

# CENTRAL PLANNING AND ECONOMIC DEVELOPMENT

Prof. P. T. BAUER



**FORUM OF FREE ENTERPRISE**

SOHRAB HOUSE, 235 DR. D. N. ROAD, BOMBAY-1

## INTRODUCTION

This is the text of a public lecture delivered under the auspices of The Murarji J. Vaidya Memorial Trust in Bombay on the second of February, 1970. The text is a transcript from a tape recording unedited by the author. Prof. Bauer is a well-known authority on the economies of underdeveloped countries. He is at present a Professor at the London School of Economics. An enlarged version of this theme will appear in Prof. Bauer's forthcoming book, "Dissent on Development".

The Murarji J. Vaidya Memorial Trust was set up to perpetuate the memory of the late Mr. Murarji J. Vaidya, well-known industrialist and economist, who was associated with the formation of the Forum of Free Enterprise in 1956 and who was its President from 1965 to 1968. Mr. Vaidya was associated with the late Sir M. Visvesvaraiya in setting up the All-India Manufacturers' Organisation and was its President for some time. Among the numerous public offices he held are Presidentship of the Indian Merchants' Chamber and the Indian Council of Foreign Trade. A selection of his writings has been published under the title "Objectives of Planning and Other Essays" by Popular Prakashan, (Bombay-34), and is priced at Rs. 15|-.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

**BOOKS RECOMMENDED**

**FOR  
FURTHER STUDY**

**P. T. Bauer: "INDIAN ECONOMIC POLICY &  
DEVELOPMENT"**

**Pub :  
GEORGE ALLEN & UNWIN LTD.,  
London.**

**Indian edition by :  
Popular Prakashan, Bombay - 34.**

**P. T. Bauer & ) THE ECONOMICS OF UNDER-  
B. S. Yamey ) DEVELOPED COUNTRIES**

**Pub :  
JAMES NISBET & CO. LTD.  
London.**

**CENTRAL PLANNING AND  
ECONOMIC DEVELOPMENT**

*By*

**Prof. P. T. BAUER**

I should like to begin by saying how very much I appreciate the honour to be invited to give the first of the Murarji Vaidya Memorial Lectures i.e. the first in a series, which, I have no doubt, will be an exceptionally distinguished series of Lectures. The fact that you chose to invite somebody who is not an Indian and whose views are known to be extremely unpopular, indicates an independence of mind, a freedom of thought, which I think is most impressive and which greatly adds to my pleasure of being here.

What I want to do on this occasion is to examine the idea that Comprehensive Central Planning, in the sense of State control of the composition of economic activity, outside small-scale agriculture, is indispensable for the economic development of poor countries. The thesis that Comprehensive Central Planning, in this sense, is imperative can be illustrated with passages from numerous writers. I shall confine myself to two of those.

First, Professor Gunnar Myrdal, perhaps the most influential and explicit exponent of the axiomatic necessity of this policy, says in a book entitled "Development and Underdevelopment" :

"It is now commonly agreed that an underdeveloped country should have a national economic development policy. Indeed, it should have an overall integrated national plan, as is also urged by everybody.

"..... the national government is expected to assume by means of the plan, and the co-ordinated system of state interference making up the operational part of the plan, responsibility for the direction of the entire economic development of the country.

"The emergence of this common urge to economic development as a major **political** issue in all underdeveloped countries and the definition of development as **a rise in the levels of living of the common people**, the uncontested understanding that economic development is a **task for the governments** and that the governments have to prepare and enforce a **general economic plan**, containing a system of intentionally applied controls and impulses to get development started and keep it going, is an entirely new thing in history .....

"Central economic planning is always a difficult thing and, when it has been tried, it has not been too much of a success in the advanced countries. Now, what amounts to a sort of superplanning **has** to be staged by underdeveloped countries with weak political and administrative apparatuses and a largely illiterate and apathetic citizenry.

