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general productivity of the economy, the most obvious of which are often infrastructure projects. Improved transportation and communication especially should make new investments more productive in many countries. Housing is another candidate for expenditure from this “isolated” foreign exchange. The withdrawal of the foreign exchange used for these purposes would, of course, mean less foreign exchange flowing into the general foreign exchange pool which is assumed to act on the exchange rate. Foreign currency would therefore have a higher value than it would have were all the foreign exchange put into the general pool. Thus investment projects drawing from the pool would be paying a price for foreign exchange that measured more accurately the productivity of the general economy. This situation would make exporting more appealing and, more importantly, emit the signals appropriate to reflecting the capacity of the economy to use foreign exchange.

There are doubtless other ways to accomplish the desired objectives. A general point in conclusion: the development objective has so frequently been constrained (or thought to be constrained) by foreign exchange that a situation where that is not the case creates some problems that have not been well explored. It seems especially important to appreciate that the SMP of foreign exchange does fall as its availability increases. The fact that migrating workers remit foreign exchange does not automatically mean that their migration is socially profitable. It then becomes necessary to try to understand the social productivity lost to the country by the migration and that gained by the remittance. When that is understood, then the policy objective is to design the means by which these SMPs will be reflected in earnings and in the exchange rate. To make a contribution to this point has been the purpose of this paper.

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4. Middle East Economic Digest. Various recent issues.
its sensitivity to the choice of the Consumption Rate of Interest (CRI) is stressed. Since one of the conclusions of JW is that the Squire-van der Tak weighting system is difficult to apply because of the problem of estimating v, and since a very wide range of possible values of v is identified, it is odd that such a narrow range should be referred to by Ms. Tsakok. Fourthly, Ms. Tsakok attributes to my analysis a weight of 1.0 for consumers at the Critical Consumption Level (CCL). This follows since the CCL is defined by the equality

$$\frac{d_i}{v} = B$$

where $d_i$ is the weight given to consumers at the CCL in relation to average consumers, and $B$ is the CCF. As my earlier paper used a value of 0.98 (rounded to 1.0) for the CCF, $d_i$ at the CCL must equal 1.0. However, this approach again conflicts with the argument of JW since it follows the weighting system of Squire and van der Tak, whilst JW suggests an alternative approach to weighting which does not involve the use of the parameter $v$. Finally, with reference to my treatment of the opportunity cost of public investment, q, Ms. Tsakok points out rightly that my discussion of this parameter in JW is very brief. However, a more detailed analysis is given in the study on the application of the UNIDO methodology [2] referred to above, although both the practical and conceptual problems regarding q, mentioned by Ms. Tsakok, are not solved satisfactorily.

The general thrust of the argument of JW is to question the usefulness of the extension of cost-benefit appraisals into the field of "social" analysis. JW argues that there are major difficulties in applying an income-weighting analysis, both in estimating actual income changes created by a project and in identifying a relevant set of weights to revalue these income flows. It suggests that decision-taking on projects on its own is unlikely to be an effective policy instrument in achieving significant income redistribution. Ms. Tsakok, by carrying out an overall survey of the various shadow price estimates, does not distinguish clearly enough between problems related to "social" analysis and those related to "economic" or efficiency analysis. It is clearly correct to point to the inadequacy of some of the calculations in the symposium papers due to poor data, and to stress the need for frequent revisions of estimates as more data become available. However, JW stresses the particular problems for the application of social analysis, resulting from the intrinsically subjective nature of key parameters such as the CRI and v. Even with an improved set of basic data these problems will remain. Furthermore, the application of social analysis requires considerably more additional information on specific projects, if the income changes created by projects are to be identified in a meaningful way.

Ms. Tsakok ends her comments with the suggestion that what is needed is an in-depth study of the usefulness of shadow pricing analysis as an aid to decision-taking. It is important to remember that the literature on cost-benefit analysis for investment appraisal in developing countries considered originally that only a few major adjustments to market prices would be required, relating chiefly to the discount rate, the exchange rate for foreign currency, the wage for unskilled labour, and the prices of some internationally traded commodities. In recent years, the development of the so-called comprehensive methods of cost-benefit appraisal has meant that a complex theoretical structure has been erected whose application, in principle, involves a comprehensive set of detailed shadow price estimates. The papers in the symposium illustrate many of the problems involved in producing such a set of estimates, and Ms. Tsakok is correct to stress the limitations of those given for Pakistan. However, there is considerable evidence from a number of countries that decision-taking on projects can be improved by introducing relatively crude adjustments to the market prices of a relatively small number of key parameters. The position implicit in JW is that whilst there may be major difficulties in introducing a detailed "social" analysis of projects, a relatively simple form of "economic" or efficiency analysis can be a useful aid to decision-taking.

It is not a question of whether the relatively simple shadow prices used in such an analysis are wholly accurate reflections of the full effects on the economy of using inputs or producing outputs on a project. The question is whether they capture these effects more accurately than do prevailing market prices. In many economies, market prices are such inadequate measures of full costs and benefits, however these are defined, that this is likely to be the case. However, this relatively simple type of cost-benefit appraisal is a very long way removed from the application of detailed and comprehensive sets of shadow prices. As Ms. Tsakok suggests, for many economies the practical effects of this comprehensive approach may remain small because of the problems involved in the estimation of the necessary parameters.

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