In general, planning is of two types—substantive planning and fiscal planning. Substantive planning, which is also known as development planning, involves the planning of societal goals and objectives and the mobilization of natural, human, and financial resources needed for their achievement. Fiscal planning, which is narrower in scope and is one of the instruments of substantive planning, consists of planning future budgets—current and future budget decisions, the implications for financing, and the methods of obtaining the necessary resources and allocating them in accordance with overall national goals. This chapter considers the nature of development planning and its institutional, operational, and procedural relations with budgeting, as well as the role of budgeting in the broader framework of national planning. The discussion in this chapter deals largely with the experiences of developing countries, while the responses of industrial countries to planning are discussed in Chapter 7.

Development planning, which is now practised in one form or another in more than a hundred countries, has been viewed primarily as a feature of the developing countries. Planning in a general sense is, of course, common to all governments, although the specific emphasis and the techniques of planning depend on the prevalent political philosophy. In developing countries, planning is primarily concerned with the delineation of the role of the government sector in national economic development. In industrial countries, the govern-

1 For a complete listing of countries that have medium-term or annual development plans, see World Bank (1973).
Devel-

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tment's role as investor, regulator, and stabilizer has been a major influence on the planning of the private sector activities. In developing countries, the formulation of development plans and related strategies is a distinct activity, while in industrial countries, some of these functions have been allocated to budget agencies. In each case, problems have arisen in regard to the nature and form of government planning and budgeting. The persistence of such problems and the continuing search for new policy and institutional alternatives merit comprehensive consideration.

NATURE OF PLANNING

The issue that has not lost any vigor despite a long debate is, why plan at all? This issue has been revived so many times that one is reminded of Plato's anamnesis and the more graphic descriptions by George Santayana. The main reason for economic planning is the belief that the market has become anarchic, that it cannot provide stability or full employment, that scarcities would be fully exploited adversely affecting the common interests of the community, and that the goal of equity would not be reached. Associated with this is the recognition that the main objective of developing countries is to attain economic and social development, which in itself is a long-term task. If the achievement of this objective is to be undertaken and if development is to be orderly, it is necessary to establish priorities and set forth a plan of action consistent with the available resources; channeling resources to serve the broad goal of development or to improve the living standards requires deliberate planning efforts to ensure optimal results. In turn, these requirements contribute to the idea, as Myrdal noted, that "the state shall take an active, indeed, decisive role in the economy, by its own acts of investment and enterprise, and by its various controls—inducements and restrictions—over the private sector the state shall initiate, spur and steer

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2Santayana wrote in Tipperary "each generation breaks its eggshell with the same haste and assurance as the last, pecks at the same indigestible pebbles, dreams the same dreams, or others just as absurd, and if it hears anything of what former men have learned by experience, it corrects their maxims by its first impressions and rushes down any untrodden path which it finds alluring, to die in its own way, or to become wise too late and to no purpose."

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economic development” and that policies would be “rationally coordinated and the coordination [made] explicit in an overall plan for a number of years ahead.”

If the main consideration for economic planning in developing countries is the need for orderly development, the main consideration in industrial countries in recent years is the need to minimize the ad hoc and piecemeal approach to economic management. The spread of government agencies and their functions has been so extensive in these countries and so pervasive that lack of integration has not only been “wasteful in its efficiency but outright harmful in its short-sightedness.” As the lack of coherence in national objectives has proved to be a liability, economic planning is considered essential for providing guidance to the participants in the economy. Yet another factor that necessitates economic planning is the general uncertainty faced by the economy. The government has to reckon with this and initiate measures geared to deal with it. As the eighth French national plan put it “the cloudier the future, the more necessary the plan.” The need for state planning has been implicitly accepted in the developing world, although there have been different approaches to the choices involved in resource utilization and in the forms of planning, as discussed below. In the industrial countries, particularly in the United States, the objections to state planning cover a wide ground. State planning is considered to be wasteful by some and infinitely worse than the free market mechanism because it imposes value systems and priorities that do not properly reflect the role of the community. Government intervention is believed to have been responsible for the alleged anarchy in the market. Implicit in these arguments is the fear that state planning may be tantamount to government coercion and “creeping socialism.” The differences between those who favor or oppose state planning are fundamental. Given the choice, however,

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4During 1975, serious efforts were made in the United States to organize a forum for national planning. For the above quotation and associated arguments, see Hubert H. Humphrey (1975), p. F12.
6Thomas A. Murphy (1975), p. F12. For a more recent exposition of the virtues of the market mechanism and the problems of planning, see Milton Friedman (1979), p. 289. Earlier exponents of this approach include Frederick von Hayek, The Road to Serfdom, and Ludwig von Mises, Socialism.
several countries have opted for formal planning. For countries that have adopted formal planning, the issue is academic; for countries that are considering its introduction, the distinction between the two choices may be vital.

Economic planning for development involves several choices—on the relative roles of public and private sectors, on the place of agriculture in the economy, on the relative importance of import substitution and export promotion, on the approaches to population control or its unrestrained growth, between economic stability and growth, and between growth and distribution. These choices are generally of a political nature. While economic forces are important, they are not necessarily the final determinants of choice. A combination of these approaches is used to formulate development strategy. The concern here is not with the development strategy but with the forms of planning and their implications for budgeting. The importance of development strategy needs to be recognized, however, for the failure or success of planning efforts is due equally to the strategy adopted and the technical or institutional factors.

Growth of Planning

In the literature on growth, planning has been associated with movements toward independence and as arising after World War II. In reality, however, planning efforts started anew in the early 1930s at the time of the Great Depression. Planning efforts took place in both colonies and independent countries. In India, for example, the first effort was for a ten-year plan published in 1933, with the objective of doubling the national income.\(^7\) Mexico published its first plan in 1934. The Philippines set up a National Economic Council in 1935, with responsibility for the preparation of sectoral programs as well as integrated socioeconomic programs.\(^8\) These efforts were given further impetus with plans for postwar reconstruction, which were even initiated in some colonies during World War II. A reconstruction committee was set up, for example, in India in 1943. But, by and

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\(^7\) For a detailed account of the growth of planning in India, see Premchand (1966b), pp. 130–35.


