THE SHORT TERM AND THE LONG IN ECONOMIC PLANNING

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Washington, D.C.
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PREFACE

The Economic Development Institute of the World Bank is a staff college offering courses to officials of ministries, government agencies and other institutions concerned with development plans and development activities. It was established ten years ago when Mr. A. K. Cairncross, then Professor of Applied Economics at the University of Glasgow, became its first Director. On the occasion of the tenth anniversary of the Institute, Professor Cairncross, now head of the United Kingdom Government Economic Service, was invited by the World Bank to return to Washington to give a public lecture on a subject of his own choice. In his lecture on "The Short Term and the Long in Economic Planning" Professor Cairncross deals with a subject of particular interest to practitioners and students of the applied art of economic development, in line with the objectives of the Economic Development Institute.

Professor Edward S. Mason, Lamont University Professor of Harvard University, who introduced Professor Cairncross made the following remarks about the activities of the Economic Development Institute and its accomplishments:

"... the primary responsibility for development rests squarely on the shoulders of the aid-receiving countries themselves. If this responsibility is to be exercised it is essential that adequate training be provided for those in responsible positions and the EDI has done its share, and more than its share, to make effective training possible. In the 10 years of its existence some 530 government officials from 97 countries and territories have attended the courses of the
Institute and of these a respectable number have moved into top positions as ministers of finance, directors of planning commissions, presidents of development corporations and investment banks, and into other posts associated with development programs and policies. Such training constitutes the highest order of technical assistance and, as was anticipated at the time the EDI was initiated, its alumni have not only made a first rate contribution to the welfare of their own countries but have also significantly aided the work of the Bank around the world.”

Much of the credit for these results must go to Professor Cairncross who was in charge of the Institute in its early phases, during which a teaching curriculum was evolved reflecting the experience of the World Bank with a variety of practical development problems.

The purpose of this publication is to make Professor Cairncross’ lecture available to a wider audience.

John H. Adler
Director
Economic Development Institute
ON 10TH JANUARY, 1956 the Economic Development Institute was launched, quite literally, with a splash. The previous evening, one of the participants in the first course at the Institute arrived late, rather tired, and decided to have a bath and go to bed. Unfortunately he forgot to turn off the bath water, which in due course found its way through the ceiling on to the beautiful new carpet that had been laid for the opening ceremony. Dampening though this was, it did not delay the proceedings. But it was not only the bath water that dripped through. A large invited audience arrived in instalments throughout the delivery of the inaugural address by the Director because it happened to be one of those winter days in Washington when a little ice here and there throws the traffic into utter confusion. Thus although it was heartening to see the audience grow rather than melt away, it was impossible not to reflect, as newcomers dropped in all the way to the final paragraph, on the obstacles to development—in this case the development of a theme—that persist even in advanced societies and on how much, momentarily at least, the Institute had in common with a cinema.

Apart from the need for a continuous performance when there is a message to be got across, the events of the morning pointed a number of salutary morals. One was that interest in economic development tends to increase rather than to decline. Then there was the obvious fact that plans are apt to go awry and that one must exercise constant vigilance to adapt them to new circumstances. But above all, the cold water poured on the Institute by one of its own participants prompted the reflection that it might not be a bad way of studying economic growth to look at it in the light of the Institute's own experience, the impulses that made it grow and the obstacles that it had to overcome in doing so.

From this point of view the last ten years have been immensely encouraging. The Institute is now firmly established and its activities have developed in many different directions. All over the world one meets Fellows
of the Institute who carry increasing responsibility in the administration of their countries. The collective knowledge and experience of those who have studied or taught at the Institute must by now be enormous and should make it easier not only to carry out the practical tasks of development but to investigate the outstanding characteristics of the process of development itself.

In the presence of that accumulated knowledge and experience I feel rather like a first year undergraduate called upon to address the Faculty. It would be possible for me, in the brash way that undergraduates have, to prescribe for all and sundry, and propound the lines along which the Institute ought to develop over, say, the next ten years. But it has been borne in on me before now that there is a limit to the advice that can be usefully offered from outside, that the ideas with which one starts off are progressively modified through contact with the hard facts governing the growth of institutions (just as much as economies), and that to trace the inner logic of that growth and fathom the real alternatives of policy needs very careful study of past experience, current resources and future opportunities. Living at a distance of several thousand miles from the Institute and absorbed by other duties, I am not equipped to speculate on its future and am happy to content myself with a tribute to its past. On this anniversary to celebrate its emergence from infancy, I am delighted to have been summoned back from outer darkness although I should have preferred, in my capacity of Chief Ghost, to have confined my share in the proceedings to a walking-on part.

The first thing that those who attended courses at the Economic Development Institute ten years ago wanted to hear about was how to set about preparing a development programme. Their interest lay not in economic theory nor even in specific problems in applied economics, but in an area of discussion where there are few good textbooks—the administration of economic
I thought, therefore, that I might select for my theme today a topic falling within this area. What I propose to do is to consider the relationship between the short term and the long in economic planning. I shall deal with a number of problems that are posed by this relationship. For example, what limitations on long-term planning does the need to make short-term adjustments impose? And conversely what limitations on short-term policy are necessary in order to take account of long-term trends and plans? What administrative machinery is calculated to secure the right balance between long-term and short-term considerations? What division of responsibility between departments is desirable in order to marry short-term and long-term planning effectively?

