

Appendix II

On Planning in Backward Countries

PLANNING is at the same time much more necessary and much more difficult to execute in backward than in advanced countries.

In the first place, planning requires a strong, competent and incorrupt administration. It must be strong enough to be able to enforce its measures, such as to collect taxes from the peasantry, or to enforce a rationing system without black markets, measures which even so ancient a government as that of France has not found itself fully able to enforce. It must have a competent administrative service, with trained personnel, able to understand the large issues that are at stake, and to act reasonably and rapidly. And it must be free of all charge of corruption, since, whereas men will bear many restrictions from a government which they believe to be acting fairly and solely in the public interest (however mistakenly) without respect of persons, they will sooner or later resist violently measures which are corruptly administered, however acceptable the measures themselves may be.

Now a strong, competent and incorrupt administration is just what no backward country possesses, and in the absence of such an administration it is often much better that governments should be *laisser-faire* than that they should pretend to plan. This was indeed the essence of the case for *laisser-faire* made by eighteenth century writers, who saw the mess that was made by weak, incompetent and corrupt governments, and sought therefore to confine the activities of government within the narrowest practicable limits, so as to minimise the damage that they might do. The alternative approach was that of Lenin, who fully realised the impossibility of using a backward administrative service for planning, and who sought therefore to create, in his Communist Party, a highly trained and disciplined priestly order, on which he could rely to carry out his instructions.

At least we may say this: (the first objective of planners must be to create an administrative machine that can do the work of planning; to train young men academically and in the tasks of administration, and to weed out mercilessly the incompetent and the corrupt. And, secondly, in the meantime no administration should be loaded with tasks more numerous or more delicate than it can handle; the quantity and forms of planning should be limited strictly within the capacity of the machine.)

In backward countries governments have usually much leeway to make up in fulfilling the normally accepted functions of governments long before they get on to more controversial matters. The usual public works are usually in a deplorable state. Roads and communications have to be planned; rivers to be brought under control, to put an end to flooding, and utilised for irrigation and electric power; water supplies must be conserved, and pipes laid to bring water to reasonably accessible places; elementary public health measures are wanting, the draining of swamps, the control of infectious disease, the regulation of sanitation, the establishment of a public health service. Forests, schools, geological research, hospitals, courts, police—one could continue this list at length. City dwellers in Western Europe or the U.S.A. take for granted a vast network of government services which are absent or grossly inadequate in backward countries, and which it is the recognised first duty of governments to provide.

(But the difficulty which faces these governments is that they cannot expand their own services unless they can raise money to pay for them, and they cannot raise all the money they need because their peoples are too poor. They are therefore driven to concern themselves with measures to increase the national income. This is the sense in which planning is more necessary in backward countries. In advanced countries the national income increases steadily from decade to decade even if the government does not 'interfere' in economic life. But in many backward countries there is either stagnation or retrogression, and a progressive government is naturally driven to enquire what plans it may make to bring about economic progress.)

The crux of the problem is usually a backward system of agriculture—lack of scientific knowledge, poor equipment, inefficient marketing, insecure tenure, an uneconomically small

scale of operation, and, frequently also, rural overpopulation. There are recognised remedies—an agricultural extension service, cooperative and other provision of credit, cooperative and other reorganisation of marketing, legislation to protect the security of tenants—but they make little headway unless the interest and enthusiasm of the farmers is awakened and held. Once the farmers begin to desire progress almost all difficulties can be overcome, but so long as they are apathetic and uninterested very little can be done.) The first task of progressive governments in the sphere of agriculture is to arouse the enthusiasm of their people for new knowledge and new ways of life. How to awaken and capture enthusiasm is the first problem in mass education. It is also politically the first task of new popular governments, and it is because only new popular governments can capture such enthusiasm that it is only in the countries which have had such governments that there has been substantial progress in agriculture among backward peoples in the last thirty years.

