

# PLANNING IN MARKET ECONOMY: BANGLADESH SCENARIO

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## Introduction

Planning as a philosophy on efficient management and use of public resources for development was conventionally used in a command economy. Exclusive ownership of resources or the means of production in the public sector was the principal norm of a command economy. Non-existence of private sector binds the government in the overall planning of resources and in organizing production which could meet the future requirement of the economy and also could meet the current consumption needs.

The price mechanism performed perfunctory role and was seldom considered an effective instrument in the allocation of resources. The administrative price was generally used as an accounting device. Macroeconomic balance was resorted by direct control. Generally, wages were paid in cash and monetary overhang due to repressed inflation was the rule. The correspondence between wage increases and price increases did not follow a parallel track. Wage increase often exceeded increase in prices and consequently rationing ruled the market environment. Government

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intervention in price setting mechanisms yielded distorted relative price and thus resulted in inefficient allocation of resources.

Barter trade, exchange of goods for goods predominated in the international trade. This downplayed the role of exchange rate in international transaction. Like the price of a commodity, the exchange rate seldom reflected the scarcity value of the currency. The sectoral allocation of resources was done through elaborate plan model that attempted to ensure both the physical and financial consistency of the plan. Neat accounting exercise was a pre-requisite to ensure consistency in the production target of services and commodities in the different sectors of the economy.

Input-output exercise was resorted to ensure smooth flow of intermediate inputs in the production of various commodities and to meet the final demands. Conventional texts book on development economics delved on those techniques and any planning exercise generally preceded a detailed exercise on input-output model. Bangladesh Planning Commission prepared an elaborate Input-output model for use in the Second Five Year Plan. Subsequently, there were several attempts to update the input-output model. These documents were considered as background paper in the planning exercise.

The virtue of a plan as an effective instrument in steering the direction of development in an economy incubated in the development philosophy of the erstwhile Union of Soviet Socialist Republic U.S.S.R. That was a historical necessity. The Bolshevik revolution ushered a rein that replaced individual ownership of the means of production to state ownership. Public ownership of the means of production required detailed engineering in the

management of resources that could be carried out only through planning.

## **Planning in Market Economy: Infrastructure and Institutions**

Planning premise is different for a non-command economy where means of production is shared between public and private sector and both the sectors exist in symbiotic relationship. French was the pioneer in planning process in a mixed framework. The first plan of reconstruction and rehabilitation was launched in 1946 that spanned a period of seven years. After Second World War it was an accepted path and an established norm for many countries of the world to develop through this planning endeavor. The industrialization of India is a direct outcome of the planning exercise where initial emphasis was placed on heavy industries. The architect of industrialization in India was P.C. Mohalanobis **who provided the working model for the Second Five- Year Plan.** Both the Soviet and mixed framework models in the early days of planning operated in a sheltered environment.

The parameters of planning are different in a market economy. Planning in a command economic framework is considered as imperative plan or planning by inducements. Central planning unit set output target for individual production unit and it is expected that individual unit meets the target with proper inputs support from the central unit. The term top down planning is coterminous with the idea and the job was carried out in a non-democratic environment. Mixed economic framework, however often ensure a democratic environment and the resource allocation among different sectors by a central planning unit is arrived at through a consensus. People's representatives represent decision making unit

in the government and professional input behind the allocation game is furnished by regular staffs in the Planning Commission or at the National Economic Development unit.

There are few similarities between the planning in a mixed economic framework and in a purely market environment. Both market economy and the mixed framework acknowledge the role of private sector in the development. However, the emphasis is different. The mixed framework is a mongrel; adopts both the dictums of a central planning unit as well as the market norm. Generally, public utilities are retained in the public sector and fiat prices of public utilities such as electricity, gas, telephone or in some case transport are the rule rather than exception. The fiat prices seldom reflect the production cost and the unit is thus subsidized by fiscal leverage. The market economy is more open, prices are set through the demand and supply forces, minimal intervention by the government and obviously boasts of a democratic government. There may be few exceptions. Chinese economy is more open but lacks a democratic environment. Also, State Owned Enterprises [SOE] in China contributes 30 percent in national output.

### **Why a Different Track for Market Economy?**

The conventional planning idea is no more tenable in market environment. Market economy is characterized by non-intervention philosophy. The price is set by the uninterrupted flow of market forces. Price determined by the demand and supply forces reflects the scarcity value of the product and is thus considered an efficient mechanism in the allocation of both consumption and investment resources. Market economy operates in a competitive environment and thus excludes monopoly from the horizon. For efficient functioning, the information flow must be symmetric. Asymmetric information between the different actors in a market environment renders the price instrument inoperative and the transaction deal

sub-optimal. Market forces prefer investment in ventures where profit is the core criterion and seldom consider externality issue in decision making.