Let me begin by reminding you that the idea of planning an economy, irrespective of motive and time-horizon, is of comparatively recent origin. Short-term economic planning to maintain full employment and prevent fluctuations in the level of activity is largely a post-war development. This kind of planning has been associated with the use of budgetary and monetary weapons and the time-horizon rarely extends beyond about one year. The budget, which in most countries is the principal instrument employed, was not originally a tool of economic management at all but rather a means of keeping public receipts and outgoings in an appropriate relationship to one another judged by exclusively financial criteria. Long-term plans prepared by governments with the object of bringing about a systematic transformation of an economy by changes in its economic structure, and with an eye to speeding up the rate of growth of output, are also a post-war development (leaving the special case of the U.S.S.R. out of account).

But it ought not to be necessary for me to remind you here in Washington that every administration has to weigh up short-term and long-term considerations and that it is not infrequent for one agency to be entrusted with responsibilities centering on the preservation of
equilibrium while another agency is charged with responsibilities for promoting development over time. The most obvious example on the international plane is the existence of the International Monetary Fund alongside the International Bank for Reconstruction and Development. But in many other countries the same dichotomy exists in a different form, with the Ministry of Finance co-ordinating policy on a short-term basis while long-term policy is co-ordinated through a Planning Commission or a Ministry of Planning.

Ten years ago there was no doubt that in the less developed countries long-term planning was in the forefront while in the more industrialised countries what I have described as short-term economic planning dominated policy. Why was this? And why is it that there have been shifts in both sets of countries towards a more balanced approach?

The answer seems to me to lie in the state of economic theory, the nature of the planning process itself, the peculiarities of the less developed countries, and the respective dividends that the two sets of countries expected to enjoy from improvements in planning of one kind or the other. Let me take these in turn.

Economists devoted a great deal of time before the war to the analysis of economic disequilibrium and had developed concepts and policy prescriptions appropriate to coping with disequilibrating forces. It is true that they did not visualise the persistence of inflationary disequilibrium and were thinking more in terms of conspicuous and sustained departures from full employment. But as soon as economic stability was accepted as a definite aim to which short-term policy should be directed, a whole apparatus of thought was ready to hand to guide policy in the selection and use of stabilising techniques.

LONG-TERM PLANNING was in an entirely different situation. The purpose of long-term planning was obscure and it was rarely thought of as promoting faster
growth. On the contrary, it was usually associated with the use of dictatorial powers in the U.S.S.R. or in Germany without much regard to consumer welfare, or with war-time controls that no one wished to perpetuate, or (at best) with programmes of recovery designed to ensure that moneys advanced or borrowed from abroad would be used to good advantage. Even when the ideas of planning and growth became firmly associated with one another there was no theory of economic growth on which development planning could rest. Ten years ago almost the only contribution to development planning that economists had made was the popular doctrine that faster growth required higher investment and that planning ought therefore to concentrate on raising the level of investment. If anything, the doctrine is even more popular today. But it is doubtful doctrine and far from an adequate theory for policy purposes. If you make higher investment your watchword—even higher "productive" investment, whatever that is—you may do little to accelerate growth and may even slow it down; and if you want higher investment, planning is not necessarily the best way of getting it.

Thus whereas short-term policy rested on a definite aim, developed concepts and familiar techniques, long-term policy had no such firm foundation. The idea of growth was slow in acquiring a central importance and the role of the government in promoting growth remains a matter of controversy. Although the preparation of growth models became itself something of a growth industry, economists did not develop a coherent theory of growth capable of translation into policy measures, nor did they provide an intelligible account (except in terms of higher investment) of the role of planning in the formulation of such measures. The preparation of development plans was accepted as natural in countries incurring foreign debt or receiving foreign aid but was not usually justified in terms of faster growth. This in itself meant that planning fell out of favour in industrial countries when the Marshall Plan came to an end but
that it continued in favour in the less developed countries to which foreign aid flowed on an increasing scale.

There is, secondly, the simple fact that the people who plan most successfully are not necessarily the people who issue most plans. Industrial countries all engage in some form of short-term planning: but how many of them issue short-term plans setting out how they expect demand and output to develop over, say the next year? Many of them profess not to engage in long-term planning: but they all issue budgets in which may be concealed commitments stretching over several years and an effort to plan ahead indistinguishable from that underlying many published plans. Budgets bring into existence an elaborate planning machine that is kept constantly in play because fresh decisions about expenditure and revenue have to be made more or less continuously throughout the year.

Budgets also happen to be an almost ideal instrument for co-ordinating short-term and long-term policy. The value of the budget as a short-term regulator has been increasingly recognised in industrial countries and its importance in this role has grown the more they have abandoned the use of administrative controls or become sceptical of the effectiveness of monetary policy by itself to counter inflation. But although the budget has traditionally a rather short-term orientation it is also capable of being used to promote long-term growth and public expenditure in particular has to be viewed against a fairly long time-horizon. The existence of a highly developed budgetary apparatus and its evolution into an instrument of long-term planning has been one of the most powerful reasons why industrial countries have been slow to create separate machinery for the preparation of long-term plans.

IN THE LESS DEVELOPED countries the budget normally plays a subsidiary role in planning both short-term and long-term and the administrative machine is less well
adopted to successful short-term economic co-ordination involving frequent changes of policy. Very often the necessary information is simply not available for assessing the state of the economy at frequent intervals and deciding what to do. Long-term plans are much easier to prepare because the process can be spread over a longer period of time and because the intervals at which long-term plans are likely to be altered are almost certain to exceed the intervals between short-term adjustments.