"These are all reasons to expect numerous mistakes and in many cases total failure. But **the alternative to making the heroic attempt is continued acquiescence in economic and cultural stagnation or regression which is politically impossible in the world of today**; and this is, of course, the explanation why grand scale national planning is at present the goal in

underdeveloped countries all over the globe and why this policy line is unanimously endorsed by governments and experts in the advanced countries."

Prof. Myrdal's statement, that all experts are unanimous on this suggestion is simply untrue. There are a great many prominent economists—for example Prof. Milton Friedman, former President of the American Economic Association, and perhaps the foremost American economist today, who knows the underdeveloped world of today, and who radically disagrees with this idea.

A much more succinct formulation of the alleged axiomatic necessity of Comprehensive Planning is by a Professor of the Tokyo University. He says: "Only planned economic development can hope to achieve a rate of progress that is politically acceptable and capable of commanding popular enthusiasm and support." This opinion is ironical in the light of the phenomenal progress of Japan, which was achieved without the policies he specified as indispensable.

These, of course, are not the views of academic advocates only. Comprehensive Central Planning is of the essence of economic policy in many parts of the underdeveloped world, notably so in India. And because such a policy is widely regarded as a condition of economic advance, Governments pursuing or proposing to pursue it, are treated preferentially in the allocation of foreign aid.

Planning is one of those concepts like love, freedom, democracy, equality or civilisation, which can be given a number of widely different meanings. Planning can mean orderly preparation for the future conduct of persons, enterprises or Governments. The term can be used to prescribe the coordination of the

activities of different Government Departments to reduce competition among themselves for scant resources. It can denote plans to phase fiscal policies to off-set fluctuations in private expenditure. But in the contemporary development literature it refers to actual or attempted State control of the economy, outside subsistent agriculture, in particular, of the composition of economic activity.

Prof. Myrdal defines the tasks of planning as follows :

"The plan must determine this overall amount of investment and must, in addition, determine the proportions of the capital which should be allocated in different directions: to increase the overall facilities in transport and power production; to construct new plants and acquire the machinery for heavy industries and for light industries of various types; to raise the productivity level in agriculture by long-term investments in irrigation schemes and short-term investments in tools, machinery and fertilisers; to improve the levels of health, education and training of the working people, and so on. To be practical and effective, the plan must be worked out not only as a general frame, but must have this frame filled and concretised by careful segmental planning. And it must contain definite direction on all points, and in addition spell out instructions for the specific inducements and controls by which the realisation of those directives becomes effected."

In short, Comprehensive Central Planning means the state determination of the composition of most of the economic activity.

Although advocates of comprehensive planning regard it as axiomatically necessary, there is no ground

whatever for this notion. Such a policy played no part in the development of any one of the West European countries or of Great Britain or of North America or Australasia. Nor did it play a part in the substantial progress of many underdeveloped countries and areas which have advanced substantially since the end of the 19th century, such as Japan, Hong Kong, Malaysia, Thailand, West Africa and many others. This progress is often overlooked in the current discussions for two reasons :

1. People often treat the so-called underdeveloped world as a homogeneous, stagnant collectivity.
2. Much of the current discussion confuses a low level with a zero rate of change. In many underdeveloped countries the level of income is still low but nevertheless there has been rapid material advance, which has begun, comparatively, very recently and started from a very low level.

It is not at all surprising that comprehensive planning should have played no part in the development of either Western Europe or of North America or in the progress of many underdeveloped countries, which have advanced in the course of last century. Comprehensive planning does not augment resources. It only centralises power. In fact, it not only centralises power, but actually creates power. In a decentralised system of decision-making, there does not exist such power as is created by comprehensive planning. Power here means in any meaningful sense the capacity to restrict the choices open to people. In a market system, there are large corporations and rich men who accumulate resources usually built up by meeting consumer needs. But their riches do not confer on these people or on the corporation power to restrict

alternatives and choices open to other people, such as civil servants and politicians have under the system of comprehensive planning.