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large, these efforts received added stimulus in the late 1940s both in colonies and independent countries. For example, the British Colonial Office formulated the first plan for development of its Caribbean islands in 1949 and made extensive grants for the purpose during the late 1940s and early 1950s. Countries in Latin America that were free from the ravages of war and the effects of colonization had initiated organized planning efforts by the early 1950s. Argentina prepared its National Economic Budget in the early 1950s. Mexico, which pioneered in the publication of its plan, subsequently carried out its efforts mostly at the departmental level until 1976, when national planning re-emerged. From the early 1950s, national planning also received a substantial boost from government and international aid agencies that preferred to make loans and grants in accordance with national development plans.

The economic approaches of the plans and the underlying assumptions have evolved over the years. In the initial period, formulation of the plans was influenced by the approach of Harrod and Domar, which implied that parameters such as capital/output ratios and saving as a ratio of GNP were likely to remain steady and that there need be no apprehension of diminishing returns. By the mid-1950s, planning became synonymous with industrialization. Later, Rosenstein Rodan’s emphasis on “big push” as a leverage for the rest of the economy lent support to the approach for industrialization. In due course came Myrdal’s “circular cumulative causation” and Rostow’s “take off” philosophy that growth, once initiated, would feed on itself. Planning for economic development was considered essential for solving a wide variety of objectives, such as acceleration in the rates of saving and capital formation, expansion of employment, improvement in the balance of payments, diversification of domestic production, and self-sufficiency in food and associated goods. By the mid-1970s, the goals of growth were tempered by a recognition that equal attention to equity was needed. Over the last three decades, plans that were initially considered to be identification symbols of independence have acquired multiple dimensions. Although the major goals continue to

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9See Barbu Niculescu (1958). For a description of grants and the status of finances in some of the West Indies, see J. R. Hicks and U. K. Hicks (1955); and A. R. Prest (1957).

10For an account of the subsequent efforts and problems, see John J. Bailey (1980).
be increased investment and growth in GNP, emphasis has also been devoted to the less quantitative aspects of growth. All these have also influenced the techniques adopted for planning and, therefore, the approaches to budgeting. It is in order that these are considered in terms of the types and techniques of planning and the implications for budgeting.

**PLANNING: TECHNIQUES AND INSTRUMENTS**

Economic planning is essentially of two types—planning by inducement and planning by direction. The former places reliance on the pricing mechanism, modified by taxes and subsidies to bring about needed investment in directions that are generally accepted. This approach is an antithesis of planning by direction, which implies a regulation of all aspects of economic life. Adherents of this latter school of thought, who are also inspired by a paternalistic view of the role of government, contend that the price mechanism is faulty, that the adoption of laissez-faire policies does not promote the welfare of the community, and that the state should assume a more active role. Supporters of the price mechanism approach suggest that the main problem of economic development is to motivate the millions of people who constitute the private sector and that this could be achieved more easily by incentives than by administrative fiat. A more pragmatic view is that there are areas where positive government stimulus is necessary, but there are also a number of areas where controls could be counterproductive and could work as impediments to economic efficiency and growth. The extent of support given to these two major themes and the purposes of the plans determine the specific techniques of planning adopted by governments.

Two types of planning have emerged, depending on varying economic and social systems. Countries following the directional approach have become centrally planned economies, while those that relied on a mixture of direction and inducement have come to be considered as mixed economies (see Table 11 for a schematic

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11 For an application of the relative effects of controls and inducements, particularly in the area of foreign trade, see Emile Depres (1973). Chapter 9 (pp. 133–45) of the book is a reproduction of Depres's memorandum, "Price Distortions and Development Planning: Pakistan," addressed to the Planning Board, Government of Pakistan, 1956.
## Table 11. Schematic Framework

<table>
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<th>Types of Planning</th>
<th>Time Span of Plans</th>
<th>Nature of Planning</th>
<th>Procedural Approach of Planning</th>
<th>Budgetary Instruments of Planning</th>
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<tr>
<td>Central planning</td>
<td>Medium term (three to five years)</td>
<td>Compilation of public investment programs</td>
<td>Planning from the top down</td>
<td>Revenue budget, Recurrent budget</td>
</tr>
<tr>
<td>Mixed economy planning</td>
<td>Medium and longer term (five or more than five years)</td>
<td>Aggregate economic framework and detailed plans for government investment</td>
<td>Planning from the bottom up and from the top down</td>
<td>Development budget, External finance budget</td>
</tr>
<tr>
<td>Planning by indication or concertation</td>
<td>Annual and medium term</td>
<td>Sectoral planning Mixed systems</td>
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Framework of the approaches and techniques of planning). In centrally planned economies, the principal means of production are owned by state enterprises and institutions, and the activities and tasks of each production unit are reflected in the national plan. Such plans involve detailed estimates of material balances with their actual and intended use. The main purpose of the material balances method is to maintain equality of supplies and utilization of resources over a specified period. The method is employed at different levels of aggregation—for example, at the sectoral and national levels. At both levels, a balance is needed between resource availabilities and uses. Central planning involves the use of measures for the determination of aggregate output, investment, targets for each sector, central determination of prices, and regulation of personal incomes. This system, with its emphasis on detailed structuring (or, perhaps, overstructuring) of the economy is practiced in socialist countries. During recent years, however, there has been a gradual relaxation of central controls in those economies, and increasing reliance is placed on the market mechanism or its proxies. The budgets in these countries do not differ from the plans and are essentially financial expressions of quantitative targets.