One could, of course, put forward a rather different explanation of the emphasis on long-term plans, although I am in no position to judge what foundation in fact it may have. For young mandarins who have recently returned from the universities of the West, initiated into the abracadabra of input-output analysis, linear programming and other mysteries, the preparation of long-term plans is a very beguiling operation, and one full of intellectual challenge even when the practical outcome may be highly obscure. On the other hand, the short-term management of an economy that is subject to rapid changes in circumstances offers harsher and more restricted choices with little scope for subtlety. Economists have spent a great deal of time analysing the long-term inter-relations between different parts of an economy and given far less thought to short-term relationships whose operation in many economies escapes statistical measurement and in all economies had to be guessed at until comparatively recently. The preparation of a long-term plan, viewed as a kind of statistical massage rather than as a way of ensuring co-ordinated action, is also a much safer occupation than short-term economic planning because there is plenty of time for the plan to be changed or for the public to forget before the calculations and forecasts in the plan are put to the test.

There are, thirdly, differences springing from the special circumstances of most of the less developed countries. They are highly vulnerable to forces that they cannot control in the short term: agricultural output, which forms a large part of their national income, is subject to
wide fluctuations because of weather conditions on the one hand and changes in world prices on the other. Whether one looks at the balance of payments, at the instruments of monetary policy, at rationing and other controls, or even at the Budget itself, one has to recognise again and again that large changes may occur which the governments of these countries cannot effectively counter in a short period of time.

ON THE OTHER HAND, the importance of government action designed to promote long-term growth is bound to seem far greater to such countries. They are conscious of the need to make large structural adjustments such as seem to them unlikely to arise as the result of the unaided workings of market forces. They recognise that their economy is in need of a major transformation and that it makes sense to try to visualise the different elements in this transformation in relation to one another by drawing up a development plan. The more industrialised countries, however much they may feel in need of modernisation, rarely feel so strongly the compulsion to bring about major structural changes within a comparatively limited period of time.

Largely for this reason the less developed countries have a strong incentive to concentrate on long-term development plans. The dividends that they expect from such plans—and certainly from economic growth, however secured—are bound to seem large in relation to the dividends from any greater degree of economic stability that they could secure through their own efforts. The industrialised countries, by contrast, have been conscious throughout most of the past half century of the enormous loss that might be inflicted on them through failure to maintain short-term economic stability. Their attention, therefore, has been drawn to the problems that this raises and to the ways in which such losses could be avoided by better short-term economic management. It is only as the dangers of economic instability have receded that attention has begun to be focussed on economic growth and
on the possibility that government policy might be able to accelerate it. An extra 1 per cent per annum may be hardly worth bothering about when the national income is liable to fall by 5 or 10 per cent in a single year; but if variations in the national income can be kept down to 3 or 4 per cent per annum (in relation to trend) it is no longer possible to treat a cumulative gain of 1 per cent every year as a subsidiary matter.

I doubt, however, whether this is the main reason for the renewed interest of the industrialized countries in planning. A more powerful factor has been the expansion of the public sector and of the influence of the central government on the whole economy. The more public expenditure grows, the more necessary it becomes to look at it, not year by year but in relation to longer-term trends, and not item by item, but as part of an aggregate for which the government has to raise the money. It is also necessary to foresee what will be involved in financing this aggregate over a period of years and how far the private sector is likely to be able to keep in step. Public expenditure has to be planned over a period of years, first in order to get the make-up “right” in relation to social priorities and then in order to get the total “right” in relation to the parallel growth in GNP. There are also a whole series of interconnections between the constituent parts that it is important to establish and preserve: for example, in order to ensure that there are new schools to match the growth in the school population, teachers for the schools when they are built, colleges in which to train the teachers, and so on. The motives for planning public expenditure must be at least as strong as the motives of any large firm in planning for expansion.

But in fact they are much stronger. The interconnections are not all within the public sector but between it and the private sector. For one thing, the private sector has to provide a great deal of the money. For another, the private sector cannot engage in forward planning without making assumptions about the evolution of government policy and developments in the public sector.
Similarly, it is difficult for the government to avoid making some long-range forecast of the way the private sector will grow and natural to go onto frame policies for the whole economy on the basis of this long-term assessment. These policies are already a plan in embryo.

On top of all this comes the strong tendency in the modern State towards centralisation. The more pervasive the influence of the central government, the greater the urge to give coherence to that influence in some form of planning. Where central planning has a bad name it is all too often because centralisation of power and influence has a bad name. The central government may be disinclined to use its influence to the full because it is conscious of the dangers. But its scruples have generally been overridden by desperation—the desperation of war, or depression, or, nowadays, disappointingly slow growth. In the industrial countries, the vogue for planning is greatest where there is a combination of strong central government and a deep anxiety to grow faster. It is hardly necessary to add that both of these are also characteristic of many underdeveloped countries.

If the industrialised countries have become more aware of the possibilities of long-term planning it is perhaps time for the less developed countries to consider whether a more deliberate attempt might not be made to improve short-term planning. They cannot and certainly do not escape sudden pressures that take them unawares and force on them decisions only dimly related to their long-term plans. These decisions are taken by different agencies and departments, sometimes in a remarkably unco-ordinated way. The departments in charge of expenditure programmes, foreign aid, taxation, import controls, exchange restrictions, monetary policy, regional policy (if there is one) and all the other aspects of general economic and financial policy, often give the impression of being at sixes and sevens, taking defensive action or fresh initiatives without any apparent regard to
the line of policy still pursued elsewhere. Apart altogether from what might be done to bring such action into closer relationship with long-term development plans, there is need for a more wholehearted effort of planning current policy-making. This means putting more administrative time and energy into short-term forecasting, improving the information on which it is based, devising machinery for proper consultation between the key agencies and departments, keeping abreast of ideas and practices elsewhere in grappling with the problem of economic co-ordination, and devoting to the whole business a larger share of the administrative talent and skilled economic advice at the disposal of the government.

