believe that on the whole these motives are ever present in the regular political process and do not need institutional reinforcement. If investments exceed the ability of the nation to provide recurrent funds to support them, which is usually the case, then pushing spending would not appear wise. Most often the problem is one of balancing stability and growth. There can be no future stability without finances to maintain it. When officials who embody these clashing perspectives control different budgets, there is an inevitable tendency to make separate worlds out of them. A surplus in the investment budget results in spending there, as happens also with the ordinary budget, but indivisible activities should not recognize artificial distinctions. Though their salary comes from one budget and their equipment from another, technicians cannot work without tools. Albert Waterston has documented endless examples of the tug of war between the investment budget and the ordinary budget. His utterly sensible suggestion that officials in charge of the two budgets meet together regularly so they do not inadvertantly pull in opposite directions would mean a substantial improvement over present practices. By this time the reader should be ready to ask why, given any choice, a nation would let itself in for this sort of thing. Where coherence is at a premium, where any consistent policy may be better than several that cancel each other out, where layers of bureaucracy already frustrate each other, and where a single budget hardly works, choosing two budgets and two sets of officials over one seems strange.

The keynote in poor countries should be simplicity. Designs for decisions should be as simple as anyone knows how to make them. The more complicated they are, the less likely they are to work. On this basis there seems little reason to have several organizations dealing with the same expenditure policies. One good organization would represent an enormous advance. Moreover, choosing the finance ministry puts the burden of reform where it should be—in the budgetary sphere.

Why Reform Should Concentrate on Budgeting

Readers who reject our recommendations for change in planning still should be prepared to consider reform of budgeting. Nothing we have said in this book is meant to suggest that if planning is in terrible shape, budgeting is wonderful. On the contrary, we would argue that planning is not worth much attention until the annual budget is made more meaningful. Nations that cannot handle daily, monthly, and annual decisions on expenditures on an item-by-item basis have no business trying immensely more complicated transactions.

Budgets can be plans. When governments decide how much they will spend on various activities during the year, they have evolved a plan of action. Whether they attempt to take a longer or shorter view, their actions in the next year imply future consequences. Like plans, however, budgets need not (and often do not) correspond to the world to which they are supposed to refer. A budget may be thought of as a hypothesis;[2] if funds are provided for various purposes, then they will be spent as intended and certain desirable consequences will ensue. (In fact, of course, the money may not be provided at the time specified, or at all. If supplied, the money may not be spent for the purposes intended but on quite different objects. If the money is spent, it may lead to unintended consequences.)

Conditions hypothesized in the paper budget may end up having no relationship to those out in the world, and they are not necessarily superior to plans on grounds of greater correspondence to reality. Both may be far removed from existing conditions. Indeed, the weakness of the budget is evident in the phenomenon of repetitive budgeting, in which the budget is made and remade many times during the year. That ubiquitous practice suggests that even one year is too long a time under the volatile conditions in poor countries. To the degree that budgets are less presumptuous, based on more recent information, and more closely geared to the existing political situation than are plans, the chances they will be followed are greater. But they may be as misleading and nonpredictive of future action as any long-range plan.

Budgets, in our opinion, have been wrongly conceived to be narrow and unimaginative documents. Compared to the potential for implementation, budgets in most poor countries represent far-reaching ideals. If we concentrate on the budget, therefore, we should not be thought of as abandoning the awe-inspiring multi-year plan, but rather as seizing one opportunity to focus on an area of significant potential advance over current practice. To achieve a realistic budget would be a major accomplishment for most poor countries as, if we recall our history, would have been true in prior centuries for nations which now are rich.

Governments that are too strong for the liberties of their subjects may nevertheless be too weak to budget effectively. The weakness of government in poor countries lies at the heart of their budgetary troubles. Unable to collect taxes in sufficient amounts, and lacking control over a significant proportion of the resources they do collect, governments work in a perpetual aura of financial crisis. When the moment comes to separate rhetoric from reality, the finance ministry usually bears the burden of decision. Fearful of being blamed when the money runs out and anxious to respond to what it sees as real priorities for existing governments, the finance ministry desperately seeks protection against the unexpected. Maintaining liquidity becomes the main motive of its activities. Under normal conditions of extreme uncertainty (if not plain ignorance), this understandable desire leads to the sequence of the conservative estimating devices, the repetitive budgeting, the delays in releasing funds, and the inordinate amounts of paper work that we have already described. These procedures accomplish their purposes at first; a surplus is protected for the time being, the finance ministry is able to adapt to changing circumstances by delaying decision, and the causes of uncertainty are pushed onto the operating departments. They respond, in turn, by trying to stabilize their own environment. Departments withhold information on unexpended balances, thus increasing underspending, in order to retain some flexibility. They become more political because they must engage in ceaseless efforts to hold on to the money ostensibly allocated to them, lest the finance ministry claw it back. Ultimately they seek their own form of financing through earmarked taxes, or they break off to form autonomous organizations—a sequence of events encouraged by foreign donors seeking stability through creating recipient organizations with whom they can have more predictable relations. Because the official budget is not a reliable guide as to what they actually can spend, departments are not motivated to take it seriously. Padding takes on huge dimensions, and it reinforces the tendencies of the finance ministry to mistrust departments and to put them in a variety of straitjackets.

To reform budgeting it would be necessary to break into this cycle of mutually reinforcing behavior. How can this be done? What incentives can replace those that now convert organizational rationality to societal irrationality?

What Can Be Done About Uncertainty?

