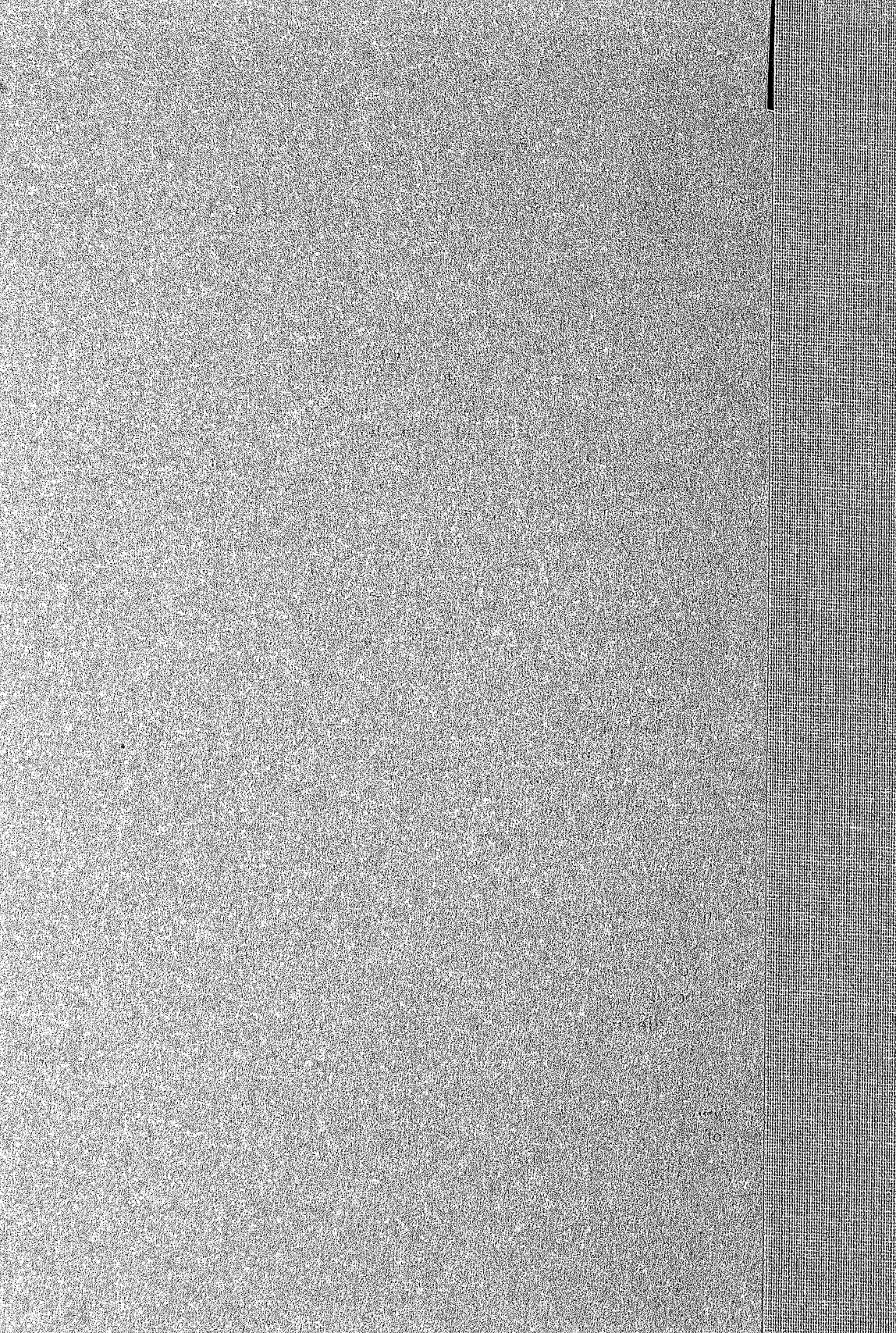


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Two Types of Planning*

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At the time when the book, the outcome of a conference in 1967, was drafted and published, the Fourth Indian Plan had not yet been adopted. The delay when it was finally adopted in 1969 was to a large extent due to a series of disastrous monsoons and to the fighting with Pakistan. The combination of misfortunes and delays, the death of Nehru who had put his personal prestige and energy behind past planning, and internal political changes seem to have left planning in a certain disarray. In any case, there has been soul searching and critical analysis, and this critical analysis of what has been and is going on in economic decision making is what this book is about. Since India is the biggest non-communist country, and since its planning effort, whether admired or detested, has exerted a considerable influence also elsewhere in the underdeveloped world, this critical analysis is important beyond the confines of India or of South Asia experts.