I SHOULD NOW like to turn to the first of the questions which I undertook to discuss. What are the mutual limitations imposed on long and short-term planning when they have to be carried on simultaneously?

Although this is how I originally formulated the question in preparing this address, it is not how I was inclined to put it once I had drafted it. It now seems to me that it is not the length of the time-horizon that distinguishes one kind of planning from the other. All planning for the future must extend over a period relevant to the problem to be solved; and how short-term and long-term considerations are reconciled within that period depends on the specific problem under discussion rather than on rules of general application. If one is planning transport or power or educational facilities there is no escape from a very long time-horizon although at any point in time one must make the best of the facilities that exist. On the other hand, if one is planning the future level of employment one has to take a short time-horizon although at any point in time one may want to know the underlying trend in the size of the working population. It is the fact that these time-horizons are different that gives rise to the conflict between short-term and long-term planning. The measures taken to preserve a steady level of employment are only too likely to conflict with measures
to give effect to a long-term plan for the development of the transport system, power supplies or education.

The really critical distinction, as I now see it, is between planning approached as a matter of demand management and planning that takes the form of an effort to influence supply directly. The first focuses on the regulation of demand within the framework of an existing set of supply responses while the second is concerned with structural changes in the social and economic framework itself. The distinction between the two broadly corresponds to the economic distinction between the short period and the long. In the short period demand is subject to much larger fluctuations than supply and, within the limits set by full employment, governs supply. In the long period, the growth of the economy, except in conditions of chronic depression, is governed by the capacity to produce or, in other words, by supply.

The objectives of the two forms of planning coincide roughly with the classical aims of stability (of demand) and growth (of productive capacity), and it is the conflict between those objectives that underlies the conflict between the short term and the long. In an economy where governmental planning was confined to demand management and no effort was made to influence supply except through the regulation of demand, there would be no fundamental difference between short-term and long-term planning. The same kind of calculations would fall to be made in each, the same kind of staff could undertake both, and the co-ordination of economic policy would rest unmistakably with a single governmental agency, presumably the Ministry of Finance. On the equally extreme assumption that planning was directed solely to bringing about structural changes in supply conditions (for example, mobilisation for war, or organising for rapid industrialisation) and that demand could be neglected or forced into line by shortages, inflation, or—at a pinch—higher taxes, the co-ordination of economic policy would again be greatly simplified and could be entrusted to a single agency on the model of
Gosplan. I am not suggesting that there would be no conflicts between the short run and the long, for this would be absurd. The point is rather that there would be none of the special obstacles to effective co-ordination that arise from the need to consider demand and supply relationships simultaneously—usually in separate departments of government.

The conflict between short-run and long-run considerations is essentially a conflict of aims. In plans for a short period such as a year the principal aim is to see to it that no more is undertaken than can be carried out, or alternatively, that enough is put in hand to make the fullest possible use of available resources. Where a long period is taken—four years or more—the principal aim is different: it is to add to available resources and increase the productive potential of the economy by a stated amount and to bring about various "structural" changes calculated to sustain further growth. The contrast, to repeat, is between planning the use of existing capacity and planning the enlargement of that capacity, with stability the principal aim of the first and growth the object of the second.

I am not concerned, of course, with the extent to which these aims are achieved. There are plenty of sceptics who think that national economic planning makes for less stability not more and slower growth not faster; and there are others who are enthusiastic about short-term and hostile to long-term planning—or, sometimes, the other way round. My concern is with the aims themselves and the extent to which they are compatible with one another.

Now they are obviously not entirely incompatible. On the contrary, economic stability is a powerful contribution to economic growth and it is conceivable that success in accelerating growth might make for greater stability. Many things can obviously be done to improve one without doing injury to the other.

On the other hand, a full reconciliation of long-term and short-term objectives is far from easy. To accomplish
such a reconciliation in a world free from unexpected setbacks it would be necessary to aim at a rate of growth over the short term that it seemed possible in the light of experience to sustain in the long run; and conversely to aim at a rate of long-term growth that was not out of accord with what could be hoped for in the immediate future. In addition, since life is full of unexpected setbacks, provision would have to be made both in long-term and short-term plans for unforeseen contingencies either by setting aside adequate reserves or by refraining from firm commitments for at least some proportion of available resources.

These may seem modest conditions. Most countries, however, have not found them so. How is a country to decide what long-term rate of growth it can sustain even if the balance of payments imposes no external constraint? It is only in recent years that advanced countries have begun to examine the underlying trend already achieved and to recognise the intricacies of the conceptual and measurement problems involved. Nearly all the published estimates cover limited periods of time without any adjustment for changes in capacity utilisation, participation rates, occupational structure, and so on. One need not go as far as Professor Morgenstern in order to entertain considerable doubt as to their reliability. What then of less advanced countries with less advanced statistical services? And even if they are confident that they know how productivity has been growing or (by some miracle) accelerating how are they to translate the policies for faster growth that they propose to adopt into fairly precise estimates of the outcome of these policies? If they start off blindly at what seems to them a reasonable rate of expansion how can they avoid having to change their minds long before they reach their goals because the pace proves to be hotter or slower than they can stand or, still worse, because they begin to have doubts whether they misjudged the situation at the outset?
Equally, every country that issues a plan has to ask itself whether it is consistent with what is currently happening and with the succession of events and decisions that seem likely along the line before the plan is realised. If the plan implies a different course of events and a different set of decisions, whether by government or by private industry, it becomes not only incredible but inappropriate as a basis for further decision-taking, and in the strict sense, not a plan at all. This may seem a very elementary point; but it cannot have struck those who still think of a plan as something one set of people prepare while another set get on with the job of handling the current situation. The current situation usually changes pretty violently every year or so and a plan that looked reasonable at the beginning of the year may well look near-impossible at the end. Should one then still try to steer towards the original objectives and leave the long-term programme untouched? Or should one alter course at once and try to effect some fresh reconciliation between short-term and long-term objectives? Reason may suggest the latter; but planning is not in practice the rational process that it may be in principle and few countries if any make a practice of engaging in continuous modification of development plans except in minor respects.