The most difficult of all the agricultural problems is the small size of holdings in peasant countries, frequently of five acres or less. All such countries have to go through an agrarian revolution at the end of which is some form of large scale agriculture, whether it be the capitalist farm, or the collective farm, or the state farm, or merely the family farm, working large areas with machinery but without hired labour. In the past an agrarian revolution has always been violent, even where, as in England, the violence may have been cloaked in Parliamentary forms. It remains to be seen whether popular governments can awaken sufficient enthusiasm for their mass education programmes to carry through such revolutions in future by consent. So far the omens are unfavourable. Popular revolutions have just the opposite result. Large estates are broken up into small uneconomic holdings sometimes not exceeding five acres, with disastrous effects on productivity. Techniques for combining democracy with large scale agriculture have still to be worked out.

[Large scale agriculture usually requires fewer people per acre than small holdings, and therefore where the countryside is overpopulated and there are not enough new lands reclaimable by drainage or irrigation, it is not desirable to make an

agrarian revolution without providing new employment opportunities outside agriculture. An agricultural and an industrial revolution always go together, the first releasing the labour which the second draws off the land. Governments of backward countries have therefore to put into their agricultural programmes projects for industrialisation.)

Since this problem is one of disguised unemployment it is sometimes suggested (for example by implication in the Bombay plan for India) that it can be solved, as is unemployment in industrial countries, simply by increasing the quantity of money. But this is not so. Suppose that the government starts to build roads, and creates the money to pay wages and salaries. In the first place, the propensity to import is very high; much of this money goes abroad to import food, clothes, bicycles and so on. There is then a strain on the balance of payments unless exports can be increased correspondingly, but this is not easy, and cannot be achieved even by devaluation. If it were achieved, the quantity of goods on the home market would be correspondingly reduced—the extra imports go to receivers of the new incomes, but receivers of old incomes have now to yield up part of the old produce to these same people and part for export, and so there is inflation created at home. The situation is then the same as if the government controlled imports and did not allow the new money to be spent abroad. This, in practice, is what it has to do; (control of the exchanges is one of the first things planners have to do in backward countries because they are not able to expand exports adequately in view of their high propensity to import.)

Control of the exchanges does not, however, solve the problem; the new money then circulates at home and forces prices up. In an industrial country this would cause entrepreneurs to take on labour, and output would expand rapidly. But in an agricultural country as likely as not when prices rise the farmers begin by consuming more of their own produce, thus reducing the amount available to the towns and raising prices still further. They next go to the towns with their extra money to buy imported goods, and on finding that these are now in short supply (because the circulation of new money has increased the demand but not the supply) they may return home and reduce their sowings. This, for example, is what

happened in Russia until agriculture was collectivised, and was one of the chief reasons why the Government was so anxious to bring the farms under its control. (In an industrial country an increase in the quantity of money increases employment and output, but in an agricultural country, even when there is unemployment, open or disguised, an increase in the quantity of money frequently reduces output.)

(It follows that if governments of backward countries try to finance their investments by creating money they will cause inflation. Investment must be financed either by taxation, or by borrowing.) In very backward countries the propensity to import is almost unity; that is, almost all extra income is spent on imports, and even local borrowing cannot finance investment unless the lenders either lend out of foreign reserves, or reduce their own demands on imports to the full extent of the propensity to import.

(It also follows that more positive steps are needed than the mere creation of money if the unemployed are to be absorbed in productive enterprise. In an industrial country there are entrepreneurs eager to respond to the prospects of increased profits by installing new industrial enterprises and engaging workers. But in an agricultural country the enterprise and experience are confined to agriculture and to commerce.) Moreover, because the 'external economies' are large in industrial production, small isolated factories seldom pay, and entrepreneurs will not easily establish in new areas when they have a choice of old areas already well supplied with cheap power laid on, with trained industrial labour, with information services, and with all the other accessories of a developed industrial centre. In these days if one wishes to develop secondary industries, one must do it on a large scale, and deliberately set out to create the facilities which factories use in common, and which cannot be provided cheaply on a small scale. That is why the trading estate, financed by government, is now the established technique for developing depressed areas. And it is also why, once an area has started to decline, it tends to decline cumulatively; and once it has started to expand, it tends also to expand cumulatively. Any backward country which wishes to encourage industrialisation—and they nearly all must if only as a part of their agricultural programme—must, as a minimum,

set about building a trading estate, and offering inducements to industrial entrepreneurs to set up in its territory.