The book is valuable because it analyses planning rather than the Plan. The internal consistency of the Plan – a most usual way of approaching a critical task – is of limited interest. Inconsistencies may suggest that the Planners have not given enough thought to the implications of their suggestions, but consistency means little since it is too easily achieved in large aggregative models by the juggling of figures. Instead, the twelve authors of the book judge the Indian planners not by some ideal standard which is of interest only in heaven (where, since nothing is scarce, planning presumably becomes a game like a crossword puzzle) but against the possibilities in and realities of India. This leaves enough to criticize, but makes the Indian planners look better than when judged against some irrelevant ideal standard. It also makes even severe criticism friendly and constructive.

The point of the criticism is put by the editors concisely: the troubles of India in the middle sixties have deeper causes than bad monsoons and wars. The basic trouble is

* Review article of Paul Streeten and Michael Lipton, editors, *The Crisis of Indian Planning. Economic Policy in the 1960s*. Issued under the auspices of the Royal Institute of International Affairs. Oxford University Press, London, New York, Toronto, Bombay, 1968, pp. 416 + VII; 75/-.

“that Indian planners rely too much on bad data; that consequently they overemphasize the big aggregates of heterogeneous items, and neglect detailed and concrete analysis of social and economic microcosms; that such deficiencies have probably meant too much outlay on the more easily measurable sectors, and too little (and too wasteful) outlay in education and agriculture ... and that (...) planners know too little about the rates of return on many of their most important proposed schemes” (p. 7).

The individual contributions to the book give detailed substantiation to the editors' summary.

The editors are sceptical about the discussion about the size of the plan, and implicitly about proposed growth rates. This strikes a most sympathetic chord in the reviewer. It is perhaps a little ambiguous to say that “the size of the Plan [is] a meaningless concept» (p. 15) though I agree with what I believe the authors have in mind: that it makes little sense to propose a growth rate of $7\frac{1}{2}\%$, then to decide that such a rate is really unrealistic, then to settle at $5\frac{1}{2}\%$ p. a. and fill in the various macro-magnitudes to be consistent with the target. Rather the size of the Plan should depend on the micro-magnitudes, i. e. the individual projects and projections, which must be justified on a micro-basis.

It would have been interesting to know how the $7\frac{1}{2}\%$ p. a. growth rate came to be proposed in the face of the fact that India had never even approximated such a rate. A hint is implied in the title of Lipton's contribution on “Agriculture: Urban Bias and Rural Planning”. The choice of so large a growth rate reflects basically an intellectual exercise in setting a desirable rather than a feasible target. *If* per capita income is to grow in a socially desirable manner, and *if* income distribution cannot be made substantially more even, and *if* the income of the lowest groups is to rise to a humanly tolerable level within a reasonable time span, the economy just *must* grow at the suggested rate of $7\frac{1}{2}\%$. (This at least was the gist of the explanation given me several years ago by a highly placed planner.)

Such an argument is, of course, neither stupid nor useless. But it amounts to a planning from the future to the present instead of the other way round. It does start with perspectives which, because they are very far in the future must be not only vague but highly aggregated, and it then tries to derive what must be done now to get there. When put this way, the limitations of such an approach become obvious: the future is unknowable and the present largely unknown – see the editors' summary quoted before. This does impose a different and more relevant approach to planning which I have tried elsewhere to analyze from the view point of the decision maker¹.

Thus the alternative approach which comes out most clearly in Lipton's contribution implies, not that perspective planning and aggregative planning

¹ See my *Planning without Facts*, Harvard University Press, 1966.

models are useless, but that their usefulness is severely limited, and that, moreover, meaningful economic planning in the sense of economic policy-making as well as of the development of investment and other public sector plans, can and does proceed without the knowledge no man can have, and without more or less elegant models of interest basically only to other planners.

It is perhaps the (mistaken) belief that planning involves by definition the assumption that one can know and control the future which accounts for the idolatry (in Hanson's words) of believing that

"Once a target, however, unrealistic, has been selected, it is regarded as at least half-way towards realization... Optimism is the occupational disease of planners, and one is never surprised when some little back-room planning bureau in a Ruritanian-style country comes up with a comically inflated projection of growth. But one is surprised when planners as knowledgeable, experienced, sophisticated and prestigious as the Indians do the same - particularly when the failures of their past exercises in this genre are available for contemplation. Yet the practice of setting 'minimum' objectives, realizable - if at all - only on the supposition that the most favourable possible combination of circumstances actually materializes is as evident in the Draft Outline of the Fourth Plan as it was in previous planning documents" (p. 40, in A.H. Hanson's Chapter on "Power Shifts and Regional Balances").