A CLASH BETWEEN short-term and long-term objectives can be softened by the use of reserves to screen the long-term plan from disruption or by the avoidance of completely fixed long-term programmes.

The first alternative is most familiar in terms of reserves of foreign exchange and the line of thought is already familiar in the recent literature on compensatory finance. Because of the perennial shortage of foreign exchange in the less developed countries they run a constant risk of under-insuring against disruption of their plans and there is a strong case for channeling some aid to them so as to increase the insurance on which they can draw. The second alternative involves giving only
provisional sanction to some programmes and parts of others, with the power to impose cuts up to stated limits or to make additions of the same order of magnitude in the later years of the plan. Essentially this means the power to defer or bring forward some parts of the total programme if required so that although the bulk of the plan is firm a contingency element remains. There is no doubt as to the utility of arrangements of this kind as a means of dealing with the uncertainties of the real world. But planning to provide for contingencies is the antithesis of what is popularly thought of as planning: it means either refusing to allocate resources at all or refusing to allocate them firmly and leaving over decisions until it is known how things will turn out.

Suppose that something happens to throw existing plans out of gear. The key question then arises: how is the shock to be taken?

There are some countries where it may not be necessary to do anything at all. A country like, say, Saudi Arabia has large external reserves to cushion any change affecting its foreign trade or the inflow of capital. Its revenue is drawn so much from one commodity, oil, or from customs tariffs that are changed very infrequently, that fiscal policy is of no help in the short run. Public expenditure may be limited almost exclusively by the difficulty of getting work carried out. In those circumstances the only way in which the short-term situation is likely to impinge on the development programme is through the need for some (possibly) informal building control or the use of credit restriction if inflation seems to be getting too much of a grip.

There are other countries where there are almost literally no instruments of short-term policy: for example, in an economy of primary producers with no administrative controls and fixed rates of taxation. In such economies the only protection against short-term dislocation of long-term plans is the use of reserves, either of domestic savings or of external reserves, or foreign borrowing and aid.
But in most countries, there is a need to act and there are policy instruments to use. The danger is that action will be deferred so that when it does come it will be more violent and on a larger scale than if the process of adjustment had begun earlier. The longer the delay, the stronger the government's eventual preference for something that is quick-acting even at the expense of something that would do less harm in the long run.

The preservation of equilibrium, at whatever level of activity, is an object of policy likely to require much less detailed government intervention than faster growth—at any rate if the means to faster growth is taken to be central economic planning. By the same token, action to preserve equilibrium will tend to cut across some of the specific elements in a plan for faster growth because it is likely to include the use of general weapons to check or stimulate demand rather than the specific weapons of expenditure control that usually figure prominently in plans for long-term development. Even when this type of conflict is absent, efforts to cope with short-term dangers to stability are likely to involve some sacrifice of long-term growth.

Broadly speaking, the government has a choice between action to put the burden of adjustment on the current standard of living (e.g., through higher taxation) or on the means to future growth (e.g., by cutting investment). The choice is not an absolute one since any downward adjustment is bound to have some repercussions on expectations of future trends: investment may suffer indirectly if consumption is cut directly. But there is a choice: and the choice ultimately relates to the price of growth.

The way this choice is made will obviously differ from one country to another. In an authoritarian regime, the government may pitch the claims of the future high not only in the plan it puts into operation but in the obstinacy with which it pursues the objectives of the plan through thick and thin. In more democratic regimes
there is usually less readiness to sacrifice the present standard of living on the altar of the future. This affects the shape of democratic plans. But it also affects their immunity to short-term changes. Governments with a limited expectation of life and dependent on popular favour, discount future income fairly heavily and are more alive to current dangers than future risks. This is not the only reason why they are more willing to let a short-term crisis affect investment. All governments have a strong tendency to meet disequilibrium where it arises rather than take offsetting action that will operate indirectly on some other part of the economy. If they have difficulty in maintaining the planned level of investment, therefore, they may well cut it instead of trying to make more room for it. But in any event the problem facing a government is often not which to cut, consumption or investment, but how to reduce the total pressure on resources and this means that consumption, as the largest element in final demand, can hardly fail to take part of the knock.

In practice the range of possibilities is usually limited, and the points at which the plan is threatened also form a familiar list. We all know by now the post-war cycle of ambitious investment plans, balance of payments deficits, exchange control and appeals for more foreign aid, with the inelasticity and variability of agricultural earnings and the shortage of skilled labour as the steady accompaniment.

I turn from these rather general considerations to more concrete issues about the machinery needed to give them effect. This machinery must obviously differ widely from one country to another so that the scope for valid generalisation is limited. One country is governed by a personal dictator, a second by a military junta. One has a President who happens to be extremely interested in economic affairs, in another they are left to technical experts, and in a third the Minister of Finance is himself both a professional economist and an influential political
figure. Different administrative solutions are inevitable in these very different situations. I wish I knew more about the solutions that have been adopted in practice: and perhaps it would have been more sensible of me to find out before presuming to address you on the subject. But from long experience of lecturing on subjects about which I know next to nothing, I recognise that ignorance not only emboldens a speaker when knowledge would inhibit him but also allows his audience the gratification of correcting his errors. So at the risk of encouraging you in over-indulgence, I propose to go on describing a wood that I have rarely been in and drawing your attention to one or two trees in it that may bear only a coincidental resemblance to the real ones.