This creation and centralisation of power is rarely discussed by the advocates of comprehensive planning. For instance, although its outcome is clear from the passages which I quoted from Prof. Myrdal, he does not mention it. On the other hand, the same advocates of comprehensive planning manage to imply somehow that the policy will create new and additional resources, without making it clear where the resources are to come from. The State cannot create new and additional productive resources. The politicians and civil servants who direct its policy only dispose of resources diverted from the rest of the economy. It is certainly not clear why the over-riding of the decisions of private persons should increase the flow of income, since the resources used by the planners can only be diverted from other productive public and private uses. It is even less obvious why the flow of goods and services, which are desired by consumers, and which make up the standard of living, should be given an increase by such a policy. For example, Prof. Myrdal insists that a rise in general living standards must be the aim of development policy. But he does not say how his policy of control would bring this about. And, indeed, later in the lecture, he writes that comprehensive planning implies utmost austerity!

Comprehensive planning, in my opinion, is much more likely to retard material progress, in the sense of a general rise in living standards than it is to promote it. But before I discuss this matter, I wish to digress on three points :

1. I want to note briefly a re-interpretation of the concept of planning which has made its appearance recently in literature. An example is provided by the central argument — again of Prof. Myrdal's monumental book, "Asian Drama". His reformulation of planning envisages enforced wholesale transformation in values, attitudes and institutions of people by coercion, if necessary. This type of interpretation of planning envisages the policy as an attempted compulsory transformation of man and society. It is no longer the state control of economic activity. It is the re-making of man and society. It is an attempt to remould people's beliefs, values, attitudes, institutions and even their faculties. I think, if such a policy was pursued and pressed, it would reduce the population to the status of malleable clay to be moulded at the will of the rulers. A population so treated is more likely to become an inert mass, rather than a vigorous society capable of material progress. It is very doubtful how far the indigenous governments of most underdeveloped countries, i.e., governments drawn from the local population with basic faculties and values they share, at least in part, would attempt such coercive, wholesale transformation. They are more likely to content themselves with close control over economic life.
2. I should like to note, briefly, a crazy technical argument, often introduced in the discussion on the merits of comprehensive planning. Most of the contemporary discussions take the case of contemporary planning for granted. Sometimes specific arguments are put forward in support of this policy. The most widely

canvassed of these is that comprehensive planning is required to increase investment expenditure to levels necessary for an acceptable rate of development. This argument is irrelevant. To begin with, much of planning is not even designed ostensibly to increase the rates of saving and investment. This applies, for instance, to commercial and industrial licensing. Indeed, major constituent elements of comprehensive planning restrict saving and investment. Examples include the restrictions on the operation or on the expansion of industrial enterprises or the restrictions on the inflow and deployment of foreign capital. These policies are widespread in countries where comprehensive planning is the official policy. Again, saving and investment can be encouraged by various fiscal, financial policies and also by measures designed to promote institutional change without recourse to comprehensive planning. Therefore, the suggestion that comprehensive planning is necessary for raising investment expenditure is irrelevant. And this consideration is quite apart from the question of the relation between investment expenditure and material progress or apart from the merits of compulsory savings for development. These are matters that are prejudged in the advocacy of comprehensive planning as a policy for promotion of material progress.

3. The third preliminary point is that people's faculties and attitudes are ignored by proponents of centralised planning. It should be clearly understood that these references are solely to those attitudes, motivations and beliefs which promote material success, which

are not necessarily or even usually those that confer happiness, dignity, sensitivity, sense of harmony, capacity to love or reflective turn of mind. This point is important and is widely overlooked.