Perhaps *hybris* is a better word than idolatry for what explains the slow shift, which Hanson also notes, to a more realistic - and I would say therefore more valid - method of planning. It is a *hybris* for which one can perhaps develop a certain amount of compassion, for it was borne in a situation of extreme poverty and desire to help. But *hybris* it remains. We have become aware how often "rapid economic development ... is politically destabilizing" (p. 54). Perhaps planners always felt this underneath their optimism; and felt that, under the political leadership of Nehru, they could control the future. But Nehru is dead, the re-organization of the Planning Commission and with it the approach to planning has become inescapable. I have always felt that in severely plural societies it is politically dangerous as well as economically unnecessary and infeasible to spell out the future in the manner which appears to be a "disease unto death" of the past planning methods². The Indian planning commission "will cease to be a second cabinet, and become purely technical and advisory," (p. 55), broad planning decisions will be the result of bargaining between the Center and the States (p. 56). The loss of power of the Planning Commission will undoubtedly be regretted by many. But if the

² See my, "Planungsprobleme unterentwickelter Länder", *Kyklos*, where some of the ideas first discussed in *Planning without Facts* are further developed. See also my paper on "Administrative Contribution to Economic Performance in Underdeveloped Countries", mimeo, paper presented at the Annual Meeting of the American Political Science Association, Chicago, September 1967.

Commission does its homework, its influence is likely to grow as its power wanes. I suspect that in the process of reorganization planning may well become more effective as it becomes less elegant and more relevant. Hence one feels convinced by Hanson's conclusion that

"the political outlook for planning is not entirely black... If disintegration does not set in ... we can expect a period of concentration on a series of one-year emergency plans... If these ... restore some stability to the economic situation, interest in long-term planning, which at present strikes most people as an exercise in unbridled imagination" (including this reviewer, who would add that the exercise has little power to do good and an enormous capacity to do harm) "will revive. But planning, whether long-term or short-term, can never be quite the same again" (p.60).

This, of course, may be all to the good, as the discussions of the individual economic sectors may clear, for it may mean that planners start with the imperfect present instead of letting themselves be enchanted by a rosy future³, and that they rely more on indirect means than direct allocations. Many planning decisions may nevertheless come out more or less the same. Thus, in the debate of how much heavy industry should be developed, the emphasis on heavy industry may on the whole be right, as James Mirrlees in his Chapter on "Targets and Investments in Industry" presumes (p.75). It remains nevertheless true that a decision, say, to produce steel could have been arrived at by economic profitability calculations⁴, which would have given a much sounder base for the decision than any programming model can, but which would by its very nature have forced the attention of the planners to price and foreign exchange policies. Hence the importance of Mirrlees' suggestions that

³ I may be forgiven if I speak *pro domo*. As a planner I have never suffered from the occupational disease of optimism. If anything, I have tended to assume that if something can go awry, it probably will, for which I have been accused either of "selling Nigeria down the river", "costing Nigeria's future too much by planning too cautiously", or, more politely as well as more reasonably, of being a "risk averter". Yet it seems to me obvious beyond possible dispute, that the future will depend not on what one plans, but on what one does; that one cannot do now what can only be done next year; that one must concentrate on what to do next, without, of course, losing sight of the fact that tomorrow always comes; and that the next decision must be based on as much present-day information as possible; that the assumption that everything will go right is not merely optimistic but irresponsible since it is comparatively easy to correct for error arising from undue pessimism while the penalties of having been too optimistic are very drastic; and that if even engineers with their better data and methods find it necessary to use safety factors of 7, economists might allow at least some leeway for error and ignorance.

⁴ See the study by Carl E. Liedholm on the Indian steel industry, Michigan State University Press, forthcoming, which makes such calculations and shows that the Indian steel industry is profitable even if corrected accounting prices are used.