Private sector predominates in a market economy and plays an active role in investment. Individual owns resources and anchors investment or consumption decision on the basis of market signal. Democratic environment endows the citizen to own resources and seeks legal protection of property rights, right to work and right to educate children. Democratic environment helps in the formation of civil society who works as a pressure group in mobilizing support for social welfare. There are other supporting units in the development work, notably the Non-Government Organizations [NGO] who carry forward some of the activities in the social sector development. Private sector, public sector and NGO form a trio in the overall development of the country. Planning exercises duly acknowledge the role of private sector and outline a detailed program on the avenues and possibilities of collaboration in development. The Fifth Year Plan [1997-2001] of Bangladesh set an investment target to the extent of 44 percent. Private sector participation in the Third Five Year Plan and the Second Five Year Plan was 35 and 16 percent respectively.

### **Market Failure and Correction: The Role of Plan**

Planning in a market environment should address the issues of market failure and elaborate on strategies to correct the failures. Market failures are the result of monopolistic elements in the market structure, externality, asymmetric information flow and the absence of good governance that inhibit an enabling environment for investment. The exercise should also put proper weight in the development of the private sector, a clear demarcation of the economic activities between the public and private sector, the shared responsibility among the different bodies to carry forward the development goal.

Role of NGO and the civil society in the development of social sectors, broad guideline in the industrialization strategy in the wake of globalization and an operational plan in the integration process in the fledging age of information technology are also important facets in planning exercise in a market economy. Externality issue must be at the forefront of any planning exercise and the social safety net should surface as an important agenda as a device to human resource development.

Planning in the context of a market economy need to work as an "instrumental inference" and not as an alternative to a market system based on 'command and fulfillment'. The plan provides a comprehensive macro goal and a transparent sense of direction for over all development of the economy. "It is perfectly possible to allow the macro goals of a system **and the principal action** directives to derive from a properly formulated plan, while its micro analogues are left to be implemented through the market"[Participatory Perspective Plan for Bangladesh 1995-2010 p.15]. There are certain prerequisites for efficient functioning of a market economy that market cannot caps or provides. as tool kits of development. The set of tools that ensure efficiency in the working of the market economy is contingent upon the state of the economy and the level of development..Generally, planning exercise in a market environment figures forefront with tool kits conducive to sound development of infrastructure; physical, financial, legal, institutional and entrepreneurial. The plan sets broad outline on objectives of social development and draws a policy landscape that ensures enabling environment for private sector to contribute in the development process and further development goals.

## Quantitative Vs Qualitative

The planning exercise is indicative and charts variegated paths on the basis of alternative assumptions. The Participatory Perspective Plan for Bangladesh 1995-2010 outlined such scenarios on the basis of certain assumptions. The document also addressed sectoral development issues and an indicative allocation in the physical and social sectors., 'Reflecting the view that productive activities would be largely left to the private sector, physical sector expenditure projections in the ADP's show a significant fall from about 68% of ADP in 1995 to about 59% in the year 2000 and to about 50% in the year 2010. On the contrary, expenditures in the social sectors increase from 32% in 1995 to 41% in 2000 and 50% in 2010'[Participatory Perspective Plan for Bangladesh 1995-2010]. This is not realized rather an indicative allocation and provides a sense of direction in the future program as well as priorities of the public sector

## Towards An Indicative Plan: Bangladesh Scenario

An indicative plan, nowadays, is a rule rather than an exception in the context of planned development in the developing world. The different actors and stakeholders in the development process set their strategies on the broad canvass of national development philosophy. Such a plan explicitly outlines the current state of economic development and also the direction to which economic activity need to be steered for self sustaining stage of development. The institutional edifice, values and culture and the resource base are some of the important parameters that define the horizon. The plan provides some indicative resource allocation for at least a medium term horizon. a clear demarcation between private and public sector participation both in terms of overall allocation in the plan and the domain of activities in each of the sectors. ✓

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The infrastructures in indicative planning exercise endorse democratic instihltion that ensures transparency and accountability in the efficient functioning of the state. Policy envelopes are designed to monitor and control the behavior of important macro variables inpermissible range to instill a sense of confidence in proper functioning of the economy. The social perspective in development is generally captured through detailed elaboration of issues and policy options, enunciated in the Constitution and reflected in the election manifesto of political parties, Sometimes, plan period coincides with the tenure of political party in power thus ensuring the contribution of the political party in the development process.

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✓ Poverty alleviation, human resource development, productive employment generation, women empowerment and decentralization of administration are some of the facets in social and administrative development. Sectoral plan provides a comprehensive outline of strategies in the public sector for attainment of the several targets in social sectors and a working formula in the resolution of conflicting objectives. "Public sector investments would be directed, at supporting private sector development through capacity creation that would, as a consequence, generate a crowding-in effect of private sector." [The Fifth Five Year Plan 1997-2002] The ultimate outcome is the acceleration in development process through mutual reinforcing.