Planning in mixed economies implies the adoption of two approaches—a detailed plan for government outlays and informal

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guidance to the private sector on its activities. The formulation of the overall objectives and the specifications of priorities—and even indications of resource plans and sectoral targets—are prepared by the government, but its decisions do not replace the private sector decision making. Decision making in the private sector is sought to be influenced by incentives and selective use of fiscal instruments. An eclectic combination of detailed and direct planning of government activities and use of the market mechanism therefore influences private sector operations. A variant of this approach is the indicative planning utilized in France during the 1960s. The French approach stressed the process of influencing private sector operations through persuasion, while areas such as consumption were to be regulated by fiscal and monetary mechanisms. French indicative planning was undertaken in two major steps. The first was to determine the feasible growth rate for the economy as a whole. The second consisted of an analysis and assessment of the requirements of each industry in terms of its linkages with the specified rate of growth before checking the mutual consistency of overall, as well as sectoral, rates of growth. The second step was a collective exercise in which both public and private sector industries participated. The main advantage of this approach, which is also called planning by concertation (l'économie concertée), is that planning is viewed in a broader framework beyond the traditional choice between the market mechanism and direction, and as a horizontal process of participation and consent. Planning then becomes possible with the advice, participation, and informal approval, which is in some ways morally binding. It encourages mutual exchange of information and facilitates the coordination of activities. In view of the greater involvement of government in economic management and the growing difficulties faced in that task, particularly the countervailing power of trade unions and associated wage rigidity, there has been a renewed plea for a greater spread of concertation.12 Concertation imposes some limitations on the government policymaker. In particular, it implies that outlays on infrastructural elements must be consistent with the agreed rate of growth for various sectors. The budget in such circumstances is necessarily subordinate to the framework of planning.

Plans in developing countries, reflecting the predicaments of a mixed economy, tended to be in the initial stages what were derisively called "shopping lists." In the early 1950s, plans were aggregations of the projects that were already under implementation or that were awaiting implementation. This phenomenon was not isolated but was broadly applicable to countries in Asia and Africa. Effective unity of aims and basic priorities was not attempted in a coherent way, and the tentative development plans underlined the need for an aggregate economic framework and for formulation of priorities. Meanwhile, lack of statistical data, which prevented the rigorous economic analysis of the proposed strategy, was partly compensated for. By the middle and late 1960s, the role of government in economic management received better attention and plans came to be evolved within the national account framework to ensure consistency. Conventional plans sought optimal solutions, but a macroeconomic framework was lacking. Formal econometric models, reflecting the interrelationships among the important variables of the economy and for which the parameters are estimated by an analysis of time series of data, had therefore come into vogue.\(^\text{13}\) By the early 1970s, macroeconomic analysis and econometric models had come to be firmly recognized, although the usefulness of the models was vitiated partly by the methodology adopted and partly by deficient statistical data.

There has been a growing recognition, over the years, of the importance of sectoral planning, with specific attention to intersectoral linkages and the need for their harmonization. Sectoral planning permits the formulation of clear subgoals within the previously established framework of the economy. It also helps to direct resources to areas where they are most needed. In practice, however, the full potential of sectoral planning has not been achieved in many countries for two reasons. First, there is the limitation of data, and often sectoral planning has been restricted to the more obvious sectors or to those that have better statistics. Second, in some cases, it is feared that overconstruicted plans might reduce flexibility in terms of the revision of plan targets. However, most development plans go through the motions of the formulation of strategies for various sectors, which are then translated into specific projects and programs in the public sector.

Sectoral planning places greater responsibilities on the tasks of budgeting in that the financial aspects of each sector and its components are required to be reviewed at each stage of the planning and budget cycle.

The time span of the plans has also, over the years, undergone a change. In the early periods, when plans were largely consolidations of existing and proposed projects and when there was no macroeconomic framework, plans were for a five-year period. By the early 1960s, however, it became apparent that difficulties were being experienced in the implementation of medium-term plans and that they were not sufficiently flexible to permit greater attention to short-term problems. Unexpected declines in exports or foreign aid receipts made adherence to the medium-term plans difficult. Furthermore, in some countries, the implementation of medium-term plans contributed to exhaustion of the available foreign exchange reserves and common resort to deficit financing. Such a policy led to serious imbalances and inflationary pressures in the economy, and it became clear that policies and plans better adapted to the short term (annual plans) were necessary. Yet another factor that contributed to the adoption of annual planning was that the formulation of medium-term plans took longer and the political processes of deliberation on them were often slow. During the mid-1960s India showed greater enthusiasm for annual plans because of this difficulty. Political instability and economic uncertainty, as well as the desire to have greater flexibility in planning and to achieve greater synchronization with the annual budget, contributed to strengthening the annual plan. While the reasons in each country may be different, France, India, the U.S.S.R., and Yugoslavia were among the countries that first introduced annual plans. Several Asian and African countries adopted a similar approach. In some countries, medium-term plans were replaced by annual plans.

The purposes of the annual plans are to facilitate the conversion of general policies into specific policy actions, to provide a corrective for

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14 For a case study of Tunisia during this period, see Sadak Bahroun (1971), pp. 60-95.
15 For a review of the approaches to the Asian countries, see Economic Commission for Asia and the Far East (1969), p. 31. In the early years of the introduction of the technique, it was considered as a "weak area" requiring greater attention (ibid., p. 32).
changes in the economic situation and, more significantly, to be a plan of action. The medium-term plans were not to be considered as being immutable or as being implemented mechanically. Each annual plan was to have its own focus but was not to be seen as an independent phase. It was a link that provided continuity and permitted change. Relative to the medium-term plan, it had some limitations, however. For example, saving, which is mainly determined by production, is an exogenous factor in the annual plan but is a part of the medium-term plan. Operationally, the annual plan consists of an assessment of progress in both physical and financial terms relative to the plan targets, an analysis of current developments, and a forecast of the immediate future. Its role is to review the plan projects, so that changes can be made and policies aimed at specific problem areas. The annual plan also pays detailed attention to resource constraints and crucial scarcities such as foreign exchange. In all these endeavors, the purpose is to adjust government policies for maintaining budgetary and economic stability and the pace of development and for ensuring consistency in the sectoral framework. Implications for annual budgeting are, in theory, clear. Inasmuch as it is an operational framework, it permits greater rapport with the budget and reduces some of the load that budgets have to carry in a medium-term context. The success achieved is, however, dependent on the way in which annual plans have fulfilled their expectations.

