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RADIO ADDRESS ON ECONOMIC PLANNING BY THE PREMIER ON SEPTEMBER 19, 1964

Since the meeting of the National Economic Council in the Public Building a few weeks ago I have talked to you on two occasions about the question of economic planning. I return now to this vital, if somewhat dry subject.

Economists and planners the world over are now paying greater and greater attention to the question of improving the lot of the people particularly in the poor countries. However among these experts there are different schools of thought about the question of economic development. Some still continue to focus their attention on help from outside. Others, however, while not denying that outside help can be of material assistance, are beginning to look more closely at the internal situation.

Last week when I spoke to you, I said that it is necessary to see what can be done inside a country such as ours to increase the actual surplus available for investment; in other words, to maximise as mush as possible the amount of money which can be used for development. I pointed out that the amount of money available is reduced for various reasons. Some of these factors are (1) excess consumption; (2) output lost through unproductive workers; (3) output lost because of unemployment; and (4) output lost because of irrational or wasteful competition and organisation of the economy.

Under excess consumption, one can refer to the conspicuous consumption of the wealthy and leisure class. This can amount to a sizeable sum. Then there are the unproductive workers whose labour may be necessary without being productive. This is shown up particularly in times of crisis or during a war. For instance, in the United States during the Second World War the productive output of the United States increased tremendously. This was because many workers, chiefly those who were employed in domestic work., left their work for more remunerative factory employment.

Because of irrational and wasteful organisation it has been found out that physical capacity remains unused even in times of prosperity; that is, factories do not produce to their maximum capacity. For instance, it was found out by the Brookings Institution in the United States that "in general...in the years from 1925 - 1929 available plant was used between 80 and 83% of capacity..." .."If new productive efforts were directed towards co-ordinating the various industries... an output of 19% greater than was realised would have been possible. Stated in terms of money, this increased productivity would have approximated $15 billion."

In other words, had rational use been made of the existing productive apparatus nearly 20% more of the national income would have been produced in 1929.

I reiterate - our objective should be to mobilise as much capital as possible locally. It is not, however, easy to mobilise the maximum potential surplus without comprehensive economic planning. That's why in a country like British Guiana so much emphasis is placed on foreign capital, on help from outside. The first lesson we must learn, therefore, is to take an analytical look at our internal situation, the structure of our economy.

Now whatever the amount of the surplus that is available, the next important question which confronts the Government is how to spend this money so that the maximum benefit can be attained for its citizens. Like the intelligent housewife, a Government has to allocate the surplus carefully. This means making decisions, after mature and careful consideration, as to how much should be allocated to the various sectors. By various sectors I mean industry, agriculture, infra-structure and social overheads. By infra-structure is meant roads, communications, public utilities, sea defences, harbour improvements, etc., and by social overheads, education, health, social security, etc..

This question of allocation is vital since it may very well determine whether a country will lift itself with its own bootstraps or whether it will stagnate or degenerate. In deciding what to invest in the different fields, economists and planners use a yardstick which is called capital-output ratio. In other words, what is obtained and how soon for what is put in. The capital-output or input/output ratio is more favourable for some sectors than for others. For instance, a given sum of money put into industry is recouped more rapidly than if invested in the other sectors; namely, agriculture, infra-structure and social overheads.

How to allocate the money available is not always an easy and straightforward matter. Several points are posed - industry versus agriculture, producer goods versus consumer goods, heavy versus light industries, capital intensive versus labour intensive industries. All these concepts have to be considered by the economists and planners. At some times, they come in conflict with the politicians who may disagree for short-term political reasons. The economic planners may look at the question from a strictly economic long-term point of view.

The debate whether one should invest in industry or agriculture is sometimes heated and purely academic. It is true that industries generally yield returns more quickly than agriculture; expenditure in industries is recouped, say, between 3 to 10 years as against say 5 to 20 years for agriculture. As I see it, what is important is that there should actually be a simultaneous effort in both industrial and agricultural directions since in a sense both are complementary. Agricultural not only provides the raw materials for industry but food for the industrial workers. Industries on the other hand require consumers for the purchase of the commodities produced. This role of consumers is provided by the farmers and agricultural workers.