From a financial standpoint, the dimension of uncertainty is of critical importance. If governments knew how much they had to spend now and for a few years into the future, they would not, on that account, be impelled to follow deleterious financial procedures. Though they would still be poor, they could allocate the funds they did expect to have with greater confidence. The multiple hedges against uncertainty could be relaxed and the strategic maneuvers of the spending department could be reduced in scope and amplitude. The more meaningful the annual budget, the greater incentive they have to prepare it carefully. The greater the ability to reward those who conform to the budget with actual funds, the more incentive they have to make it good. As each participant sticks close to its initial agreements there is less need for constant renegotiation. Trust increases as reciprocal expectations are more nearly met. Paper work declines in magnitude as the necessity for building in delay and hiding money decreases. The inevitable political struggle over resource allocation will take place within more clearly defined boundaries. Though what everyone wants is unchanged, the more debilitating strategies will fall into misuse, either because they are unnecessary or because everyone has somewhat more reassuring information about what others are getting and giving.

At once we are tempted to turn our own arguments against ourselves. Would not this happy chain of circumstances depend on things, especially uncertainty, being other than they are? Perhaps there are internal mechanisms for producing instability so that temporary gains in certainty are wiped out by counteractions. The appearance of a financial surplus, for instance, might set off efforts to eliminate it so that the finance ministry would again find itself in danger of falling below an acceptable margin of safety. Why raise revenues if, after accepting the political costs, there is no more room for maneuver at the end than at the beginning? The inescapable conclusion would be that nothing can be done unless everything can be done at once.

Such hopelessness might, however, give way to moderate pessimism. The system of relationships in budgeting may not be wholly determined or limited by inescapable forces. While trust among people may be partly determined by their past history, surely their present experience also matters. The question is whether their distrust makes it impossible for them to have other experiences. Might they not give more trust if they had a few experiences that showed it paid off? Changes may come from various directions which, when instituted, will meet the needs of participants sufficiently to provide bases for other helpful moves. Once a financial margin becomes part of the environment to which others react, for instance, the easier release of funds may encourage meeting deadlines, leading to a further decrease in paperwork, which in itself would mean a significant advance. Are we projecting the past on the future, or do we see people slowly shaping a new destiny? We shall begin by talking about ways to mitigate uncertainty and then go on to discuss how to live with it if it cannot be diminished.

One reason to concentrate on uncertainty is its readily apparent international aspect. Up to now we have, like poor countries themselves, taken international economic arrangements as fixed in the short run. Poor countries which can do little to alter them must adjust to them as best they can. Obviously, anything that can be done to stabilize commodity prices will increase certainty in the poor countries dependent on them for so much of their income. But our research does not bear on this issue; our major emphasis must be in the area of foreign aid on which our investigation has an indirect but important bearing.

Direct Budgetary Support. According to our theory of budgeting in poor countries, the most important changes in behavior would come about with increased financial certainty for the central government. Uncertainty comes from two sides: unexpected increases in spending and sudden decreases in revenue. Foreign aid could work directly on the income side, though to be effective the expenditure level would also have to be involved.

The most significant use of foreign aid to improve the quality of daily decisions would be as direct budgetary support. Rather than paying for individual projects, foreign donors would provide a stipulated amount for at least several years. That sum would provide part of the poor country's budget or it could be treated as part of its reserve to be drawn upon in time of need. Before considering the evident difficulties with this proposal, we shall appraise its potential.

Abandoning the project approach could transform the nature of

foreign aid. There would be no need for large-project teams to negotiate and monitor individual projects. The daily involvement of project personnel from foreign countries in the affairs of the host nation, overseers who would not otherwise be invited, would come to an end. There would be no need for aid personnel to secure a steady flow of projects to the donor organization and, hence, no need for special arrangements with spending departments. Neither autonomous organizations nor special devices to expedite projects would be required. The focus of foreign aid would shift from a determination of whether its funds were being spent wisely on numerous specific projects to a concern for the overall financial strength of the host government.

The advantage of a project approach presumably is to encourage and/or compel the poor country to do better than it would otherwise. The donor acts to protect the poor nation against its worst self. The necessity of acquiring funds for a specific purpose presumably means that the requesting nation must submit a well-prepared project whose economic advantages have been worked out in advance. Diversion of funds is less likely in such a case because the donor has people on the spot to guard against it. These advantages, however, are often vitiated in practice. It seems smart to hire foreign experts to prepare the project analysis and to take their opinions into account in implementing that design. Foreign donors, anxious to receive acceptable proposals, "help" the poor country by telling its officials about the kinds of projects currently in favor and the type of proposal likely to be accepted. Instead of increasing the ability of the poor country to do its own project analysis by rewarding those (wherever they may be found) who do the best work, this approach motivates officials to develop connections with foreign-aid entrepreneurs and consultants in favor with them. Once the project has begun, the donor is also committed to it and involved in the innumerable difficulties of implementation. Caught between a desire to have the project succeed and the necessity of avoiding continuous direct involvement, aid officials are likely to intervene just enough to make themselves unpopular but not enough to get the job done. They add another level of decision, another set of officials, and another sheaf of accounting forms with which the host country must contend.