I wish to reiterate that the axiomatic assumption that comprehensive planning, in the sense of state control of the composition of economic activity, is necessary for material progress, is groundless. Nor is there any general reason for the belief that such a policy normally promotes material advance. Why should it indeed? And there are many reasons why it should retard it, which is what the empirical evidence shows. An economy consists of people whose material needs the economy has to satisfy and whose performance largely determines the material achievement and the rate of advance of the economy. This is a platitude. The implications and corollaries of this platitude are much neglected in discussions on economic development. The prime corollary of this platitude is that economic achievement depends primarily on people's faculties, aptitudes and also on social and political institutions. It follows from this that differences in these determinants or factors largely explain differences in the levels of economic achievements and in the rates of material progress. People's economic faculties — I use "faculties" as synonymous with capacities, qualities, aptitudes, motivations, values and beliefs — and the social and political institutions which largely reflect these, are the mainsprings of material progress. Natural resources and external market opportunities also play a part. However, with the exception of climate, and its effect on performance, economic faculties are a significant natural resource rarely discussed as such. Natural resources have been only of secondary importance, both in the development of advanced countries and in the development

of many underdeveloped countries, since the 19th century. And the exploitation of both the natural resources and external opportunities must depend on the required human faculties and institutions.

Capital resources, which are often thought crucial, are usually less important. And, in any case, their availability and productivity reflect personal capacities and motivations and social and political institutions. These resources as a result are a dependent variable in the process of economic development rather than a cause or an independent variable. But even if the supply of investible funds were a key, independent variable in the development process, which it is not, the need to increase their volume is irrelevant to comprehensive planning, for reasons which I have already noted.

Intellectual, artistic and aesthetic activity, achievements and differences in achievements, depend clearly on personal faculties and motivations. This connection is always recognised and taken for granted. The corresponding connection in economic activity is much less readily recognised. There are various reasons why people recognise this relationship in many other activities but not in economic life. The most important reason is, perhaps, that this disregard in the differences in the economic aptitude and attitudes spuriously justifies far-reaching proposals for compulsory standardisation of material conditions. Such proposals of compulsory standardisation gain in plausibility if differences in economic achievement are treated as a result either of environment or of chance, since these proposals then appear to be just practicable and neutral in their effects on material progress.

Which are the factors which underly the determinants of development, or which account for geographical or ethnic differences in their operation? These are matters which are much disputed and about which, in fact, very little is known. Similarly, both the origin of these differences and the likelihood of their persistence are often conjectural. What is not in doubt is the presence or at least the comparative strength, in many underdeveloped countries, of long-standing attitudes, beliefs and cultural traditions uncongenial to material advance, and often also, a relative weakness of personal faculties favourable to it.

I could give a few examples of the factors favourable to material progress which are often encountered in underdeveloped countries. For example, they include a lack of interest in material advance combined with resignation in the face of poverty; a lack of initiative, self-reliance and a sense of personal responsibility for the economic provision of oneself and one's family, the presence and prevalence over long periods, in Asia specially, of an authoritarian tradition much stronger than in the west, which discourages self-reliance, experimentation, curiosity and a desire for change; a high leisure preference; a high preference for contemplative or passive life, compared to an active life; the acceptance of a pre-ordained, unchanging and unchangeable universe; an emphasis on the performance of duties and on the acceptance of obligations rather than on the achievement of results or the assertion of personal rights; belief in the efficacy of the supernatural and occult forces and of their influence over one's destiny; insistence on the unity of the organic universe and of the need to live with nature, rather than try to conquer it or harness it to man's end, an attitude which often leads to a reluctance to take animal life.



This list, of course, could be extended greatly. The presence and significance of these personal and cultural factors are ignored when the peoples from the underdeveloped society are regarded as being uniform and being very much like the population of the developed countries except for being poorer. If the only relevant difference between people were that in income, it would not prevail for long or probably would not have emerged at all. But there are pronounced differences in the determinants of material progress between persons, groups and societies throughout the world, both within the developed world and within the underdeveloped world. These diversities are ignored when the underdeveloped world is treated as a substantially uniform and largely stagnant collectivity, the conspicuous characteristics of which are regarded as being basically similar among themselves, and different from those of the developed countries, only in being poor.