"foreign exchange earnings from India's exports scarcely cover the current demand for raw materials and capital replacements dictated by the existing industrial structure" (which has already been planned with import substitution in mind!) ... "that Indian industry could be even more provident in its use of foreign exchange. Prices in the Indian economy are a long way from accurately reflecting relative marginal cost ... (and) prices of the large public-sector intermediaries are too low ... (hence...) the use of steel, electricity and transport is being encouraged... Would so much steel be used in construction if building contractors were made to pay a price that correctly represented the costs of inputs used in the production of steel... We cannot answer such detailed questions; we can only wonder what guarantee there is that the question has been posed" (p.75).

The book implicitly answers this question in the negative. Mirrlees is undoubtedly right in suggesting that "too little attention has been paid to the small, marginal decisions which in the aggregate may have a very considerable effect on the demand for, and allocation of, foreign exchange" (p.75). There can also be no question that many competent Indian planners ask precisely these questions and try to do something about it. But there can also be little doubt that calculating shadow prices by means of linear programming models is no substitute for the use of price policy and the manner of asking the question suggested by Mirrlees, and I have little doubt that it is extremely difficult to integrate the necessary policies into the planning methods of the past.

Mirrlees suggests that agriculture provides more jobs, but "the great advantage of investment in industry ... is that a large part of the profits it generates ... is available for further reinvestments" (p.79). But since profits have been much lower than is economically desirable and there was therefore necessarily a substantial waste of resources as a result of the price policy followed, he is certainly right that "it cannot be too strongly emphasized that the role of the industrial sector as a producer of profits needs constant deliberate encouragement" (p.76).

The troubles with the pro-industry argument are, of course, many. If industry is made to yield higher profits, more resources should have gone into agriculture as Lipton argues convincingly; and the real point is that the *profitability* of industry (or anything else) and *not* the fact that it is "industry" is the important point; that agricultural growth also yields resources available for future investments as Lipton points out (p.93); and that the centrally important micro-considerations stressed by all authors of the book are quite independent of the macro-methods of planning and extraneous to the past Indian planning methods.

Lipton conveniently summarizes the point of his detailed investigation. Agriculture is to have high priority; yet it gets fewer resources than in the past. The allocated resources will not achieve the targets set. Additional resources moved into agriculture would have high returns. The structure of in-

centives for agricultural production is wrong and "has led to an uneconomic diversion of scarce manpower from villages to cities, to underutilization of farm resources, and to a composition of agricultural efforts unduly concentrated on big farmers and cash crops" (p. 83).

Why? Lipton suggests "that the planners are somewhat remote from the nature and needs of village India, and rely on big aggregates rather than local studies". Since they are intelligent and honest, "The suggested explanation is *urban bias* in the Indian system of economic rewards, political power, education and intellectual preference" (p. 84). Lipton makes a very good case for his accusation which is a rather serious one. "Intellectual preference" includes perhaps also the choice of planning methods. Lipton himself spends some time to dispose of the argument already hinted at, that even if the capital-output ratio – a concept, in my opinion, of substantially less usefulness in planning practice than would be required to make macro models reasonable guides for action – in agriculture is less than in industry, additional investments should nevertheless not be directed towards agriculture, because less of the resulting increase in income would be saved than from the same increase originating in industry.

But this is really quite an *a priori* argument. In the first place, the profits and savings of industry were not all that wonderful, as Mirrlees has already shown. Secondly, Lipton correctly argues that taxable capacity would rise, and the increased savings from increased agricultural output would come not only from the private savings of the farmers (which may or may not be relatively small), but also from the budgetary effects (p. 91). Thirdly, total savings are, of course, the product of the increase in income and the savings rates of the individual income receivers. If the capital-output ratio for agriculture is 2 and for industry is 5, a million rupees investment would yield 500,000 income if invested in agriculture, but only 200,000 in industry. Even the marginal propensity to save in agriculture were only a fifth and in industry one half, total savings would be the same.

But the point here is – and it illustrates Lipton's assertion – that no planning model has an adequate budget equation. Lipton's point about who does the saving can be put differently: a wrong policy of resource allocation *must* show in budget. The low profitability of industry because of the wrong price policy must have the budgetary effect of lowering Government savings (other things being equal). The budget is, I believe, a very good indicator of the efficiency of *all* investments, not only of Government investments. And increased agricultural production would, of course, reduce budgetary subsidies, raise Government savings, and ease the balance of payments position. The aggregated model does not show this. And, incidentally, if there is one major omission from this fine study, it is that no concentrated attention is paid to the budget.