Direct budgetary support might encourage poor nations to live beyond their means, compounding the difficulties of adjustment when help is withdrawn. This cure might be worse than the disease. Increased funds might go directly into the pockets of the elite, or straight into the bottomless purse of the armed forces. Fearing that their resources would be dissipated, foreign donors might try to control critical aspects of financial policy. They might seek agreement on taxation, expenditure, foreign exchange, the supply of money, and the general level of prices. Low-income countries might regard such proposals as unacceptable limits on their freedom of action or they might be unable to comply because the required actions would be domestically unpalatable. Even if they could agree on a specific project, the parties might be unable to get together on wide-ranging financial policy. The result might be less foreign aid rather than more.

Donors might be willing to state expectations about financial policy and make renewal of support dependent on overall performance. The burden would be on the recipient where it belongs. Should budget support lead to no significant improvement, it could be discontinued. Whether donors would be willing to face the consequences of letting the recipient slide is not easy to determine. We see no overriding objection to stipulating certain financial conditions in advance. Rich countries which need outside help must accept the same advice from international bankers. Such financial conditions, even with the inevitable country team, seem more appropriate than the detailed and virtually unenforceable commitments now involved in project support. On balance, we would prefer donors to monitor performance rather than to participate in making decisions themselves. Donors might provide inducements for better financial policies; they are unlikely to compel better decisions over the range of public policy.

Again, perhaps, we stray from reality. One big "advantage" of the project approach is that it allows competition among large donors (such as the Soviet Union, the United States, and, to a lesser extent, the People's Republic of China) for prestige projects. The poor nation may reckon it can only benefit from this game, and it may therefore be reluctant to give it up, though richer nations already may be regarding bilateral project aid as an unprofitable way to win influence. Identification with visible projects may be helpful in gaining internal support within the donor country. Where splendid

projects may appear worthy in themselves, direct budget support may suggest a more unpalatable client-patron relationship. We do not intend to proscribe entirely any kind of foreign aid projects, but rather to suggest that the larger donor nations and international bodies should prefer budgetary assistance to project aid.

Clearly success depends upon using the reserve, as intended, to strengthen budgetary decisions. Governments bent on (or unable to avoid) dissipating their resources, as they already do, will find ways to get around the restrictions imposed by the project approach. For them, budget support would be no better, but also no worse, than dissipating money through projects. But those governments willing and able to make their resources grow will be helped most by direct budgetary support that decreases their financial uncertainty. Policy should be based on helping the best, not on hindering the worst. Besides, rich nations should do more to help poor ones, and direct budget support is the most palatable form of aid.[3] To us the risk seems worthwhile.

We have now gone as far as we can without coming to grips with what a poor country can do on its own to deal with budgetary problems. After all, budgetary support through foreign aid may not be available, and in any event, it could not work without support from inside. No doubt those nations that depend on their own resources and capabilities are less likely to be disappointed than those who wait for help from a capricious world.

Working with What You Have. We have no magic formulas. We do not have (nor could we find in the literature) political theory leading to hopeful recommendations for increasing stability with justice, or for enhancing resource mobilizaton with equality in poor nations. Knowledge about economic growth is still woefully inadequate and subject to endless controversy. The richer a society, no doubt, the more easily it can buy off political discontent. The greater its political cohesion, the more resources it can mobilize for public purposes—unless, of course, the price of unity is to maintain a low level of demand by the population. This line of reasoning leads only to platitudes. The more a nation has, the less it needs; strength in one area of national life enhances prospects in others—until the ultimate in disingenuousness is reached. If nations were where they wish to be, they would not be worrying about getting there.

There are no miracles. The place to start is where we began, with the conditions of the poor countries themselves. What approach to governmental decision making would be appropriate for a society best characterized as poor, unstable, and uncertain? Since we can't wish these conditions away, we must learn how to work with and through them.

How do you plan for contingencies? How do you take the unexpected into account on a regular basis? The terms seem incompatible. If you don't know what is going to happen and when, how can you anticipate unknown and spasmodic occurrences? You do know that you won't know what is coming. You realize you will have to adapt to rapidly changing conditions with poor data, missing theory, unskilled manpower, and few resources. Naturally, you can try to better these conditions—to train manpower, to increase the reliability and accuracy of your data, and to enhance your resource position. Experience teaches, however, that such efforts are likely to produce only slow rates of improvement. It is one thing to provide training and to collect data; it is another to use this information and exploit these skills. That requires organizational ability and social incentives that are often lacking. So what should be done?

The general idea is to convert obstacles into opportunities. Our task is to convert this statement from a platitude to a policy. Instead of seeking premature escape from the constraints that bind them, poor countries need to learn how to cope with and take advantage of them. Poor countries cannot and should not attempt at all costs to follow a fixed path. Just the opposite. They should enhance their ability to change course at short notice. They cannot avoid error but they might be able to reduce the cost of making mistakes. They often do not know in advance what will work, but they might improve their ability to determine what is worth carrying on after it has been tried. The ability to learn from diverse experiences is the key to their development.

Poor countries, for instance, might do better with many small projects using short time horizons and simple techniques rather than a few large ones extending far into the future and employing complex operations. Let us try to explain.

Correcting Errors: Small Versus Large Projects. We don't suggest that small projects are always better than large ones. This would be to divorce ourselves from contextual factors—the state of the economy, availability of capital, relative cost, the value of the industry, political needs for accomplishment that are not only real but visible, and more—which must differ from one situation to another. We wish instead to show that thinking small corresponds more closely to existing conditions in poor countries than does thinking big.