The techniques adopted for planning are usually described in terms of planning from the top down, planning from the bottom up, and mixed systems. In reality, however, it is often a mixture of planning from the top down and planning from the bottom up, depending on the areas of the plan. Broad national objectives tend to be given from the top or could be a meaningful aggregation of the preferences of the various levels of government according to the political leadership. During some periods of national leadership, for example, in India, Korea, and Tanzania, the framework of objectives may be specified at the top and ratified through the normal consensus framework. In regard to economic analyses and projections, as well as the use of econometric models, direction tends to be more from the top. The projects and programs included in the plan are generally built up from the bottom and are processed through various stages of review and analysis. No central authority can hope to compile the whole plan from the top alone, but in the final specification of targets, however, it is
quite likely that the wishes of the "bottom" are not given due regard and, therefore, the agencies might feel that the targets have been imposed from the top. The formulation of targets often involves a goal toward which the agencies should strive and, therefore, may be set higher than the agencies consider feasible. This factor contributes to the expanded image of planning from the top down.

The advent of development planning has also led to the establishment of new instruments of budgeting. Traditionally, government budgets consisted of a revenue budget (receipts), a recurrent budget (expenditure), and, in some cases, a capital budget. After development plans came into vogue, some countries used the capital budget as a means of incorporating a major part of the plan outlay. In a few countries, development budgets became coterminus with the plan. Similarly, to cover the extensive loans and investments, investment budgets were set up. To facilitate consideration of the balance of payments and to conduct more orderly management of foreign exchange resources, foreign exchange budgets, or finance budgets, came into being. Also, to consider the overall implications of plan finances for monetary and credit management, many developing countries established finance and credit plans. These were, however, informal, and did not become part of the budget that was approved by the legislature. The growth of the variety of budgetary instruments illustrates the complexities of development planning and its implications for budgeting.

**BUDGETING AND PLANNING**

Budgeting in the public sector had its origins in the needs of legislative accountability. Its focus, which was on the allocation of resources to the various agencies and on the provision of a basis for control, was different from the approaches in the commercial world. In commercial firms, budgeting was concerned with the anticipation of investment needs, cost efficiency, and assessment of working capital and other investment requirements. With more progress in industrial activities, planning had come to be associated in the commercial world with optimal selection of product markets, with technological and market responsiveness, and with threats of discontinuity in each of these areas. Planning became a part of the responsibilities of administrators, and the philosophy of management came to be
symbolized by the acronym POSDCORB (planning, organization, staffing, directing, coordinating, reporting, and budgeting) that has long since become a part of folklore. In due course, the budgetary process became one that brought together for analysis the problems and the information relevant for solutions, as well as the administrative structure through which the decisions would be implemented, controlled, monitored, and evaluated.

Planning, in its simplest form and as it came to be used in governments, is considered as organized, rational thought that is essential for a determination of the national objectives, the instruments to be used, and needed inputs. In more diversified forms, planning is considered as a projected course of action, as a means of reaching an end, as a special process for reaching a rational decision, as full utilization of all the materials of the community, as an art, and as a process of preparing a set of decisions for action in the future directed at achieving goals by optimal means. Budgets and plans are, therefore, facets of the same process. Budgeting without planning ceases to be a plan of action, and plans that do not have a realistic recognition of the budgetary constraints have little functional value. Each disciplines the other, and the end products should ideally bear the imprint of both.

In practice, however, plans and budgets are different, reflecting the approaches, content, and purposes of each. The plan is concerned with the whole economy, while the budget is concerned with the government sector. The difference between the two is less in centrally planned economies, where the state-run economy may not be very different from the total economy. The time span and the perspective of time may also be different. Budgets are usually made for one year. No budget can, however, be formulated strictly for a year, because it leaves a legacy for the future; it is not as though the slate is wiped clean each time and a fresh start is made. The budget is like a myopic patient whose view of the future may be indistinct. The plan, as noted earlier, can also be annual, but it views with greater clarity the implications of today's actions for the future, as well as the requirements for the future.

16 For an interesting review of these definitions, see Yehezkel Dror (1963), pp. 44–58, and Bertram Gross (1962).
Both plans and budgets are concerned with policy analysis and allocation of resources. The differences lie in the combination of economic and financial aspects. In planning, the economic aspects dominate, while in budgeting more attention is paid to financial aspects. The two cannot be viewed in isolation, but degrees of expertise and tradition have an influence on their approaches.\textsuperscript{17} Plans approach the economy in terms of various sectors. Budgets view them in terms of systems of control over the use of funds by government agencies. Plans provide a conceptual framework and represent the thinking process. Budgets are operational documents on the basis of which laws are drawn up, funds appropriated, contracts made, and funds spent and accounted for to the legislature. Over the years, plans have developed their own accountability to the legislature. Plans are debated by the legislature, but the purse strings are released only through budgets. In the context of a plan, budgets proceed on the assumption that goals have already been established and they become subordinate to the planned objectives. Plans are the quantitative expressions of governments goals, but the determination of the financial resources and the responsibility for ensuring the implementation of programs are a part of the budgetary framework. Essentially, therefore, while all budgets are plans, not all plans are budgets. The preparation of both takes place within a specified timetable, but the relative flexibility of the plan permits a deductive approach, while budgets, constrained by the short period within which they have to be made, tend to be inductive. In philosophical terms, the two tasks complement each other.

The functional symbiosis should ideally be reflected in organizational forms as well. As planning came to be organized, however, it took a different form and came to be established in several countries, separate from the finance and budgetary agencies. Considerations that influence this approach range from political ones to those more pragmatic. Budgeting has been a part of government organization for a long time and has well-established practices, but these practices are not considered entirely appropriate for the new vision needed. In India, it was recognized that "we do not at present possess either sufficient knowledge and statistical information or sufficiently exten-

\textsuperscript{17}See Gerhard Colm (1968); and A. W. Johnson (1959), pp. 145-53.
sive control over economic activity," and it was felt that a separate body directly responsible to the Cabinet would be more appropriate. Planning was to be undertaken "through an organisation free from the burden of the day-to-day administration but one which is in constant touch with the Government at the highest level."