What really happens in an economy – even when planners have considerable executive powers as they had in the India of Nehru – depends very much more on the rate of exchange and price policies than on targets and allocations derived at from overall models with constant coefficients. Thus Lipton points out that

“The pattern of planned growth by crops bears little relation to past experience; the intention to hold back sugar production, thus freeing water and fertilizer for food grains, echoes a similar hope in the Third Plan, which did not materialize owing to lack of a suitable price policy...” (p. 100/101); that incentives have not been allowed to work so as to stimulate farm production, but have favored the cities and big farmers, although “More and more studies are revealing far higher output per acre on small operational holdings. This suggests that small farmers also work *new* inputs more labor, intensively and productively, though suggestion is no proof. The allocation of resources to big farms may accelerate the growth of marketable surplus only at the cost of the growth of total food output” (p. 106).

Lipton might have italicized “*may*” in the last sentence, because this sentence also reveals the “urban” bias which somehow assumes that small farmers have no connection with any market; which is delighted to assume rural underemployment even, occasionally with zero marginal product, in the face of the results of the studies just alluded to by Lipton, studies which indeed suggest that output per man and per acre and employment would rise in the village with proper price policies; a rise, which incidentally might allow the transfer of yet additional labor to village projects so dear to the heart of urban economists.

It is difficult to disagree with Lipton’s conclusion “that neglect of agriculture is a recipe for slow industrialization not for rapid growth” (p. 147). That the obvious has to be stated and proved at length is yet another question mark against past planning methods.

The allocation of overhead capital also reveals the “urban bias” as well as the effect of macro-economic planning inadequately based on micro-decisions and investigations. Some railway problems are organizational. (J.M. Healy, *Economic Overheads: Co-ordination and Pricing*, p. 155.) But there appears to be less coordination of transport policy than is desirable and possible (p. 157) and too little has been allocated to rural roads. The statement that “only 11 percent of the 646,000 villages are connected with the rest of the country by all weather roads. One out of three villages is more than five miles from a dependable road connection” (p. 164) is not only a startling confirmation, but suggests also something of the very limited accuracy of the aggregative statistics on which planning is based.

To judge the seriousness of the situation fairly one would have to know how it has improved over the past 15 years or so. But no such knowledge is

necessary to judge the price policies inadequate, and it is startling to read, that in the Draft Fourth Plan

“Cost benefit studies are recommended before choosing between new roads and rail in a particular area. There is no reference to such an approach to irrigation projects, ports, broadcasting, or telecommunications. Yet there is a strong case for assessing the marginal social productivity of investment more carefully, especially in irrigation where past project reports have been inadequately prepared, and where financial criteria have been adopted for deciding irrigation priorities” (p. 171).

The reference to financial criteria is especially ironic, because it is one of the virtues claimed – erroneously in my opinion – for some macro-models that they help supplant purely financial criteria by more relevant economic ones!

Nor can it be claimed that micro considerations are not relevant because of the lumpiness of investments, and the need for general “structural” change. For, as Austin Robinson points out specifically with respect to electricity, even though there may be less choice of techniques than occasionally assumed (p. 178),

“excessive infrastructure investment, based on guesses of future demand that will never be realized, can force a nation in India’s position into policies of import restriction, penal interest rates, and other deflationary measures, which will equally reduce the industrial output” (p. 181).

David Ovens’ Chapter on “Investment in Human Capital” is with Lipton’s discussion of agriculture the longest in the book, and properly so. It also discusses the toughest problem, for no matter how far the economics of education or of health or of manpower planning have progressed, they still remain in an unsatisfactory state, which is all the more serious as the social sectors represent both means and the ends of development, and require huge amounts of resources. It is not quite easy to decide just how much the Plan spends on education because so much represents recurrent cost rather than investment and may therefore appear in ordinary rather than development budgets. Ovens points out that the Plan provides for the establishment of new and extension of old institutions. “But it excludes the much larger sums required to maintain and operate all the institutions which had already been established by the end of the Third Plan” (p. 194). But this may reflect more than a difficulty in measuring just what priority the Government gives to education. It may suggest a neglect of the effect which education expenditures have on future savings (budgetary surpluses) and hence represent a neglect in estimating the true cost. Ovens also points out that investments other than on health and education are made to look better than they are by the unrealistic exchange and interest rates charged, and that “with costs adjusted to reflect the true scarcity of the resources used, the return on investment in education

and health would be seen to be much higher in relation to the return on investments in other sectors" (p.193). This is likely to be true. Yet to plan for investments in the social sector without working out the budgetary effects quite far in the future and with it the effects on savings (and hence interest rates) seems to me extremely dangerous, and to lead to similar overall effects as building up too much overhead capacity. Austin Robinson's warning is *mutatis mutandis* applicable also to investment in social capital.