I want to make it clear, that although I do emphasise the importance of these determinants in the development in different nations, I ought to say that we cannot say for how long these differences are likely to persist. That they are not fixed for all time is shown by the ever-changing relative position of different countries in the commercial and economic league, so to speak. The changes in economic and commercial leadership and the phenomenal progress of Japan in the last century is just an example.

Climate may have played a part in the emergence and in the persistence of some of the attitudes and modes of conduct adverse to material advance. **The** concentration of material backwardness in the tropics, and numerically in much lesser extent in other extreme climates, would suggest that prolonged residence

there, affects adversely, at least for a time, the determinants of material progress. The enervating effects of extreme climate on physical and mental activity have often been noted in the past, and in this regard it is evident that climate is almost certainly responsible and partly explains the lassitude of large sectors, almost all, of the population of East Asia. And these effects of a tropical climate have been reinforced by the loyal authoritarian tradition of South Asia.

As I have already said, reflections on the persistence of some of these adverse factors must be speculative, conjectural. But it can be said with some confidence that comprehensive planning reinforces the influences which inhibit material progress in these countries. Economic development requires a modernisation of the mind. It requires a revision of the attitudes, modes of conduct and institutions which retard material progress.

Comprehensive Planning reinforces the authoritarian tradition in the underdeveloped societies, a tradition which generally inhibits faculties behind material advance. In this context, I always have to say **generally**, because somebody can always think of the exceptions for continuing and extending State control over the lives of the population. Central planning reinforces the subjection of the individual to authority. It thereby goes counter to that liberation from authority which encourages the attitude which usually promotes material advance. In particular, it discourages or even suppresses personal self-reliance and personal provision for the future.

Comprehensive Planning means close economic controls. This is the essence of the policy. And these controls in turn restrict occupational and geographical mobility, which inhibits the establishment of new

contacts, the spirit of experimentation and the opportunity to set up new enterprises. Mobility and experimentation promote material advance in familiar ways, including the erosion of the attitudes and customs adverse to material progress. These controls under comprehensive planning invariably, and indeed necessarily, extend the restrictions on external economic relations, including migration, trade and capital movements. These contacts normally serve as channels and vehicles, not only of human resources, physical commodity and financial transactions, but also of new ideas and attitudes, crafts, methods of production and, wants. These contacts have often served to engender altogether a new outlook towards material progress. A new outlook brought about by voluntary adjustment to new opportunities without the cost of coercion.

The strong general presumption that such policies hinder material progress is reinforced by the character and methods of operation of major controls under comprehensive planning. The principal controls include State monopolies in industry and trade, extensive licensing of industrial and commercial activities, including imports, exports and foreign exchange, and the establishment of many Government owned and operated enterprises including State supported and operated so-called Cooperatives. Some of these measures give Governments, particularly export monopolies, close, direct control over the livelihood of the people. They also serve as a powerful source of patronage and finance for the rulers. Such policies, therefore, greatly restrict the alternatives open to people in these societies, notably the opportunities to set up independent enterprises and choose between different employers. Eventually, these policies bring about tightly controlled economies in which people's

lives and activities, and the opportunities and choices open to them as producers, consumers, workers and traders depend largely on the Government.

Such measures have nothing to do with raising popular living standards. Indeed, they usually depress them. Lip service is paid to the improvement of living standards as a objective of comprehensive planning. But this objective is rarely used as a test of official policies. The extensive controls and the heavy taxation imposed under comprehensive central planning are not only unrelated to the raising of the general living standard, the ostensible aim of development planning, but are generally contrary to these aims.

Comprehensive Planning often promotes political tension, at least until such a point when all political opposition is suppressed. When State power is extensive, the achievement and exercise of political power becomes a matter of widespread anxiety and acute concern, particularly among the active elements of the population. The stakes in the fight for political power increase and the struggle becomes intensive when the State has all-important powers in social and economic life. Such powers enhance political tension, particularly in multi-racial societies. They also divert: the activities and energies of able and ambitious men from economic activity to the political sphere.