(Foreign capital cannot be avoided, even if the government decides to build and operate all the plants itself. The machinery must come from abroad, and the workers who build the factories, the roads, the factory workers' houses and so on will want to spend a large part of their wages on imported goods. Some foreign exchange can be found by using a strict exchange control to cut out all luxury imports, and to pare down even necessities; and by using what is thus saved to buy machinery. (There must be corresponding taxation or borrowing to mop up the incomes thus diverted to the home market, in order to prevent inflation.) But backward countries are too poor to be able to provide much capital simply by cutting down luxuries. If they are to industrialise substantially they have either to cut severely into the consumption of necessities, or else to borrow abroad. A ruthless dictatorship can cut consumption to the desired extent, but a democracy will always have to rely largely on foreign capital in its early stages of development.)

(The quickest way to ease the strain on the foreign exchanges, and to reduce the dependence on foreign borrowing, is to plan the new investment in such a way that its produce becomes rapidly available, and adds to exports or can be substituted for imports. Export industries have first priority. Next comes food. In most backward countries output is low partly because people are undernourished or malnourished. Investments which increase the output of food, such as by irrigation, or reclaiming lands, or increasing manuring or livestock, are of the greatest urgency, especially if they are such as to yield their results rapidly. There is also a high propensity to import food, so such investments quickly reduce the strain on foreign reserves. Then there are the clothing industries and building materials, which also have a high import propensity. Weaving, knitting and the making of clothes and of boots and shoes are simple industrial processes, and are always among the first to be developed. Building materials depend on the existence of suitable local earths and forests; where these are available they should be rapidly exploited.

(Now industry cannot flourish if there are no industrial resources whatever in the territory—especially if there is no

source whatever of power—and however overcrowded an area may be, if it has no industrial resources it must seek other sources of employment—a tourist industry, a film industry, or failing all else employment in other lands that permit migration.) Industry depends also on a sizeable home market. There are many areas that are very overcrowded, but which nevertheless have too small a total population to be able to support industry. (The world will get into a mess if each small backward political unit embarks upon industrialisation.) The remedy for most of these units is political and economic federation, which, by widening the market, increases specialisation, and makes it possible to develop economically.

(There are also backward countries whose problem is not overpopulation but under-population,) perhaps the classical example being the colony of Northern Rhodesia whose population of one and a half million is dispersed over an area three times the size of Great Britain. In such countries the problem is rather that of husbanding one's resources. To build roads, schools, waterworks and other capital goods all over the country would be much too costly. One must start in small areas, encourage the population to concentrate there, and move outward only as numbers increase. How to plan new settlements systematically is a subject as old as Gibbon Wakefield, and one in which new techniques have been developed in recent years, especially by the Dutch in the out islands of the former Netherlands East Indies. (The problems here are quite different from those of the overpopulated backward areas.)

(It can thus be seen that planning in backward countries imposes much bigger tasks on governments than does planning in advanced countries. The government has to do many things which can in advanced countries be left to entrepreneurs. It has to create industrial centres, to put through an agricultural revolution, to control the foreign exchanges most strictly, and in addition to make up a great leeway of public services and of ordinary economic legislation. And all this has to be done through a civil service that is usually much inferior to that of an advanced country. Why then do backward countries take more readily to planning? Because their need is also so obviously much greater. And it is also this that enables them to carry it through in spite of error and incompetence. For, if the peopl

are on their side, nationalistic, conscious of their backwardness, and anxious to progress, they willingly bear great hardships and tolerate many mistakes, and they throw themselves with enthusiasm into the job of regenerating their country. Popular enthusiasm is both the lubricating oil of planning, and the petrol of economic development—a dynamic force that almost makes all things possible.) We in the United Kingdom felt this during the war, and can understand the claims of Russia in the 1930s or of Yugoslavia today to have awakened this dynamic enthusiasm and to be conquering all things with it. (Even the most backward country will progress rapidly if its government knows how to tap this dynamic force.)