The Plan aims to meet future manpower requirements, which are estimated by establishing "detailed manning patterns for the various development programmes" (p.202) as far as possible, and for the rest to "forecast requirements for engineers" by assuming "that requirements for educated people will rise in direct proportion to net output in each of the sectors where they are employed" (*ibid.*). The first method is logically desirable, but evidently impossible. Ovens points out that programmes are not "as yet defined in sufficient detail, over a sufficiently long period ... and with sufficient certainty that they will not be drastically modified in response to major changes in Government policy during the period of forecast". (p.203). He might have added: that it is inherent in the future that it cannot be known with sufficient detail. He does indeed say so later to point to the necessity of educating people to be adaptable since "in a rapidly changing industrial environment ... manpower requirements cannot possibly be predicted far ahead with any precision..." (p.220). Since one must nevertheless make decisions about matters lying far in the future – and few "investments" are as time-intensive as research and education – it seems preferable to combine an analysis of budgetary effects with a detailed attempt to train very specific people (as suggested by Ovens in his discussion of the training of manpower in agriculture) and the use of wage policies to attract people into the right positions.

As for the second method, its weaknesses are all too obvious, and are pointed out by Ovens in his discussion of manpower requirements in industry (p.208 f.). It is obvious that output must rise faster, preferably much faster than manpower requirements. If it didn't there would be no growth in productivity, no development. With excess capacities in industries, output could increase sharply without corresponding increase of high or low level employment. "Forecasts based on existing labour/output ratios, and on the existing average relationship between occupation and education, will merely compound the extent of the imbalances which already exist" (p.211), and with technological change and improved capacity utilization, quite dramatic changes in coefficients (i.e. in average productivity and manpower requirements) may be expected (p.212).

This is, of course, precisely the general problem of planning methods that try to substitute overall estimates for detailed investigations. To estimate sec-

toral investment needs from sectoral output targets derived from input-output tables is misleading for these very reasons. The tables reflect inter-industry purchases which themselves are determined by inefficiencies, market imperfections, wrong prices and exchange rates, and only to a small extent by technical considerations. In fact, only with a perfect market will inter-industry purchases reflect technically optimal relations! Hence they are *not* a substitute for the market, they cannot be used to derive technical and economically optimal input requirements. They are in no sense a substitute for the detailed economic profitability studies except perhaps in developed countries with a well working market, a pricing system that reflects true scarcities and a competitive system that insures that the inter-industry purchases are indeed economically and technologically efficient!

It is therefore difficult to disagree with Ovens that manpower requirements are overstated; that therefore too much investment is proposed – this is consistent with his earlier statement about using correct prices in industrial investment – that the requirements are apparently estimated “without regard to the costs of education and training” (p.215), and that therefore there will be a surplus of educated people (*ibid.*). The educational and manpower planning “completely ignore the influence of the labour market on employers’ demands for people of various skills, and on the supply of skilled people willing to satisfy these demands. An ‘overall numerical balance’ between demand and supply becomes meaningless, if no account is taken of the economic mechanism by which vacant jobs are actually filled” (p.226, 227).

That the problem of making cost-benefit calculations in the education and health sectors is not easy goes without saying. Ovens points to their unsatisfactory nature. It remains true nevertheless that the type of non-economic, technological as it were, manpower planning is likely to lead to a substantial waste of resources. It is again the other kind of planning which looks at detailed programs, asks questions whether their individual aims make sense, whether the aims are achieved with minimal cost, which tries to use the (labor) market mechanism, and – not stressed by Ovens but in my opinion of crucial importance – which tries to work out the budgetary implications for the future, that is likely to make much fewer and much less costly mistakes.

In all plans, foreign trade and foreign aid play *nolens volens* a central role. In the kind of macro-planning practiced trade tends to be considered an imperfection of nature to be eliminated as far as possible by import substitution, and aid becomes a method of filling gaps planned to arise as the result of the overall plans. Only in the Fourth Plan period are exports seen to fulfill a vital role. (S. Wells, *Foreign Trade: A Commodity Study*, p.293.) There are two aspects to the matter that Wells considers: the increasing difficulties to be corrected by the devaluation of the rupee, and the essentially pessimistic view of

export possibilities which has led in the past to underinvestments in export industries as well as to an insufficient export effort. There are, of course, no simple solutions. Bilateralism is certainly not the answer:

"... there is considerable disquiet in India at the way in which trade with Communist (rupee account) countries operates. In return for much needed imports, India undertakes to supply exports to these countries in given quantities (which are alleged to be re-exported) to the West at lower prices in order to obtain convertible currencies. Often these goods undercut similar products exported to Western countries directly from India and sold in these countries at economic prices. The practice appears to be particularly widespread in engineering products" (p.297).