It is a mistake to encase probable errors in concrete. Large projects represent huge commitments for poor countries. The substantial resources involved rule out many other possibilities. The drain on foreign exchange creates problems of its own. A significant proportion of trained manpower must be involved. Resources are tied up not only in the present but over the many years required to construct the project and get it into operation. Worst of all, the commitments are fixed. The government has little or no opportunity to change its mind because it has already invested too much. Possible alternatives have been wiped out in advance of actual operation. The scope for error is large but the margin for maneuver is small. Instead of adjusting the project to changing views of economic and social needs, the economy and society, because of their large size, must adjust to the project.

Consider, by contrast, the virtues of thinking small. A large number of small projects with short time horizons greatly increases the prospects of learning, adaptation, and correction. Because less has been invested in each individual project, it is relatively less expensive to end them. Since not all are supposed to survive, there is less concern that each will have to be continued or prove productive. Damage can be contained in size and scope. By investing future resources in similar ventures, the good can be built upon. The multiplicity of efforts, the redundancy if you will, increases the likelihood that a variety of approaches to the same problem will be tried and that some will work. Projects thus are used, not to carry out existing knowledge, likely to be lacking, but to obtain knowledge through action. Scarce managerial talent will have to be spread more thinly over numerous projects, but the chances of developing it will be greater because more people must be given the opportunity to try. As the size of each project is reduced, the demand for information will decline. There is less need to consider the interaction of this small project with others and less dependence upon market information further away in space and time. Because they can be allowed to fail, present projects may be looked at as hypotheses that can be falsified by unfolding events, thus improving the chance for future projects to stand the test of experience.

We can take it as axiomatic that no way of doing things is without its associated costs. No simple distinction, based on a single dimension, can survive unscathed in a variegated world. Nations do not, to begin with, have full freedom in choosing their approach to project size, time horizon, and diversity. New governments inherit conditions that restrict their actions and that take time to change. Resources may be dissipated by spreading them so thin that no visible result emerges. Certain projects, such as fertilizer plants, may by the nature of the technical processes involved require larger scale and a longer time to develop. Nor can there be any easy substitute for comparing costs and benefits. Many small projects may turn out to involve higher financial costs or a larger drain on foreign exchange than a few large ones.

Large, visible, and capital-intensive projects have evident appeal or they would not constitute the main avenue to economic development in so many poor countries. Political leaders go for "the bigger the better" in order to show tangible evidence of progress during their tenure in office. Small projects in the provinces cannot compete as showcases with giant ones in the capital. Years later, when half-finished skyscrapers dot the landscape, or when steel mills produce at a tenth of capacity at extraordinary cost, monuments will decay; but for the time being, they look good.

The desire to achieve a breakthrough grows in proportion to the desperate circumstances of the country. Hedging one's bets, correcting mistakes, and building up from limited success are slow and time-consuming. Plunging, following a single strategy, trying to alter the course of history with one gigantic push, is hard to resist. The more down and out the nation, the greater the temptation to risk it all. Is multi-sectoral planning not attractive to political leaders precisely because it offers escape from the oppressive constraints of the present through a vision of a liberating future? That is why national plans and big projects so often go together; once the big ones are in place, everything else should follow. There is less need to worry about other decisions because the bulk of resources has been used up. The administrators in charge normally need not fear that

their project will be abolished because far too much is involved. Let the new government or the new finance minister worry about how to create new initiatives without money.

Thus the big project approach does answer certain important questions. Is knowledge insufficient? Overpower ignorance with enormous amounts of money. Is information missing? Collect lots of it. Does the government change frequently? Commit politicians to the project despite themselves. Has something been left out of the calculations? Import an interdisciplinary team. Does anyone doubt the country is modern? Import the latest equipment to fit into the most modern factories.

The small-project approach also has certain political advantages. Small projects make it easier to distribute indulgences over large areas that involve more people. The "counters" in the game of politics are smaller and thus easier to exchange. The number of desirable managerial jobs also should be larger. Hence, nations with strong regional, tribal, or language loyalties or with widespread clientele systems, may find diversification helpful. There is little point in developing the nation if policies pursued on strict economic grounds lead to separatism.

Politicians need projects that will come to fruition during their time in office. While a large project may be visible, it takes so long to construct that the originators may pass from the scene long before it is finished. Administrators need political backing which will last long enough to bring a project to life. If governments or ministries change, say, every 21 months, let the time horizon of projects be 15 or 18 months, so something will get done between political upsets.

The characteristic conditions of poor countries should be made an integral part of project choice. The ability to learn from mistakes, to change course at short notice, and to develop human talents should be a major part of project design. Other things being equal, small projects should, for the reasons we have outlined, be preferred to larger ones. Indeed, the criterion should be that smaller ones are preferable unless there are evident and substantial advantages to size. Even then, large projects, for which the cost of failure is so high, should be challenged by smaller alternatives before a final decision is made. And when large size appears inevitable, creative thought should be given to mitigating its worst features. Is it possible to phase the project so that useful segments can be constructed one at a time, thereby providing opportunity for reappraisal without total loss in the future? Can potential products and services be broadened so that resources can be shifted from one to the other when the original purposes are found wanting? We agree with Hirschman's contention, fortified by many instructive examples, that "careful canvassing will uncover many areas where the habit of deciding in advance in favor of the one best way can be advantageously replaced by a more experimental approach allowing for some sequential decision making."[4]

Controlling the future direction of a society—which is what planning, properly interpreted, is about—cannot be the work of a few men called planners or political leaders. Planning, in its generic sense, is a social act necessarily involving the behavior of individuals and groups throughout a society. If they do not behave wisely, no acts of genius by those in positions of authority will help. It seems proper from this perspective, therefore, to enhance the creative abilties of as many people in society as possible by placing them in positions of responsibility. Attempts to share pieces of the action may lead in their train enhanced opportunities for corruption, already endemic in poor countries. If, however, we have to accept the existence of corruption, let's give it a positive rather than a negative direction. The pervasiveness of corruption may be viewed, in part, as an effort, however unfortunate, to let more people share in scattered individual benefits of planning. It might be better to turn the inevitable to better use by making the spread of opportunities an important element of designing policy. Our approach would make this easier.