It will not surprise you if I say that, as a Treasury official, my main interest in the machinery of planning is in the role assigned to the Ministry of Finance. There are, of course, countries where the Ministry of Finance takes no part whatever in the key decisions. In the Soviet Union, for example, this has been so since the first Five-Year Plan; I have never once seen a reference in the Western press to the Soviet Minister of Finance. On the other hand, there are countries—of which the United Kingdom until 1964 was one—where the Minister of Finance is entrusted with full responsibility under the Cabinet for the co-ordination of economic policy both short-term and long. To some extent this contrast reflects the distinction that I drew earlier between a regime under which co-ordination takes place on the side of supply and one under which it takes place on the side of demand. But it would be misleading to describe the Soviet and British systems in such terms since there is, after all, a Soviet Budget which is not presumably just a piece of accountancy and there is in Britain a large public sector under the direct control of the authorities as well as a variety of ways of influencing or controlling what goes on in the private sector.

Even where economic co-ordination is the responsibility of a single minister this leaves a good many other
administrative problems unresolved. Policy is many-sided: economic and other considerations (defence, foreign policy, social justice and so on) have still to be weighed against one another and co-ordinated on some interdepartmental basis. Again, policy-making cannot always be divorced from the execution of policy: if one department is charged with co-ordinating duties its responsibilities are liable to grow the more it scrutinises and controls the projects and decisions which it co-ordinates. It may become too large to do its job efficiently. Finally, the mere fact that various co-ordinating roles are all united within the ambit of one department does not dispose of the conflicts between those various roles. In particular long-run and short-run considerations have still to be reconciled; and the reconciliation achieved on an intradepartmental footing is not necessarily more satisfactory than one arrived at through interdepartmental conflict.

However co-ordination takes place, a number of different departments control one or other of the key instruments of economic policy. One department may deal with commercial policy, a second with taxation, a third with control over public expenditure, a fourth (usually the central bank, which may retain a good deal of independence) with monetary policy, a fifth with foreign aid, a sixth with relations with subordinate authorities whether state, provincial or local, and so on. Traditionally, the major role in co-ordination is taken by the Ministry of Finance; but the degree to which this department itself operates any of the instruments of co-ordination varies a great deal, partly because of historical circumstances and partly because the size and complexity of the fiscal or monetary system, the importance of the public sector, relationships with subordinate authorities, and so on, differ from one country to another.

The traditional supremacy of the Ministry of Finance in economic affairs has also come under attack for a variety of reasons of which the growing
importance of long-term planning is the most obvious. In the first place the objectives of policy are nowadays less exclusively financial: the management of the economy calls for an entirely different approach from the balancing of the budget. Co-ordination is no longer the comparatively simple matter of making next year's expenditures add up to a given total but the much more complex one of trying to maintain domestic and external balance and simultaneously promoting economic growth by government intervention over a wide front. The instruments of policy, as an immediate consequence of this, are also less exclusively financial: the government is far more intimately involved in the affairs of the private sector, quite apart from its own direct responsibilities within the public sector. It has other ways of influencing the economy than making use of monetary or fiscal weapons and these other ways are often more appropriate and effective. Above all, the staff engaged in co-ordinating policy now requires a training extending far beyond finance. However this staff may be distributed between departments, its functions are less concerned with specific areas of policy than with the links between policies, and this applies whether the policies themselves relate to the immediate future or to the long-term development of the economy. What is needed is a grasp of the economic interconnections that lie beneath the surface and are not always apparent to the ordinary administrator or even to the financial expert reared in the ways of Treasury control.

Now there is no reason why the staff of the Ministry of Finance, given the right training, should be less capable of acquiring this grasp than a staff recruited to some other department and charged with the duty of planning the economy. Indeed, the creation of a separate staff of this kind can lead to unfortunate conflicts which are perhaps more observable in the less developed countries than elsewhere but are by no means confined to them. It is all too easy, for example, for two centres of co-ordination to come into existence, one dealing with
day-to-day decisions in the Ministry of Finance while a second, in the Planning Commission, has the benefit of a strong staff of economic experts and may also enjoy the authority that comes from having the Prime Minister or President in the chair. Such an arrangement, with its polarisation of long-term and short-term, may easily militate against a proper balancing of the different aspects of policy and leave what I may call the operational departments of government between the upper and the nether millstones. Whatever instruments of policy a department uses it cannot avoid seeking to balance long-term and short-term considerations, however imperfectly or unwisely it may do so. What it usually needs is help in visualising the consequences, especially the long-term consequences, of alternative policies and in taking due account of the probable state of the economy throughout the period involved. It is not helped if it finds itself under pressure from the Ministry of Finance to take action of one kind to meet an immediate crisis and from the Planning Commission to move in the opposite direction in order to carry out a long-term plan.

The existence of two—or more—central departments is not by itself fatal to good administration. There are more important things in government than consistency; and to aim at perfection in the co-ordination of decisions is not only to pursue a will o’ the wisp (since one man cannot decide everything) but to invite the evils of over-centralisation. What is indispensable is that there should be machinery for resolving differences and that it should be clearly understood who has the last word. What is impossible is that the machinery should resolve all differences or that whoever has the right to the last word should exercise his right very often.