Similar considerations prevailed elsewhere. The routine approaches of the budgetary agencies, which traditionally were more concerned with the limited objectives of economy and regularity, appeared obsolete for carrying out the new challenges that required greater awareness of social, economic, and technological developments. In some countries, planning was to be undertaken for the whole country, implying the need for greater and continuous coordination between various levels of government. It was believed that budget and finance agencies, which are a part of the government, would not permit the desired coordination and might give the impression of vertical integration. Planning bodies were, therefore, organized differently and were expected, in principle, to serve the requirements of state and local governments. However, as the full potential and implications of these proposed organizations were not too clear, it was considered better to organize them as advisory bodies, with the final decision making left to the normal government channels.

Over the years, the organizational, philosophical, and policy differences and operational divergences between planning and budgeting agencies have, in many countries, generated a series of problems that affected both the plan and the budget, as well as the outcome of both.

DIVERGENCES BETWEEN PLANS AND BUDGETS

The budget in the context of the development plan has a policy function and a program function. The policy function involves determination of the size of the government budget and of the composition of the outlays. The program function ensures that the programs and projects in the plan are included in the budget and that results expected from the outlays are actually achieved. In an ideal situation this would be true, but a cursory glance at any plan indicates

that there is a vast difference between ideal and actual situations. Depending on the degree of optimism or pessimism of the analyst, the situation could be interpreted either as flexibility of the instruments to respond to the changing situation, or as failure of the instruments to respond because they had not adequately anticipated the situation. Although it may appear paradoxical, both are true. Over the years, economies have been buffeted by crosscurrents that have required changes in plans. Plans and budgets, for their part, reveal that they have not fully anticipated some of the developments in the economy. These conclusions are inevitable on the basis of hindsight, but it is debatable whether a better prognosis could have been made in those situations. The countries that experienced success might illustrate better planning and, conversely, those that experienced stagnation or declining rates of growth may have had bad planning or policy advice. Successes or failures are easier to explain after the event. But success might not lend itself to replicative treatment, because, as noted earlier, institutional differences among countries act as either constraints or as locomotives. The purpose here is to examine the divergences between budgets and plans, as well as the extent to which they are influenced by differences in planning, procedural, and organizational factors.

An important area in which development plans and budgets are expected to be congruent is "development finance," which comprises resource mobilization and resource allocation. In a large number of developing countries, both development plans and budgets estimate revenues in terms of public saving (or balances from current revenues at rates of taxation prevalent before the plan), surpluses from public enterprises, external resources (including borrowing from abroad), additional taxation proceeds, and the extent of deficit financing. Revenue planning, as noted earlier, has traditionally received neither due importance nor the attention of the public, partly because of its arcane nature and partly because of the organizational division of labor. Collection of taxes has been the traditional preserve of the revenue agencies, and the planning agencies had neither the power nor the technical severity to carry out the necessary financial planning. This has had a twofold effect. First, planning agencies were content to draw up resource estimates in aggregate, leaving the more technical work to the revenue agencies. Second, in some countries where new resources such as external aid were concerned, planning organizations acquired
control over their management. In some countries, such as the Islamic Republic Iran, allocation of revenue was also transferred from the revenue or budget agency to the planning agency. Revenue planning does not require a transfer of the respective jurisdictions to the planning agencies but it implies that it should be done with realistic foundations. Additional revenue has been obtained with a greater degree of success by taxation measures than by other means. For example, in India, estimates of additional taxation were fulfilled (and even exceeded) during the second and third five-year plans and the following annual plans. In some other countries, however, this was not true, as the budget did not "incorporate the overall policy measures required for the success of the plan." 19 This was, in turn, due to the fact that the planners were apt to assume that needed efforts would be made but had not paid heed to political difficulties. Although distinctions are drawn between planners and budgeteers, in effect, neither role is independent and each involves a little of the other. Indeed, in India, estimation of resources for the plan is a common responsibility of both planning and finance agencies.

Estimates of balances from current revenues, surpluses from public enterprises, and foreign aid included in both plans and budgets have proved to be too optimistic. Plans often did nor have the necessary detail or specifications nor did they take into account the rate of growth of expenditures. India in the mid-1960s and Kenya in the mid-1970s assumed in their development plans that the rate of growth in nondevelopmental expenditures would be restricted to 3.5 percent annually, but this proved to be vastly underestimated. Revenue from public enterprises represents a major area which is considered in Chapter 14. Foreign aid is often pegged at a high figure as a reflection of the requirement for aid or as a goal rather than as a practical matter. Thus, the whole resource base of the plan tends to be unrealistic. As a result, budgets came to act as major correctives for the plan and for the economy. But, as the size of the plan was determined by resource availability and became, in due course, fixed in terms of its imperatives, the implication was that the plan had to be carried out even if its execution required resort to massive inflationary finance. Another important aspect was that planning and budgeting were

undertaken as financial exercises, with little or no attention given to the impact of proposed resource mobilization on productive activity, consumption and distribution, and inflation.

Resource allocation also reveals a number of divergences between the plan and the budget. Two features dominated the early plans. Unrealistic targets were set for outlays which strained the capability of the administrative machinery. Plans were also vague and did not always represent specific investment decisions related to the national objectives. This initial situation may partly have been due to a desire to minimize conflict but, to a major extent, it was due to time schedules that would not permit fulfillment of the ambitions. Although some of these problems have been mitigated, experience over the past three decades shows that divergences between plans and budgets were not surprising at all, given that plans were not sufficiently articulate and budgets had to compensate for them. Whereas, in the ideal setting, budgets would follow the precepts, in the everyday world, it appeared that budgets had to compensate for the plans. Specifically, the plans did not offer a consistent investment frame and the amount of detail varied from sector to sector. More significantly, projects and programs that had not been reviewed thoroughly were included in the plan. As inclusion in the plan acquired a legitimacy of its own, they also had to be included in the budget. For example, about one third of the outlays provided in the budget of Bangladesh in 1976/77 were for unapproved, or as yet unexamined, projects. Apart from the implication of a lack of advance programming, this meant that scarce resources were allotted to programs that were not presumably ready, while those that were ready for implementation were denied allocations. To some extent, this was due to the inordinate emphasis on financial targets in which operational agencies felt obliged to try to include programs that had not been properly evaluated.