Correcting Errors: Data Versus Information. Let us now try to apply to the problem of information the error-correcting approach we have advocated. The simplest advice we have is to be ruthlessly simple. We shall try to show that this is more than tautological. It will help to make a rough distinction between data and information: data is any bit, any number, any valuation that we collect; information is any subset of data actually used in making decisions. Poor countries have too much data but not enough information. Collecting a superabundance of data on the supposition that it may sometime be useful is counterproductive. The suppliers, seeing the data rarely used, soon grow tired of providing it. They learn it does not matter if they fail to comply or, should sanctions be attached,

the quality and timeliness of the data are less important than submitting something. Potential users find the collection increasingly onerous. The sheer bulk of the data intimidates them, and the more they learn about its quality, the less likely they are to use it.

Our first recommendation is to pay more attention to eliminating old data requirements than to initiating new ones. Officials in the finance ministry should find out what they actually use and first reduce the flow to just that. No new data should be collected without asking who will use what bit at what time for what particular decision. If clear answers are not forthcoming, doubt should be resolved in favor of eliminating the data requirement. To do this would require formation of teams with a mandate to reduce data; otherwise inertia and fear of being held responsible for missing data in the future will prevail.

In regard to projects, the finance ministry wants to know above all how much has been spent. Finance cannot determine whether the rate of spending is too fast or too slow, too large or too small, in regard to resouces unless it knows where it is or has just been. Accuracy and timing of expenditure data are critical. Next, finance needs estimates of how much project managers expect to spend during the next period. Without this information, they cannot make allocations among projects to expedite work or make necessary cuts where they will slow down the work least. The finance ministry also would need information about the physical progress of project construction so that it can estimate how long completion will take at what level of expenditure. In addition, there may have to be a separate tally of requirements for foreign exchange.

Data requirements on estimates of future expenditures should depend directly on the ability of central authorities to use them. If they can use these estimates on a quarterly basis, they should try to achieve that much. If they actually make the best estimates they can based on past experience, without such data, there is no point in collecting data for its own sake. It would be easier to ask for it on a semiannual or annual basis if they want to check their own calculations at those intervals. Their criterion should be what is essential, not what it would be nice to have.

Data is not free; it is costly to produce in terms of time and money; the more accurate the data and the more frequently reported, the greater the cost. If users had to pay for data they might be willing to accept a broader margin of error and less frequent compilations. They would then have reason to ask whether, in view of the expense of accounting procedures, rough estimates, without detailed backup, would do the job. Data can be treated like any other commodity; it will be supplied if an appropriate price is paid. The finance ministry must be able to reward those who come in with accurate estimates that prove out by making it easier for them to gain the next allotments. Correspondingly, they must be able to penalize those whose estimates bear little relation to subsequent performance by cutting down on their future resources. We can now see there is a relationship between rewards, punishments, and use of data. If the data is converted to information and used in making decisions, then project personnel will be affected by the quality of what they supply. Making this connection will enhance the prospects that the data will arrive when it is supposed to. But there will be no guarantee that data is as accurate as suppliers can make it unless there are independent checks on the correspondence between estimates and expenditures, and these are fed back into subsequent decisions affecting the projects. Simplifying data requirements and independent checks on implementation should go hand in hand.

Ideally, central authorities should, at any given time, be able to know how much has been spent in the recent past, what is projected for the immediate future, and how near completion are the various projects. A computerized system should be rejected unless the number of projects is very large. A card file for each project with a summary figure of past and future expenditures, and a brief account of physical progress, would do very well, and the user would be spared another technical obstacle between himself and the data. The most a computer could do would be to add up the totals or possibly retrieve data on certain projects more quickly if they run into large numbers. No more than a counter-sorter would be required. Machines multiply the opportunities for breakdown. The likelihood that users will convince themselves that they have some handle on modern science because (bad) data comes out of a machine should not be discounted. In the same vein, there should be fierce resistance to changes in the form of accounts unless the move is toward eliminating some of them. New accounting procedures have incredibly high start-up costs. It takes years to get them to run properly while whatever benefits were possessed by the old ones are lost.

Accumulated experience from the past depends on getting data in certain ways, and the people who use it will be thrown off their bearings by a different format. Only the strongest conceivable argument, which is not easy to imagine, would convince us to begin anew in this murky business. The assumption should always be against change and in favor of simplifying and making better use of data collected in the past.

If project managers found it advantageous to supply good data, we suspect they would find ways of doing so. If the finance ministry only takes money away when an agency has not spent it, but doesn't provide it when it can, there is little reason to cooperate. A record of accuracy should be rewarded with the right to tap back into funds when the capacity to spend them does exist. Without the ability to respond quickly to requests, the finance ministry will not deserve to get the information it needs. Yet the budgeting process is suffused with delay.