Let me make this a little more concrete. If differences are to be resolved there has to be provision for consultation. This may seem platitudinous. But it is striking how haphazard, if not indeed nebulous, inter-departmental consultation often turns out to be. I can
think of countries where the economic co-ordinators in different departments rarely if ever meet. An economic development plan may be prepared almost in secret and without the participation—perhaps even without the knowledge—of the Ministry of Finance, only to be rejected on completion by those who had no hand in it. Or the central bank may decide to expand credit just when the Ministry of Commerce is about to reduce import quotas. None of the economic departments may be represented in the Cabinet. In other countries there is consultation at the top but the staffs pursue their ways in ignorance of one another's reasoning or diagnosis. Some banker friend of the President may convert him at a week-end party to the expectation of a foreign exchange crisis and the idea may percolate from echelon to echelon without prompting any organised attempt to devise counter-measures. There are countries where the leading economic co-ordinators are hardly on speaking terms with one another; and others where, although on speaking terms, they speak what are practically different languages, the planners talking to a baffled Ministry of Finance in the higher mathematics of capital-output ratios, inverted matrices, and shadow prices only to be answered in classical turkey. Even where the language is the same, the creed may be different: crude believers in the quantity theory cross swords with heretics who are opposed to the use of monetary weapons of any kind.

Consultation, always time-consuming, is likely to be fruitful only if it is based on an agreed view of the state of the economy and the forces at work in it. I attach importance for this reason to the role of an economic intelligence staff, centrally located and working closely and continuously with similar staffs in the other main economic departments. The function of such a staff cannot, in my view, be confined to the assembly of statistical data or the preparation of a long-term plan. Its main function should be to analyse and interpret the trends at work in the economy, both short term and long. For this purpose it must have ready access to the latest available
economic information from all sources and fashion from that information the best and most up-to-date picture it can of the changes in progress. If the picture changes rapidly, the work of such a staff is bound to be heavily concentrated on short-term changes. But it can never neglect the need to analyse and re-analyse the relationships to which these changes conform. This alone brings constantly before it some of the underlying trends that are equally important to satisfactory long-term planning; and where such a staff exists it can either be enlarged to prepare the outline of a long-term plan or co-operate with a similar staff concentrating on that task.

The duties of such a staff as I have described them relate mainly to the analysis of demand relationships. The natural place to locate it, therefore, is in the Ministry of Finance provided it is the Minister of Finance who takes the key decisions on demand management. But in countries where it is the President in person who takes those decisions the staff would be attached to his office. Where long-term planning is little more than a matter of demand management, and consists essentially of the projection over a period of several years of the main economic aggregates, the variables and calculations do not differ from those entering into short-term planning so that no separate staff is needed. But the more an analysis of supply relationships is involved because planning extends beyond control over expenditure and the regulation of demand into direct intervention by the government, the more will be the need for a rather different staff with more experience of industry and trade. Where planning involves extensive intervention designed to bring about structural changes in the economy, a separate department with a separate staff is likely to be necessary. Either a Ministry of Planning or Planning Commission will be set up, or the existing departments responsible for industrial and commercial affairs will be reorganised so as to co-ordinate the longer-range aspects of their activities.

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Such a development creates an obvious danger of duplication. So far as it is activities within the public sector that are planned, the duplication is with the agency or agencies responsible for the control of public expenditure. So far as it is activities within the private sector, the duplication is with the individual departments regulating those activities. Let me take these in turn.

There is rarely any overwhelming need to create new machinery for the purpose of planning the public sector. Indeed, in countries that lack experienced administrators and economists it might well make more sense to concentrate them in the existing agency controlling public expenditure—usually the Ministry of Finance—and build up at least one competent co-ordinating unit. Control over public expenditure already presupposes some rudimentary form of long-term planning. It is true that it can be exercised against a time-horizon of one year and many governments still carry on as if they were entirely free to exercise such control. But everybody knows that decisions taken today—especially decisions to make cuts—have often little effect over the next six or twelve months and that, if genuine control is intended (not just approval of individual projects), it has to be over a longer stretch of time. Commitments to spend public money, whatever parliaments may think or the legal position may be, are not very flexible for several years ahead (except when the commitments take the form of transfer payments); and they do not allow much room for manoeuvre in re-assessing priorities from year to year. Governments have therefore a strong incentive to relate their spending programmes to a long-term view of economic prospects whether they draw up a formal plan for the whole economy or not.

It is sometimes argued that people who control spending develop an anti-spending psychology, and that the habit of scrutinising expenditure programmes causes too little weight to be attached to the growth that such
expenditure generates. On these grounds, the programmes need to be championed against their critics by a central department, headed by a major political figure and staffed by a specially selected team of administrators and economists.

If there is any truth in this, it does not rest on the psychology of those who control public expenditure. In my experience there are few pressure groups ranged against the use of any control more powerful than those who administer the control itself. Those who administer import controls are usually the most sceptical of their value; the monetary authorities heartily dislike tight money and take the first opportunity of insisting that the right thing to do is to cut government expenditure; similarly, the controllers of public expenditure easily persuade themselves that there are few or no short-term advantages to be gained from attempts to reduce it in a crisis.