Another important decision which the economic planners have to make is whether to go in for heavy or light industries, for labour-intensive or capital-intensive industries. In other words, whether with a given sum of money one should try to set up those industries which aim at employing as many people as possible or at recouping the money invested as quickly as possible. It may appear that it is better to go in for light labour-intensive industries; namely, to employ more people. However, it has been found from experience that there is more intense competition in the international market with products from labour-intensive light industries. The result is that profits and returns are lower. Capital-intensive, heavy industries while not employing many persons generally yield greater returns and higher rates of profit, and thus permit of quicker re-generation of capital.

I have cited the various factors which the economists and planners have to consider and evaluate in deciding how the economic surplus or the country's financial resources should be allocated so that there can be the most rapid development. But as I said decisions are not always easy to make based on an objective valuation of the situation. Political factors, internal and external, have to be considered. The politicians who make up the Government may not want to move in a certain direction which has been dictated by objectivity and reason. They may be the tools of business interests and therefore wish to perpetuate the status quo. Or they may be under severe pressure at home and abroad by vested interests, which one often finds are prepared to provide experts and advisers to draw up plans and give advice.

What is the advice which is generally tendered? Firstly, that the Government should not embark on industries, but should concentrate on agriculture and infra-structure and social overheads development. This kind of advice, of course, is in keeping with the desire of vested interests at home and abroad to maintain the status quo. One finds pressure of this kind particularly when abroad to secure loans. Thus private institutions or governments which are asked to make grants or loans are first anxious to see the plans of the government. If they are not in agreement with the plan, they give excuses of one kind or another for refusing to make grants or loans. A notable case is the refusal of the World Bank to make previously promised loans to the Indian Government after publication of its socialist-oriented second 5-year plan.

I repeat, the advice which is generally given is that the Government must encourage foreign investors while it concentrates on agriculture and on infra-structure and social overheads. If the Government heeds this advice note what happens. It borrows money at say 6% interest but invests in schemes such as drainage and irrigation, roads, sea defences, harbour improvements, health, education, etc.. While doing so, its debt burden and annual debt charges increase rapidly. The reason for this is obvious. $1 million borrowed at 6% becomes at compound interest $2 million in 12 years. But $1 million invested in drainage and irrigation, infra-structure and social overheads is not recouped in that same period of time. The recovery of this amount may take anywhere from 15 to 100 years. In the meantime, the foreigners have to be encouraged in the form of tax holidays and other tax concessions to invest in the profitable fields of mining and industrialisation. They apply pressures of one kind or another; they play one country against another. They refer to the risks involved in going to underdeveloped countries; consequently, they wring as many concessions as possible so as to recoup their investment in three or four years.

The spectre which therefore faces poor countries like British Guiana is that the foreigners invest in the most profitable sectors of production and services such as shipping, insurance, banking and import-export trade, while the Government and the people are relegated to the risky and unprofitable. The result is that the people are forced to live at subsistence level, the Government is plagued with an increasing national debt and mounting annual debt charges, while the foreigners drain out of the country annually increasing quantities of capital.

In our country the most profitable sectors of production - sugar and bauxite - are in foreign hands; they account for nearly three-quarters of the export income of the country. The least profitable and risky - rice, ground provisions, fruits and permanent crops, livestock and poultry - are left in local hands. It is interesting to note that the bauxite industry which in 1960 earned 9% of the gross domestic product, employed only about 2% of the labour force. And sugar which earned 17% of the gross domestic product employed only 11% of the labour force - about 19,000 persons. Rice, on the other hand, which employed nearly 40,000 families earned only 6% of the gross domestic product; while agriculture, other than sugar and rice, in which thousands of

Guianese are engaged earned only about 3½% of the gross domestic product. It will be seen, therefore, that the bulk of the Guianese people have very little income accruing to them. Besides, whether they suffer from the risks of production - floods or **droughts** or market gluts - they have to pay fixed charges for services rendered. These services - shipping, insurance, banking and import-export trade - are also in the main in the hands of the foreigners. This is the explanation for the poverty of the people in countries like British Guiana.

Office of the Premier

19th September, 1964.