What Can Be Done? Continuous Budgeting. The immediate problem in most poor countries is not the impossibility of anticipating the consequences of present decisions way into the future, but the extreme difficulty in allocating resources at yearly intervals. The well-known air of unreality which pervades the annual budget is ample testimony to that. Often it does not provide reasonable clues as to which agencies will actually spend how much money for what purposes. Since the annual budget has little predictive value, participants need not take the document seriously, further undermining its use as a signaling device through which each learns about necessary adjustments to the others. The fact that budget allocations are constantly reconsidered means that the financial environment is far more turbulent than is suggested by an annual budget. How, then, can budgeting be improved?

One approach, as in our discussion of foreign aid, is to make the annual budget more realistic by reducing the uncertainty that generates frequent departures from it. Another approach bears more directly on elements of the budget process; though tedious and lacking in glamor, such measures as manpower training, better utilization of information, and more accurate and speedier accounting are all potentially useful. There is certainly plenty of room for improvement.

All these suggestions take for granted the existence of an annual spending budget in its existing form as a comprehensive statement of governmental intentions for the following year—such an accepted fact that many people find it hard to picture governmental administration without it. Yet, in practice, it does not work. The fact that budget allocations are constantly reconsidered means that the financial environment is far more turbulent than is suggested by an annual budget. Questioning the validity of the annual budget, however strange this may appear, leads us to ask again about appropriate budgetary procedures in poor, unstable, and uncertain nations. Suppose we consider accommodating to the necessity for continuous adaptation rather than fighting it. Less might be promised, but more might be done.

How can participants in poor countries take advantage of repetitive budgeting, the constant remaking of the budget? We shall suggest a moderate and an extreme version of a single idea: let the budget process be explicitly geared to making ad hoc decisions on resource allocation against a background of what is known about revenue and expenditure at the time. The moderate version sees the budget as a best estimate of the minimum amounts that must be spent to carry out existing activities. The annual budget becomes a statement of what each agency spent in the previous year as nearly as that can be determined. The best (though not necessarily a good) guide to the year ahead is the one that has just ended. Only three basic questions are considered in compiling the budget. What did each agency spend last year? Are there built-in increases such as a rise in salaries that should be added to the total? Are there expenditures that should and could be eliminated? Departments that want additions to this budgetary base can come in at any time during the year with their justifications. They would have to convince the finance ministry, with its project evaluation office, that there were significant advantages in the proposed expenditure, and finance, in turn, would have a current notion of competing demands and available resources. Departments would know that a request for an increase carried with it the possibility that finance would suggest cuts instead, or that they would ask for the money to be taken out of existing expenditures. Finance could, if it wished, ask that new bids be submitted on a quarterly or bimonthly basis. It would be able to space out these requests so as to devote as much analytical attention to them as it could find.

Departments would be more sure of the base amount but less so about increases. They could program existing activities with greater assurance, but they would have to worry more about getting new money. This, we believe, increases certainty where it is most desirable and maintains uncertainty where that would be advantageous. With greater control over new expenditures, the finance ministry could increase its ability to maintain a surplus against contingencies at the cost of providing a floor for departmental expenditures below which it would be reluctant to go.

Under this scheme departments would have a tangible incentive to provide timely and accurate cost estimation. If they delayed the finance ministry would have to make the estimates for them, undoubtedly biased in a lower direction. If they systematically overestimated, finance would learn to discount their requests and might cut them still lower. At the same time departments would be motivated to prepare proposals for new spending and to keep on hand a reservoir of projects that could be called up when the finance ministry sent out the word. There are times, after all, when through underspending or foreign aid or other circumstances, new funds do become available, and departments will want to take advantage of those situations. If a call from the finance ministry means that money is actually available at that time, it should lend to the enterprise a sense of importance that is often lacking. For it is well and good to recommend keeping a supply of projects on the shelf, but if there is little or no chance for adoption so they only gather dust, the desire to produce them will rapidly decrease.

No one can guarantee that projects will be selected on their technical or economic merits. There must and should be times when political considerations prevail. Memories of the third London Airport in England or the supersonic transport in America do not suggest that unvarnished economic rationality prevails even in richer environments. Continuous budgeting does, however, enable those in charge of project approval to be as wise as their circumstances and talent permit, and that may be all that a budget procedure can do.

The extreme version of continuous budgeting would do the same thing with a vengeance. Each new budget would be cut anywhere from 5 percent to 30 percent below the existing base. Departments would then have to come in during the year in order to justify further expenditures. There would be a powerful incentive to spend up to the allotted amounts, thus creating a prima facie case for expanding that sum. No one would expect the budget document to refer to what would happen. It would be in public what it is now in private, a starting point for further dialogue with the spending authorities. Periodic reconsideration of the budget would not be unfortunate—it happens all the time, anyway—but a regular, expected part of the budgetary process. The amount of politicking about the budget would go way up, as would the ability of the finance ministry to make use of the latest political and economic information in determining its next round of allocations. We do not know whether the political strength to launch this operation could be mobilized, or whether the capacity of the finance ministry to make rapid decisions would avoid continuous breakdown. This alternative is worth considering, nevertheless, because the extreme situations it describes are not far from actual conditions in poor countries. Institutionalizing this process rather than battling against it might encourage poor countries to learn how to cope better with their environment.

A basic purpose of continuous budgeting is to facilitate adaptation to emergent problems. While some programs may remain in a steady state, others can be reviewed as often as any participant deems it necessary. Demands can be dealt with as they arise. If the latest move suggests a new step calling for changes in appropriations, a decision could be made right then and there. The tyranny of the annual budget—demanding formal review of programs of little immediate interest and inhibiting action on programs which need attention at the moment—would be ended.