What is more debatable is whether public expenditure can be satisfactorily controlled in the absence of a long-term plan. It is one thing to examine each project thoroughly and make sure that it is well conceived and calculated to do what it purports to do; this, after all is not usually the job of a central co-ordinating department or Planning Commission (although, I need hardly add, they often make it their job). It is a quite different thing to examine projects and programmes in relation to one another in order to make sure that they are manageable in total and so composed as to reflect the priorities decided upon by the government and yield the right balance between one kind of expenditure and another; this is a budgetary operation that is, or might be, carried on in a Ministry of Finance or Bureau of the Budget in much the same way as in a Planning Commission. Whether it is or is not depends mainly on the level of economic sophistication in the Ministry of Finance and on the extent to which the totality of public expenditure is planned on the basis of a view of the probable future development of the economy as a whole.
But there is a further consideration. If public expenditure decisions are taken, or even reviewed, by a Planning Commission, this is likely to engage the Planning Commission in their defence against attempts to revise them on short-term grounds; and this in turn will force the Ministry of Finance (or whatever department is concerned with short-term co-ordination) to rely more exclusively on other instruments of economic stabilisation. The Planning Commission, in other words, is more likely to act as a pressure group in favour of fixed (and perhaps also high) expenditure programmes than a department more closely involved in day-to-day decisions and policy adjustments.

Expenditure is, of course, only one side of the balance sheet. Annual revenue is far easier to change—at least from the technical point of view. Decisions to alter the level of taxation, social insurance contributions and so on not only take effect more quickly: they are also more straightforward since individual decisions may involve very large absolute amounts of revenue. But this very adaptability (which does not extend, of course, to the system of taxation) makes it unnecessary to plan revenue far ahead, except in a rather tentative way; and it also makes changes in the level of taxation, social insurance contributions, and the price of public services a useful if not indispensable instrument in the short-term regulation of the economy. Whatever department has responsibility for such regulation is unlikely, therefore, to be willing to forego control over taxation; or if it does, the effects are not likely to be very happy.

Let me turn next to the private sector. It has always struck me as odd that most long-term plans should lay so much emphasis on the private sector (which, by definition, is not directly under government control) and so little on the public sector (which they and they alone can control). It is hard to look on public expenditure as something engaged in solely or mainly because of its impact on the private sector or to imagine that the
plans that are published for the development of the private sector are intended merely to help in settling public expenditure programmes. Development plans, except in so far as they are statistical dreams or political fanfares, are guides to action by government departments and, in intention at least, private industry. But the action taken within the private sector is inherently unco-ordinated, although there is plenty of scope for co-operation, i.e., voluntary co-ordination, if the government encourages it.

Just as it is practically impossible to segregate short-term and long-term considerations in the control of public expenditure, so it seems to me impracticable to divide the work of departments in contact with the private sector so that it falls into two separate sections, one of a long-term and the other of a short-term character. Every decision has short-term and long-term consequences and every decision is subject to revision in the light of changes from day to day. Hence no such clear-cut division of function is possible. If the work is to be co-ordinated by a single department rather than by ministerial committees, then the department cannot escape interesting itself in current problems as well as those of longer range. It would be possible, for example, to have a Minister for the Private Sector working alongside a Minister for the Public Sector who might simultaneously be Minister of Finance. The work of the two ministers might be co-ordinated with the help of a relatively small planning staff attached either to the Prime Minister or to some senior minister who acted as Chairman of the Cabinet Committee on economic policy and worked in close association with the Prime Minister. In countries with a Planning Commission the two might act as Chairman and Vice Chairman respectively, the latter taking charge of the detailed working out of the Plan.

A S YOU CAN SEE, my bias is in favour of strengthening the hand of the Minister of Finance and equipping him to look further ahead and take more account of
producer relationships. But you may reasonably ask whether it is realistic to regard him as a kind of Chief Planner and whether this would put him in too powerful a position in relation to his colleagues. The President or Prime Minister, particularly in a less developed country, is bound to attach great importance to economic policy and is unlikely to entrust any other minister with full responsibility for it. He will not be content to limit his interest to those issues of policy that become so much the subject of ministerial disagreement that they cannot be settled without his personal intervention. Yet he cannot himself assume responsibility for the whole of economic policy. He may act as Chairman of the Planning Commission, or at least occupy the chair occasionally without presiding over the detailed work of the Commission. But it is practically unknown for him to act as his own Finance Minister. The nearest a President is likely to get to personal control over economic coordination is when he appoints technicians to head the Ministry of Finance and the Planning Commission. But this does not seem a very satisfactory solution. The more able the technicians are, the more inclined they will be to settle things between themselves without calling in the President at all: this may mean that compromises are struck that reflect, not political will and popular support, but personality and departmental convenience. On the other hand, the less capable the President's nominees the more they may shirk taking decisions or warning him of the dangers ahead so that by the time the issues are brought into the open they have already been decided by events. Not that this need prevent lengthy and earnest debate on what is to be done or solemn amendments to the plan in order to make it seem that the course of events is conforming to government decree rather than the other way round. Whatever the calibre of the heads of the two departments, there is bound to be a tendency for the two to drift apart in mutual distrust, one department limiting its field of view to the immediate future while the other occupies itself with
plans for the spending of public money, with only an imperfect grasp of its powers to implement them.

The case for having two central departments, one directed towards the short run and one towards the long does not seem to me to rest on the reluctance of the head of the government to entrust any member of his Cabinet with responsibility for both aspects of economic policy. If he can find somebody capable of doing such a difficult job well he is unlikely to improve matters by cutting it in half; and he need lose little sleep over the danger that he may build up a rival and successor.

What seems to me unhealthy, and this is the essence of what I have to say, is to think of economic co-ordination exclusively in long-run terms, and still more to think of it as satisfactorily discharged through the periodic preparation of a document called a Plan. Co-ordination means trying continuously to get consistency and this is impossible if there is no consciousness of the need for consistency: if the Central Bank, the Import Licensing Board, the Tariff Control Board, the nationalised industries, and all the departments of government go their several ways without regular consultation and exchange of information. Of course, long-run development is highly important. Economists to whom the long run is meat and drink (even if it is the death of them) are only too well aware of its importance. But to get to the long run you have to survive the short.