

Book Review

Public Sector Investment Planning for Developing Countries. By E. V. K. FitzGerald. London: MacMillan Press Ltd. 1978. xv + 200 pp. Price: £ Stg. 3.50.

While the book under review provides a critical evaluation of cost-benefit analysis, it mainly focuses on the relevance and utility of project evaluation techniques for development planning. It has been argued in the book that no project can be meaningfully evaluated in isolation because its impact not only is confined to the project itself but tends to spill over to other projects as well. Such spill-over effects become all the more critical when the induced economic effects of that project are not marginal. In addition to the interdependence between projects, the author has drawn attention to an oft-neglected but very important aspect of cost-benefit analysis: Shadow prices are not very meaningful in the context of project evaluation exercise in the real world if they are computed without considering the structure of the economy, the pace of development and income distribution.

The book is divided into two main parts. While the first part relates to standard cost-benefit techniques, the second part is devoted to the ways and means of integrating different projects into a national development plan. The major emphasis in both the parts is on the relevance of these techniques to practical problems of project evaluation. That the secondary benefits of a project are important in project evaluation is common knowledge. The author has also satisfactorily explained that such secondary benefits assume an even greater importance in the public sector. However, unfortunately the book is silent as to how these secondary benefits will be measured.

The author has very rightly pointed out that the evaluation of the contribution of the three factors of production, viz. land, labour and capital, to growth is still a matter of considerable debate and that it cannot be resolved just by evaluating better analytical techniques. The problem arises from the fact that land, labour and capital are not commodities but involve ownership relationships, which are basic to the workings of any social system. The income accruing from these three factors determines the structure of personal income distribution. Hence, any attempts at measuring or even making precise statements about the costs of factor inputs inevitably imply assumption regarding the nature of the existing socio-political

system. The distinguishing feature of the analysis presented in the book is its emphasis on the nature of the participation of the State in the economy for a proper project evaluation. One may note that the question is not just academic because unless government policy in this regard is made specific, it is not really possible to even define the extent of the public investment programme, let alone determine its contents.

The State can play either a supporting or a controlling role in the economy. It may decide to provide for only the infrastructure and finances to private sector projects, or it may decide to control the entire production in the economy. The implications of such a decision for economic planning are quite different. In its supporting role the government is, in effect, reflecting only the needs of the private sector rather than those of the economy as a whole. In the case of direct State control, on the other hand, there is a possibility for the planning process to achieve more effectively the wider economic aims through a complete restructuring of the entire production structure.

In this book, political realities have been explicitly taken into consideration to assess the full impact of project evaluation. For instance, the author has argued that just setting the prices right would not necessarily lead to an optimal allocation of resources. However, the author suggests that sub-optimal techniques are indeed wrong as far as the disadvantaged masses are concerned but they are right for owners, administrators and the existing employees of the corporate sector. Therefore, the real issue is not that of cost minimisation and the equilibrium in input markets, but rather that of the style of development and the resulting socio-economic structure. To the author there seems to be no particular logic in choosing labour-intensive techniques of production when the government is restricting itself to a mere supportive role leaving the actual 'action' to take place in the private sector. For this would mean a massive shift of resources away from the corporate sector if it still insists on capital-intensive techniques, notwithstanding the intention of the government to the contrary. It appears to follow from this analysis that shadow prices, as an effective instrument of economic problems, are not really relevant in the so-called mixed economies, of which the private sector is the dominant element. It seems that the author, though right to a large extent, has a distinct bias in favour of a particular strategy of development. However, while the basic logic of such an argument is impeccable, it may be taking things a little too far in the direction of the author's own political predilections. While it is true that shadow prices, ^{are not very effective} in a mixed economy, it will be an extremist approach to deny a modicum of utility to shadow prices in the role of providing proper guidelines to the private investor. Furthermore, in so far as investment in the public sector tends to have a multiple effect throughout the economy, the government, by choosing correct shadow prices, can influence the choice of technique not only in public sector but also in the private sector. For

instance, if through appropriate shadow prices labour-intensive techniques appear to be profitable in heavy industries as well, it might very well lead to a technological change which emphasizes the development of new techniques of production. The author in effect, makes the reader think about development problems far beyond a particular investment decision in the context of the structure of the economy as a whole. The author brings out the basic problems of cost-benefit analysis but, unfortunately, fails to provide a satisfactory solution to those problems. The book is a very useful addition to the literature on cost-benefit analysis, and, in addition, it contains a number of exercises which are useful for both students and teachers, and is, therefore, recommended for use not only by the academics but also by practical planners.

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