A nagging doubt remains. Does not rationality require simultaneous consideration of the competing claims for resources? Not if it can't be done. If there are no operations that can be performed to compare each item against the others, if information is inadequate to support that effort, and if capacity to implement is lacking, rationality rules against pretending to do it. Placing the proposed allocation between the covers of a book and calling it a budget does not mean that comparisons among programs have been made and used.

An objection to continuous budgeting might be that certain programs could escape scrutiny for several years. This potential problem might be solved by periodically appointing people to review those programs or activities that do not change very much from year to year, and would, therefore, tend to escape frequent scrutiny. A thorough going over every few years or so would suffice. Chances are, however, that most programs would be evaluated in the normal course of requesting increases or trying to hold them down.

At first glance it might appear that continuous budgeting would make problems of coordination more difficult than they are today. We think not, unless, of course, one is prepared to define coordination as placing all appropriations on papers that lie side by side. Nor does it make much sense to define coordination as a central review, since this begs the question of whether policies have actually been related to one another in a reasonable way. It is a lot easier to talk about central coordination than to practice it. Continuous budgeting, however, can be practiced. Each small part of the budget can be considered as it comes up. Attempts can be made to adapt the new policy, through successive approximation, to major features of the environment as revealed by experience. Under continuous budgeting adaptation can be undertaken with greater intelligence because (1) the action is close in time to the awareness of the problem, (2) changes are limited in scope and therefore more easily made, (3) decision makers can have a better grasp of where they are in relation to where they want to be, (4) each change can be separately evaluated against a general picture of the most relevant programs then in operation instead of (an immensely more complicated task) multitudes of suggested changes pitted against each other simultaneously, and (5) every change is always important in the sense that a major participant in the system wants it. Information can be marshalled at the time it is required, not merely to fulfill an annual deadline.

Nothing in continuous budgeting prevents participants from using any and all analytic techniques at their disposal. Everyone can be as wise as he knows how to be. If the day should come when simultaneous comparison of all government programs (or those within a single sector) appears feasible, the president or the cabinet or the finance ministry could consider the budget in just that way. Indeed, continuous budgeting might foster such an approach by permitting scheduling when other great matters were not up for immediate decision.

Continuous budgeting might increase the power of finance ministries vis-a-vis the spending departments. That is all right. We need not be overly concerned with the spectre of all too powerful finance ministers. Nothing in continuous budgeting gives them political advantages they did not have before. Finance was already powerful under the old system of repetitive budgeting, but not in ways that contributed to governmental effectiveness. To the extent that continuous budgeting makes governments more effective in allocating resources, the desired objective has been achieved. Departments may have to defer to finance ministries more (though not more than in most rich countries)[5] but still find that the flow of funds on which they depend has been markedly improved. Not one but two notions of power are involved: departmental versus financial and governmental versus environmental. The first is finite—more for one means less for the other—but the second is infinite; there is scarcely a limit to how much governments can improve their ability to deal with problems. Thus departments may be weak versus finance but strong in relation to the social problems within their jurisdiction. The idea is to get away frcm Beckett's constant quantity of laughter, in which certainty for one side can only be obtained through uncertainty for the other, by expanding the amount of security within which both can work in mutually supportive ways.

The ultimate objection is that our proposal for continuous budgeting is a cloak for perpetuation of the costly and confusing pattern of repetitive budgeting. Being forced into error is bad enough, but legitimizing it is worse. What are the alternatives? There is not a real choice between repetitive budgeting and a meaningful annual budget. If there were, if poor countries could choose to have budgets that would predict well a year in advance, there would be no need for our recommendations. Nor, for that matter, would budgetary reform in poor countries be so urgent, because our theory of the budgetary bind they are in would have to be wrong.

Our objective is to make budgets more meaningful than they are. If they cannot last a year, then the allocations in them should correspond to what will happen for a shorter time. If all expenditures cannot assuredly be included, then a lesser proportion will have to do. Continuous budgeting would include less but give respect to more, and we think that is better than pretending the document is authoritative when everyone knows it is not. The overriding

importance we give to even small improvements in budgeting, without which our proposals might seem too minor to deserve all this discussion, might emerge better from brief consideration of how budgets ramify and reverberate in promoting or hindering popular welfare.

The major source of investment in many poor countries is the government budget. If it does not accumulate surpluses for investment, then they are unlikely to be gathered in large amounts elsewhere. Now economists may and do disagree about how high the level of investment should be, partly because they disagree about what constitutes an investment, and partly because their theory is inadequate for the purpose; but they do agree that without significant amounts of investment, however defined, growth cannot take place. There is a moral to this story: virtually all other goals, from redistribution of income toward the poor to concentration of capital among the rich, depend on budgeting.

Budgeting broadcasts. To the extent that a budget is meaningful, it communicates information about the real priorities of government. Each act in the budgetary process is important, not only for specific decisions (so much for this, less for that), but for information conveyed to others who alter their activities accordingly. The initial budget decision sets off a train of responses as each participant reacts to what others are doing in the new situation. Informal coordination takes place through mutual adjustment.