In some countries the determination of the annual size of the budgetary outlays was sought in terms of the levels indicated in the

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20 For a review of the experiences of several Asian countries, see Dennis A. Rondenelli (1978), pp. 45–74. See also Edward Mason (1964).

21 In Japan, for example, the medium-term plans prepared by the Economic Planning Agency were frequently used by the spending agencies to buttress their arguments for inclusion of their programs in the budget. Apparently, however, the success of this strategy was limited. See John Creighton Campbell (1977).
plans. However, as these were not adjusted for inflation, for the economic climate, or for slippages in implementation, the outcome of the budgets tended to be different from the plans. Implicit in the process has been the relatively low attention to the annualization of outlays. While part of this has been mitigated, depending on the progress made in formulation of plans, the plans themselves have not been without problems in specifying the annual amount of the outlays. A consequence of this approach has been the vast shortfalls in plan expenditures. For example, in the 1970s, the budget of Sri Lanka routinely provided for a 20 percent underexpenditure in its plan outlays to accommodate the built-in overestimation. Yet another feature was that the plans had not taken into account the continuing outlays on completed projects; lack of recognition of this led to distortions in decision making and to increased budget deficits. A significant shortcoming of the plans is the lack of contingency plans for carrying out short-term adjustments in expenditures when warranted by resource constraints and it became, by default, a responsibility of the budgets.

At a procedural level also divergences are to be found between plans and budgets. Different procedures and timetables are adopted in various countries for the compilation of the plan or development budget and the current budget. In some countries, development budgets are compiled by the planning agency and the current budget is determined by the finance agencies. The review in the planning agency emphasizes economic aspects, and that in the finance agencies emphasizes the financial side. As the respective agencies usually work in isolation, in some cases, a vast area lies between the two. The current budget is more detailed, while often the development budget is brief. The structure of the budget is also different from the plan. Harmonization of approaches to budget making has been one of the main aims of budgetary reforms since the early 1960s, but problems persist. A source of aggravation over the years has been the link between the annual plan and the budget. Ideally, the annual plan should take stock of the economy and provide the needed guidance for the formulation of the budget. In practice, however, because of politics and different timetables, annual plans have come to be prepared after the budget. Thus, plans cease to offer a consistent framework or the visionary guidance for the formulation of the budget, in some cases,
the planning responsibility shifted to the budget agency. In many
countries, the procedures for annual budgeting have recently im­
proved. Specific mention should be made of the overall resources
budget prepared annually in Korea, which sets priorities and allocates
funds for various sectors.

The divergences between plans and budgets are, in part, ascribed to
the separate organizational forms of the two agencies, which reflect the
fundamental differences in the approaches of planners and budgeteers.
Budgeting, in this school of thought, is viewed as a specialized way of
looking at problems and involving certain values relating to fiscal
policy and coordination. The budgeteer is believed to be conservative
and, therefore, inclined to reduce expenditures, being concerned with
annual increments. The planner, on the other hand, is considered a big
spender, who would be inclined to support increased outlays. In his
decision making, the planner might be more rational, stressing
allocative efficiency. Implications of these approaches have already
been considered. Extremes of these portraits have been drawn in the
literature, and the differences between plans and budgets have been
ascribed to them. 22 It was pointed out earlier in this chapter that it is
too simplistic to view these divergences as an issue only between two
organizations, as in practice it appears that decision making is
fragmented among different instruments and units that are separately
organized and that the problems relate to techniques, as well as to
coordination among the various divisions in government. More
important is the fact that the divergences have, over the years,
contributed to the establishment of new values in administration and
to new problems. These pervasive problems need more attention. The
most important is dualism.

22Caizen and Wildavsky (1974) suggest that the Finance Ministry is likely to
acquire accountants, lawyers, and low-level technicians, and that the planning bodies
are likely to have economists and others "whose rationale is to overcome the regular
apparatus," p. 241. This implies a value judgment that personnel other than
economists do not function so well in planning and that economists assume the
responsibility for reforming the government. Admittedly, neither proposition is
sustainable: several planning bodies have more administrators than economists and
some budgetary agencies that have shown greater reliance on lawyers have done very
well (for example, the Federal Republic of Germany).
PROBLEM OF DUALISM

Boeke in his pioneering work on dual societies$^{21}$ essentially referred to the distinct cleavage of two synchronic and full-grown social styles that in the normal, historical evolution of societies are separated from each other by transitional forms. He made the qualification, however, that one of the prevailing systems—as a matter of fact, always the most advanced—“will have been imported from abroad and have gained its existence in the new environment without being able to oust or assimilate the social system that has grown up there.” He also suggested that there was bound to be a clash between imported and indigenous styles. In extending this approach to financial management in government, it should be recognized, as described earlier, that these systems have undergone several adaptations in their implementation in developing countries. Also, what occurs between traditional styles of financial control and the newly introduced systems of planning should perhaps be considered as conflict rather than clash. A clash implies a fight in which one of the contenders has to yield to the other. Although Boeke applied his dualism thesis primarily to emphasize the contrast between subsistence and exchange sectors, more recently there have been attempts to extend the approach to a wider range of economic and social dichotomies.

Dualism, which reflects two separate approaches to budgetary matters, is largely the result of the continuation of traditional institutions and related approaches, on the one hand, and the emergence of new institutions and approaches reflecting the requirements of development, on the other. $^{24}$ The simultaneous existence of these two strands and their everyday working has a vast impact on the very structures of institutions, as well as on the approaches to policy formulation and the implementation of policies. While it is debatable


$^{24}$Hoselitz (1963) observes “On the one hand, the time-honored fashioned ways of government and administration are extolled, and at the same time the pressure for economic advancement places stress on the development of a streamlined highly rationalized modern bureaucracy” (p. 183). He does not, however, undertake any assessment of whether indeed the new institutions that have come to be organized have the features of a modern bureaucracy or are only variations of the existing institutions. See Hoselitz, Bert, in J. La Palomba, ed., Bureaucracy and Political Development (1963).
whether dualism of this type has impeded or facilitated economic
development, it has undoubtedly given rise to numerous problems
and, to some extent, avoidable conflicts.