I am not quoting this practice, which has its implication in other countries (e.g. Ghanaian cocoa), to point an accusing finger. Rather, the communist practice proves that it is not as difficult to export to the West as usually alleged *provided* the price and the quality are right. The policy implications for underdeveloped countries clearly are to raise their productivity and lower cost, though admonitions to developed countries to raise their imports lose thereby none of their relevance.

Devaluation, though essential, cannot by itself solve the problem of productivity either. "It is arguable that the Indian devaluation is little more than an administrative device ... to get rid of import restrictions and other controls, rather than a means of directly improving the balance of payments" (p.307). This itself would be reason enough to devalue; but not only do controls remain. There are also important effects on the debt and the budget. But there will also be effects on exports *provided* other policies do not offset it (as when export subsidies are abolished which is good for the budget and Government savings) and *provided* other policies are followed, e.g. a shift of investments towards potential export industries.

Such a shift would be desirable even with traditional agricultural exports, such as tea. "Presumably the authorities believed that ... consumers' demand for tea is ... unresponsive to price ... Similarly ... physical restrictions on exports ... would help to maintain prices... But perhaps a more relevant criticism is that too little attention has been given to the modernization and the development of quality teas. The Plantation Enquiry of 1956 noted that in Darjeeling, for example, 79 per cent of the area was in need of replanting" (p.309). There is, of course, more to it than that. Just the same this would be the relevant datum for policy and not some presumed or real inelasticity of world demands which could in any case be affected by export campaigns (p.312).

Similar points could be made for other less important agricultural exports, for potential jute exports, and even for exports of cotton goods. Again it is useful to mention details to suggest that even if textile quotas were relaxed in

developed countries, Indian planners have not put the Indian industry into a position to take advantage of it: One third of the spindles are more than 50 years old, and only 9% of the mills are automatic compared to 70% in Hong Kong and 60% in Pakistan (p. 318). Though exports of engineering products have grown rapidly, much more emphasis on export promotion than on import replacements is indicated and likely to pay off. This is particularly true in view of the seriousness of India's foreign aid problem.

The aid problem is undoubtedly in part a problem of the donors, though the terms of the external debt have eased somewhat. (P. Streeten and Roger Hill, *Aid to India*, p. 327.) For example, aid is largely tied, yet has to be repaid in convertible currency, except aid from Russia and some communist countries, whose resale practices mentioned before make them look somewhat less generous, and for soft currency loans under PL 480 which raise other problems (p. 330). Moreover aid is slow to be disbursed, and as is by now well known, very small on a per capita basis.

Yet, the slowness of aid disbursement is at least in part connected with poor project preparation and related matters (p. 331); and the very need for further PL 480 aid has been the result of the inability to "hit upon a combination of policies which will ensure a high and sustained rate of growth in agriculture" (p. 342). There are limits to further import substitution which evidently has not achieved its goal. In fact, a strong case can be made that the policies which have been criticized in detail have added up to a serious balance of payments problem aggravated by the external debt problem which itself is also in part the result of faulty internal resource allocation.

What does all of this add up to? Obviously, Indian planning has a good many short comings. Intellectually, it can be criticized for reliance on aggregates and unnecessary disregard for detail. The approach which the authors of the book favor is most sympathetic to this reviewer who has tried to translate it in his own planning into action under at least as difficult circumstances. The suggestion is to reverse the whole process of planning, to pay more attention to micro-economic questions and the limitations under which all must labor than to indulge in the optimism and intellectual play chastised by Hanson.