The Fifth Five Year Plan [1997-2002] of Bangladesh, though burdened with quantitative data may be considered as an indicative plan on many counts. The basic framework indicates the interdependence of the public and private sectors in development. "In tune with the current global trend, the government has committed itself to the market economy and has been pursuing policies through which the private sector will play the dominant role in the country's development efforts. In all cases where public

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ownership is retained, efficiency must be increased through improving management, decentralizing the decision making process, ensuring commercially viable options and following economic price of all goods and services". [Fifth Five Year Plan P. 50] These are the important areas that an indicative plan should focus in the context of planned development with active participation of private sector. It is also encouraging to note that initiatives is there to contain public sector monopolies and thus to expose the public sector to competitive environment with the private sector and ultimately disengage the public sector from those activities in which the private sector is suited to perform efficiently, The private sector development paraphernalia span a broad canvas that includes participation in telecommunication, power generation and distribution, development of ports and investment in physical infrastructure such as real stat! development. This perspective clearly indicates a very important aspect of indicative nature of the Plan.

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Looking through the mirror of the policy landscape, the plan has set policy options in different sectors of the economy. This includes both micro as well as macro dimensions. Micro issues are dealt in sectoral context and the macro issues are defined in the context of broad macroeconomic aggregates. There are few steps in the monetary and fiscal area for attainment of the internal and external balance. Financial Sector Reform Program aims at restoring confidence in the banking system.

The Securities and Exchange Commission [SEC] was established under the SEC Act, 1993 to provide buoyancy in the nascent capital market. Investment in private sector hinges on the proper functioning of the capital market. An enabling environment attracts portfolio investment from abroad and works as a conduit for domestic resources mobilization that ultimately feed investment in the private sector.

Chapter II of the Fifth Five Year Plan provides comprehensive coverage on fundamental issues in indicative plan. Qualitative statements adorn this Chapter and Fundamental Principles of State policy, as embodied in the Constitution sets the imperatives and a sense of direction for the public sector in development. There are several issues that outlines the constitutional obligation of the public sector in statehood. Nature and focus of the Plan, objectives of the plan and strategies focus broad direction in qualitative statements in state sponsorship of development planning with other partners. Indications are there for involvement of local level institutions on participatory planning during Fifth Plan. This gives a definite sense of direction and a vision on the evolution of the administrative structure.

On the same plane, we may consider the development plan of Thailand. The Eighth National Economic and Social development Plan of Thailand [1997-2001] has categorically focussed several aspects of indicative plan. There are explicit references on development objectives, visions and development strategies. The plan lacks elaborate quantitative projections that characterize plan in command economy. On the other hand, qualitative statements rein both in sectoral development strategies and in policy outline.

The plan succinctly put the vision for Thai society in attainment of per capita income of US\$ 12,000 (at 1993 constant prices) by the year 2020, role of technology and a democratic political system under the monarchy. The new development paradigm sets two strategic approaches. The first is the establishment of good governance and the second encompasses the reform agenda for effective translation of the plan into action. The indicative nature of the plan is encircled in the following statements, “ The development strategies proposed in the Eighth Plan indicate only directions in which national development must go in order to achieve the major long-term goals. They do not set out a detailed

development approach by economic and social sectors and short term measures currently undertaken by various implementing agencies". [The Eighth National Economic and Social Development Plan,(1997-2001) P.6] Local level developments through sub regional cooperation and development of the production base in preparation of changes in global markets divulges dimensions of government strategies for an enabling environment. The plan also has earmarked the role of different stakeholders in the implementation of the plan. It take cognizance of a three-dimensional approach that takes into account areas, the missions of the agencies concerned, supporting environment of the public sector, the private sector and the general public as a framework for development planning and project formulation. Development drive is thereby de-linked from a command perspective to vision perspective.

The path of transition from a command to indicative planning requires reorganization of the economic set up, both organizational and procedural. The process may be time consuming and painful. The perspective varies and is a function of the level of development, values and social culture. Bangladesh embarked into the indicative nature of plan from the Third Five Year Plan [1985-90]. The Two Year Plan [1978-80] scratch a modest beginning that provided a sense of direction. The Fourth Five Year Plan and the Fifth Five Year Plan in a sequence advocated the philosophy of indicative plan. The stance of the government is reflected in the following statements,

*"between the extremes of government –managed economic development and the completely free market, we need to find a sound mix of the government and the market that is appropriate for our own stage of development and our institutional capabilities. We recognize that the traditional approach to development planning must undergo a radical change. There should be a shift of emphasis from quantitative*

*and allocative planning to indicative and policy planning. The primary focus of our Fifth Five Year Plan is therefore on policies rather than on targets, on reforms rather than on mere projection of performance indicators".*

The true perspective of indicative planning is captured in the above statement. This statement also aptly defines the contour of economic plan suitable for social and economic development in the partnership of public and private sector.

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