The closest analogy to budgeting in the political arena is pricing in the economic market place. Prices are the major signals to which people adapt in choosing what to buy and sell, produce and consume, undertake or abandon. These signals communicate more about what is valued than any other kind of economic decision. Prices are the beacons through which a society, whether it intends to or not, signals its preferences to the vast complex of individuals who make daily choices about where their own advantage lies in economic affairs.[6]

While prices receive unstinting attention from economists, budgets, despite comparable importance, have languished in relative neglect by political scientists. But what profit will there be in improving prices if the state dissipates its resources through faulty budgeting so that little or nothing is left to distribute? Whatever the outcomes desired from political and economic arrangements, these goals must be reflected in budgets and prices or they are unlikely to be accomplished. If society can be said to have an operational plan, prices and budgets are the future writ in the present. That is why it is so important for us to stress reform of budgeting.

If budgeting is destructive, if prices are uneconomic, if society is in a state of collapse, then we might all give up. But if there is anything that a study of poor countries produces, it is humility. So much to be done and so little understanding to aid in doing it. Each effort, including our own, appears paltry in comparison to the need. Avoiding defects in the practices of poor countries would be a cop-out; the ostrich invites a kick in the rear. Yet immersion in difficulties may create an aura of hopelessness that none of us means and that is belied by the facts. Maybe economic growth takes a long time. Maybe the characteristics of poor countries get you whichever way you turn. Every alternative, including ours, is vulnerable. Yet life goes on and poor nations slowly get richer. They have found ways of mitigating the worst evils. Otherwise there would be no progress and progress there is. It is worth systematizing the informal practices that allow poor countries to do better than they otherwise might. By making these practices visible, if not exactly respectable, we hope to encourage the social learning that must be the foundation of future progress. We appear better able to recount the disasters than to understand the achievements. Life is larger than our thoughts.

Footnotes

1. For an excellent discussion of this problem see Sir Alec Cairncross, *The Short Term and the Long in Economic Planning,* Washington, D. C.: Economic Development Institute, Jan. 6, 1966.
2. See A. Wildavsky, *The Politics of the Budgetary Process*, Boston: Little, Brown, and Co., 1964, pp. 1–5.
3. See M. Singer and A. Wildavsky, "A third world averaging strategy," *U. S. Foreign Policy: Perspectives and Proposals for the 1970s*, P. Seabury and A. Wildavsky, eds., New York: McGraw-Hill, 1969, pp. 13–35, for the suggestion that the best rationale for American aid is that we are rich and they are poor.
4. A. O. Hirschman, *Development Projects Observed*, Washington, D. C.: Brookings Institution, 1967, p. 82. His splendid chapter, "Uncertainties" (pp. 35–85), deserves more careful attention than it has received.

5. See H. Heclo and A. Wildavsky, *The Private Government of Public Money: Community and Policy in British Political Administration* (London: Macmillan; Berkeley and Los Angeles: University of California Press, 1973), for evidence on the extensive powers of the Chancellor of the Exchequer and the Treasury over departmental spending.
6. Discussion of prices per se is beyond the scope of this volume but a few comments on their political aspects are in order. Economists naturally do not propose to capitulate to bad prices but to overcome them. Attacking the entire range of pricing policies is at once unfeasible and smacks suspiciously of free enterprise, unfettered markets, capitalism, or whatever epithet one chooses to apply. A more selective, less threatening approach is called for. Consequently, in recent years economists have devoted considerable attention to the development of "shadow prices" to aid in the selection of projects. (See the excellent work by Ian Little and James Mirlees, *Manual of Industrial Project Analysis in Developing Countries*, Volume 2, *Social Cost Benefit Analysis*, Paris: Development Centre of the Organization for Exconomic Co-Operation and Development, 1969. For a critique see R. S. Weckstein, "Shadow Prices and Project Evaluation in Less-developed Countries," *Economic Development and Cultural Change*, Vol. 20, #3, April 1972.) Basically, shadow prices are those factors of production that would obtain if a nation were to maximize its foreign exchange. Put another way, goods and services are valued in terms of the opportunities for increasing exports or decreasing imports by substituting domestic products. Individual projects of course cannot be separated from the economy in which they function. If prices do not represent real scarcities, individual projects also will be distorted in economic terms.

   Shadow prices seem ideally suited to overcome these difficulties. By calculating costs and benefits as they would be valued if local markets reflected international prices, current investments based on shadow prices would be more likely to add to national income in the future. It is not shadow pricing itself, however, but the question of national values which lies behind this seemingly abstruse concept, that is of interest here. Politics and economics soon become inextricably intertwined. An entire philosophy, not merely a technical discussion of market versus accounting or shadow prices, is involved. It is not hard to imagine shadow pricing being tried for a project here and there; the underlying difficulties emerge when an attempt is made to use shadow prices across the board.

   If a nation's political leaders believe that their markets ought to reflect "pure" economic prices, they can arrange a closer approximation to this situation. The fact is that their idea of desirable prices differs from one Adam Smith might have chosen because they want to interfere with the market in various ways. When attempts are made to base decisions on different premises about relative values, these efforts are going to raise once again (but this time all at once) the same issues that gave rise in the first place to the subsidies and other departures from the free market. No one should imagine that the massive use of shadow prices will pass unnoticed as an apparently minor technical change through which those who are economically growth-minded impose their will on an uncomprehending society.

   Market prices are those known to all citizens. Shadow prices (assuming they can be effectively determined) are known only to economic technicians. There are, in effect, a publicly known set of "bad" prices and a privately available set of "good" prices. Inevitably the vital question must arise: Why not substitute the good private prices for the bad public ones? True economic values are presumably better than false ones. But such a situation would be intolerable. All the interests that benefit from public prices would band together to suppress competition from shadow prices.