Yet it is good to wonder what difference it would all make. There have been wars with China and Pakistan, though Subrahmanyam's discussion of Planning and Defence does not put major blame on them. Indian problems are enormous and real. They have certainly been made more difficult to solve by the actions of the past plans. There might be more agricultural production now, perhaps less of a balance of payments problem, perhaps even more steel production and more fertilizer and chemical production, less of other goods. But it is difficult to believe, that the standard of living of the ordinary Indian

would be *very* much higher; it is easy to believe that a considerable number of decisions would have been about the same though their intellectual foundation and perhaps their execution might have been considerably more satisfactory. There might have been more attention to the social realities where social anthropology can make its contribution in the formulation of adequate policies. (See D. Pocock's Chapter on that subject, pp. 271 ff.) And it is certain that at least some of the crises in planning would have been avoided. For, planning errors tend to generate others, and there is a danger that solutions that once were possible, cease to be practical alternatives after a while. It is on the whole much easier (though less spectacular) to avoid crises than to solve them.

But much as I believe in the superiority of the alternative approach, India would still be poor. One has to guard against dropping aid on the grounds that India hasn't used it too well, when in reality the reason for the despair is an impatience that four Plans have not yet changed the world. It is a puzzle how people who profess to think dynamically can be so impatient. Dynamics means after all a process in time. Instantaneous or quick changes reveal static as well as wishful thinking. Development is a long term problem, which can only be solved step by step. There is neither reason for despair nor excuse for inaction. It is therefore difficult to disagree with Streeten's and Hill's conclusion that India is grossly underaided by any standard (p. 349); and one's sympathy for India and its planners remains. At the same time, the need for a change in the approach to economic policy making remains overwhelming, and other countries may learn from India at least as much negatively as positively.

Summary

Two Types of Planning

This review article of P. Streeten and M. Lipton, eds., *The Crisis of Indian Planning*, uses the general agreement with the various authors' criticisms of past Indian planning to add a few points. Macro-economic planning and the use of sophisticated methods have limited usefulness. On the other hand, attention to micro-economic problems is likely to achieve much more both as to growth and welfare. The author believes that there is a gross underestimation and underutilization of the ordinary (as against development or capital) budget which gives information on the effectiveness of all investments, and becomes indispensable in making decisions on the amount of investments to be put in social sectors. He also feels that the emphasis on very rapid growth to be achieved very soon reveals an essentially static approach to planning. Indian planning can provide at least as many negative as positive lessons for other underdeveloped countries.

Résumé

Deux types de planification

Le présent compte rendu du livre de P. Streeten et M. Lipton (édit.) "*The Crisis of Indian Planning*" prend prétexte de la critique faite par les auteurs sur la planification indienne écoulée pour formuler quelques observations complémentaires. La planification macro-économique et l'application de méthodes subtiles sont d'une utilité limitée. D'autre part, on obtient probablement davantage grâce à la prise en considération de problèmes micro-économiques, cela tant en croissance qu'en bien-être. L'auteur croit que le budget de fonctionnement (par opposition au budget de développement et de capital) qui donne des renseignements sur l'efficacité de tous les investissements a été grossièrement sous-estimé et trop peu utilisé. Or, ce budget est indispensable lorsqu'il s'agit de décider de l'importance des investissements à opérer dans les secteurs sociaux de l'économie. L'auteur croit aussi que l'accent mis sur la réalisation très prochaine d'une croissance très rapide traduit une approche d'une planification essentiellement statique. La planification indienne peut fournir des enseignements aussi bien bons que mauvais pour d'autres pays sous-développés.

Zusammenfassung

Zwei Typen der Planung

Die hier vorliegende Rezension des Buches von P. Streeten und M. Lipton (Hrsg.) *The Crisis of Indian Planning* nimmt die Kritik der Autoren an der abgelaufenen indischen Planung zum Anlass, einige ergänzende Bemerkungen anzubringen. Die makroökonomische Planung und die Anwendung spitzfindiger Methoden sind von beschränkter Nützlichkeit. Andererseits erreicht man dank der Beachtung mikroökonomischer Probleme wahrscheinlich mehr, und zwar sowohl für das Wachstum wie für die Wohlfahrt. Der Autor glaubt, dass das gewöhnliche Budget (im Gegensatz zum Entwicklungs- und Kapitalbudget), bedeutende Aussagekraft über die Effizienz aller Investitionen hat und grob unterschätzt und zuwenig eingesetzt wurde. Dieses Budget ist unentbehrlich zum Entscheid über die Höhe der zu tätigen Investitionen in den sozialen Sektoren der Wirtschaft. Der Autor glaubt auch, dass die Betonung eines sehr raschen Wachstums in sehr kurzer Zeit kennzeichnend für eine im wesentlichen statische Planung ist. Die indische Planung kann für andere unterentwickelte Länder sowohl gute als auch schlechte Lehren vermitteln.