Based on the experience of a number of developing countries, certain
aspects of dualism may be enumerated. First, reflecting the economic
and institutional demands, dual and multiple budget structures have
emerged—and in their wake, dual standards for budget formulation
(Table 12). This dualism has contributed to a predictable "project gap"
in the development (or capital) budget, while conservative attitudes
toward the current budget have strengthened the desire to resort to
escape mechanisms. Second, as a consequence of dualism, a new type of
distribution of power has emerged. Development projects are often
accompanied by a substantial decentralization of power to the
operational and managerial levels, while powers in regard to spending
on the current budget continue to be heavily centralized in the
ministries of finance or budget bureaus. Third, financial control has
changed so that the degree of control varies with the nature of the
currency. It tends to be relatively lax when expenditures are incurred
in domestic currency and becomes rigid and centralized when
expenditures are in foreign currency. Fourth, dualism also has given
rise to a number of institutional problems. For example, the
traditional systems of accounting and auditing were not able to
develop new approaches to the treatment and evaluation of expendi­
tures. Consequently, planning organizations developed their own
evaluation institutions that occasionally overlapped with audit
bureaus. Dual approaches have, over the period, resulted in the
hardening of the respective standpoints and the growth of distinct
spheres of institutional activities.

25 A similar problem was experienced by the industrial countries in an earlier
period. For a discussion of these experiences, see E.L. Normanton (1966).
26 Riggs argues that "the phenomenon of development involves the differentiation
of separate structures for performing services and that in doing so structures adapted
from western models could come into existence. The older institutional base of a
traditional system, however, lingers on. Although eroded and embattled, it struggles
to remain alive, to retain positions of influence. . . . We find then, in the transitional
society, a dualistic situation. Formerly, superimposed institutions patterned after
western models coexist with earlier indigenous institutions of a traditional type in a
complex pattern of heterogenous overlapping" (see Fred Riggs "Bureaucrats and
extended prevalence in government but as a part of systems politics—a struggle over the processes by which decisions or policies are made rather than on the substance of policies. Policy differences become major issues that may cut across government, while minor differences about who should make decisions tend to become irritations leading to delays and unprofitable activities.

Aspects of systems politics emerged in the initial stage, as finance agencies felt that their traditional power was eroded by the planning machinery. But their reactions were ambivalent. Sometimes they refused to concede the power and what was lost they sought to retrieve at the various stages of planning and budgetary processes. This meant determining the size of the plan and its financing by the finance ministry, or determining the annual budget ahead of the annual plan, and planning bodies were left with the more routine business of reviewing development projects. To a great extent, the shift of power depended on the respective political strengths of finance and planning agencies. Available experience indicates that there are planning agencies that have precedence over finance ministries, and countries where the finance ministry continues to hold its traditional primacy. The contribution of systems politics was to make the planner leave the postulated rational approaches and to make greater adjustments to the political environment. Although these adjustments implied a different kind of rationality, it also showed that planning could not work in isolation and was a part of the real world.

**ALTERNATIVES: INTEGRATION OR SEPARATION**

Conflict between organizations and the prevalence of systems politics have contributed over the years to situations that are

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Political Development: A Paradoxical View,” in La Palombra (1963), p. 123). Riggs does not extend his analysis to inquire whether such a coexistence would be peaceful or otherwise. He does not also consider whether coexistence would be rendered any easier and transition made smoother, if those institutions modeled on western practices were hybridized to meet local requirements and to mix easily in the indigenous milieu.

27 There was a view in India that the relationship between the planning and finance agencies was one of a division of responsibilities—finance responsible for the implementation of the plan, while the responsibility of the Planning Commission was that of analysis, review, and advice. See Premchand (1966b), p. 133.

28 For an analysis of these aspects, see S. Kenneth Howard (1970), pp. 151–52.
Table 12. Dualism in Government Financial Management

<table>
<thead>
<tr>
<th>Area</th>
<th>Traditional Instruments and Approaches</th>
<th>Recent Instruments and Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget structure</td>
<td>Revenue budget</td>
<td>Development budget</td>
</tr>
<tr>
<td>Coverage</td>
<td>About 70 percent of the budget</td>
<td>About 30 percent of the budget</td>
</tr>
<tr>
<td>Time span</td>
<td>Usually one year</td>
<td>Can exceed one year</td>
</tr>
<tr>
<td>Nature of decision making</td>
<td>Piecemeal; qualitative; and restrictive</td>
<td>Comprehensive; quantitative; and forward looking</td>
</tr>
<tr>
<td>Influence on decision making</td>
<td>Emphasis on current account surplus</td>
<td>Compulsions of economic growth and underlying relationships with foreign aid programs</td>
</tr>
<tr>
<td>Deployment of scarce resources, e.g., foreign exchange, manpower</td>
<td>Restrictive practices</td>
<td>Greater preference shown for development projects</td>
</tr>
<tr>
<td>Budget presentation</td>
<td>Line-item presentation of estimates</td>
<td>Broad program-based presentation</td>
</tr>
<tr>
<td>Budget management</td>
<td>Tight control over items</td>
<td>Greater delegation of financial powers and management responsibilities to implementing agencies</td>
</tr>
<tr>
<td>Progress reporting</td>
<td>Restricted to financial outlays; infrequent</td>
<td>Analysis of slippages and cost overruns; frequent follow-up action</td>
</tr>
<tr>
<td>Accounting</td>
<td>Greater preaudit, owing to tradition</td>
<td>Lower preaudit and absence of accounting detail, owing to nondevelopment of accounting standards</td>
</tr>
<tr>
<td>External audit</td>
<td>Routine appropriation and financial audit</td>
<td>No new approach</td>
</tr>
</tbody>
</table>