However it comes about, concentration of power and extension of State control over people's life necessarily follows comprehensive central planning. A prospective rise in income or in the standard of living, as a result of such policies, is improbable and rests on unsubstantiated assertions. Concentration of power is a necessary result of comprehensive planning. The

idea that it will somehow raise income and general living standards is simply unsubstantiated assertion for which there is no general basis in logic or indeed empirical evidence.

The adoption of comprehensive planning has nowhere served to raise general living standards. Indeed these are extremely meagre in countries where this policy has been pursued longest, and almost certainly much lower than they would have been under different economic systems. It is, of course, in the Soviet type of economy that Comprehensive Central Planning is, and has for decades been, central to economic policy. And after decades of operation it has not benefited general living standards. On the other hand, the nature and texture of these societies reflect the basic character of this policy. Moreover, these countries tend to have strict frontier control to prevent people from leaving, which suggests widespread dissatisfaction and disillusionment with the material and non-material conditions created by central direction.

Any Government which closely controls the economy can readily expand particular sectors and activities of the economy by extracting resources from the population or transferring these from other sectors. Such Governments can, therefore, enlarge particular industries and sectors of economy. They can erect impressive monuments and create substantial military machines. But such developments have nothing to do with a general rise in the living standards as the people of Eastern Europe know only too well. As a matter of fact, this is now implicitly recognised in the West by supporters of the Soviet system, because the Western economic systems are now frequently criticised by supporters of the comprehensive planning and the Soviet system, as being consumer societies, and this is regarded as a term of contempt.

Now these criticisms of comprehensive central planning, as allegedly indispensable for development, should not be regarded as a criticism of all governmental functions. In fact, preoccupation with central planning has paradoxically contributed to a serious neglect of essential governmental tasks in underdeveloped countries. Let me now consider briefly, what I think the essential Government tasks are. These would include the management of external affairs to the best interests of the society, the maintenance of law and order, effective management of the monetary and fiscal system, the promotion of suitable institutional framework for the activities of the individuals, the provision of basic health and educational services, and basic communications and also agricultural extension work. These functions are important or even essential and they cannot be performed by the private sector or individual companies partly because they refer to the institutional structure, within which the private sector functions, and this must be established by law. For example, the market system cannot create a law of limited liability. And second, some of these functions relate to activities for the output of which there may be a demand, but it cannot be bought and sold in the market, for instance, the provision of national defence.

It is by the discharge of these tasks that Governments can best develop the framework, within which the people can improve their living standards, if that is what they want and if they are prepared to develop the modes of conduct and attitude necessary for it. This list of tasks largely absorbs the potentialities of Government action in the promotion of living standards. Moreover, the adequate performance of these tasks would fully stretch, if not exceed, the resources of all Governments in poor countries. It would exceed the human, material and financial resources of all Governments of poor countries.

In fact, what we see throughout the underdeveloped world, sometimes in very extreme forms, as in Indonesia or Burma, is that the Governments which attempt closely to control the economies of their countries, quite generally neglect even the most elementary of these functions. The Governments seem anxious to plan and they are unable to govern. The adequate performance of these essential Governmental functions would exceed the resources of Governments of poor countries. But these functions do not normally imply close control over people's lives and activities. This is merely one reason why the advocates of comprehensive planning are often unperturbed when Governments engaged in Central planning neglect these elementary functions. The planners seem more interested in controlling people's lives than in augmenting their resources or liberating their minds.

*The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise*

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff  
(1899-1965)

Founder-President,  
Forum of Free Enterprise.

## Have you joined the Forum ?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). College students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road. Post Box No. 48-A, Bombay-1.

---

Published by M. R. PAI for the Forum of Free Enterprise,  
"Sohrab House", 235 Dr. Dadabhai Naoroji Road, Bombay-1.  
and printed by H. NARAYAN RAO at H. R. MOHAN & CO.  
(PRESS), 9-B, Cawasjee Patel Street, Bombay-1.