admittedly not efficient and may have even functioned in such a way as to divert attention from more important policy issues. The solutions to the problems were sought at one stage through integration of the two functions. The proposals for integration were of two types—that
planning should take over the budgetary functions and that budgeting should also include planning. Although the problem itself was perceived to be primarily applicable to developing countries, the theoretical foundation for both came from western democracies. Bloch-Lainé argued that, regardless of the extent of consultation between budget and planning agencies, the existence of the former with final responsibility concerning public expenditure could itself be a negative force and might oppose the more expansionist views of the planning agency. He, therefore, advocated a Ministry of Planning incorporating the sections of the Ministry of Finance that exercise financial control, thus ensuring that the annual budget would be integrated with the plan. Variants of this approach are to be found, in practice, in Korea where the Bureau of Budget functions as a part of the Economic Planning Bureau. In Brazil, the Ministry of Planning is responsible for the annual budget. A less sophisticated version is that the planning agency is responsible for a part of the budget. This practice, as noted earlier, has actually contributed to dualism.

Similarly, in the early stages of development planning, programming, and budgeting systems (PPBS) in the United States, planning was included to define all the functions of budgeting and budgeting was considered merely as a determination of men and materials and provision of resources in the budget (see Chapter 11). The planning phase itself was to comprise appraisal and comparison of various government activities in terms of their contributions to objectives and related aspects. The agency that should undertake this was not clearly specified nor was such a specification considered necessary, as there was no separate planning agency in the United States. The work was undertaken as part of the annual cycle with appropriate subdivisions for the planning, programming, and budgeting steps to ensure an orderly approach. Planning was to be an integral part of the system and was to be undertaken by the budgetary

29 See F. Bloch-Lainé (1962). Also see, G. Denron (1968), pp. 241–42. A more recent exposition of a similar view is to be found in Stephen Marglin, Partha Dasgupta, and Amartya Sen (1972). While recognizing that budgeting is the cutting edge of the national planning sword, they felt that the finance ministries are often conservative, old-fashioned, and preoccupied with short-term issues, and therefore suggested integration as the most important step for the introduction of any quantitative analysis.

30 See David Novick (1965).
agency. This ambitious approach was influenced, among other factors, by the fear, on the one hand, that a widening of the gap between planning and budgeting tended to generate an air of unreality by a compulsive need for breaking away from the traditional modes, and, on the other, by the views of economists, who felt that planning involved a greater degree of centralization that, in turn, was helpful to government decision making. It appears, however, that this approach also ignored the institutional implications of such integration, one problem of which is the fact that the budgeteer, by tradition, is ill equipped to be a visionary. More significantly, there was a danger that operational requirements and procedures of budgeting might drive out the creativity required for good analysis. Even integration requires coordinating devices between the two broad functions and unless these are properly attended to, integration by itself will not solve the problems. Integration can also lead to the creation of a monolithic organization that can be more problematic. Practical experience reveals that developing countries ranging from the Bahamas to Zambia have gone through a cycle of operations. Planning agencies were initially organized as separate agencies and were later brought under the aegis of a single ministry with finance, an arrangement found to be rather unwieldy. Without appropriate techniques of coordination, however, harmonious working could not be achieved. To some extent this was inevitable where the problem was perceived to be between two functions rather than building up a network of relations among different units that function within budgeting and planning. Further, some of these units developed a style of their own, irrespective of the formal organizational pattern of budgeting and planning. Aided by other political considerations, the integrated form was once again divided and planning and finance began to function separately. In each

31 Wildavsky (1969) wrote in terms of rescuing policy planning from the PPB trappings, pp. 835-64. Schick (1969) also reaches the same conclusion but for different reasons. To him, planning needs to be separate because budgeting involving routine takes place only during a specific part of the year and, on the whole, budgeteers are insulated from the outside world. Schick's portrayal of the budgeteer is fortunately not typical (see "Systems for Analysis: PPB and its Alternatives," pp. 817–34. Both papers are included in United States, The Analysis and Evaluation of Public Expenditures: The PPB System, Vol. 3.

32 A. W. Johnson (1959) warned that the integration of the agencies without developing requisite coordinating devices would have undesirable consequences (p. 153).
case, however, there were valid reasons in favor of either arrangement, although their contribution was limited where the problems were of policy rather than organizational.

**IMPROVEMENTS**

The above types of problems were recognized and efforts were made to solve them. Some of these improvements have been mentioned earlier and the present state of planning reflects this evolutionary growth. The impact of the improvements may not always be evident, however, either because they were slow in coming, because of a change in the economic climate in the meantime, or because of both. The improvements and approaches recognized that if a harmonious relationship were to be achieved both budgeting and planning needed change. This recognition itself is a significant one, for it implied that the bitter debate as to who was responsible was over. The improvements may be analyzed as those that are organizational and those that are technical inputs.

Organizationally, a major effort was made in a number of countries to improve coordination at the processing and working levels. At the processing level, the linkages between macroeconomic analysis, sectoral planning, and budgeting were recognized and procedures established to coordinate them. At the working level, joint teams, comprising representatives of finance, planning, and the spending agency, were also set up. In order to facilitate the budget linkages, improved classification on a uniform basis for the plan, budget, and accounts was introduced. (Considerable progress on this was made in India and Korea.)

In terms of technical inputs, the use of improved techniques of sectoral planning and their utilization has increased. Greater emphasis on sectoral planning has provided opportunities for disaggregating the national plan in detail and permitted working more directly with the ministries and agencies and improved the involvement of managerial levels in the formulation and implementation of plans. Similarly, improved annual planning has facilitated the building up of rapport with the annual budget. Efforts have also been made to improve budget programming for each major project included in the budget. As an integral part of this effort, calculations are made of the exact timetable of expenditure for subsequent years and of its annual effect.
on the operational budget. These improvements are modest and the dimensions of the remaining tasks to be fulfilled come into bolder relief when it is recognized that few countries have been able to achieve all-round progress in the above areas. As a report of the United Nations emphasized, "the results in most cases left much to be desired, for a variety of reasons." The continuing tasks of government financial management make it imperative that more attention be devoted to these areas.