Chapter 2

PLANNING IN PERSPECTIVE

Planning under different systems

Though the world has now before it a formal planning experience of nearly 60 years only, the tendency to plan has a longer history. Perhaps, it may not be an exaggeration to say that every production unit always used to have a plan. Similarly, every organised society had a plan at one time or another in its existence, of course, varying in details and scales. The degree of details and coverage in planning depends, inter alia, on the exigencies of the situation in which the country in question finds itself.

To plan is to re-orient the activities along desired lines so as to achieve a given objective. It is necessitated by the desire to obtain better or different results from the performance of a system. In this general sense, planning seems to be perfectly congruent as much with capitalism and mixed economies as with socialism. In fact, the adoption of planning under diverse socio-economic systems has resulted in
differences in the structure and scope of the plans of various countries so much so that today it is difficult to say what is precisely meant by a development plan.\textsuperscript{2}

There was a time when planning (at the formal level) used to be associated with a communist country. This practice made the rulers of the capitalist economies shun the use of the word 'planning' while, at the same time, resorting to planning, of course, in an unplanned manner.\textsuperscript{3} This ideological idiocyncracy seems to be on the wane today as is exemplified by the insistence of the Governments of developed capitalist countries as well as the multilateral aid-giving institutions on the formulation of economic plans as a precondition for giving aid to developing countries. Even in the case of aid extended with the covert motive of blocking the spread of the influence of Communism, this insistence is seen to be made.

However, the observation that all countries have planning and only the extent of coverage and degree of details differ among different types of countries may appear to be a simplistic way of espousing the cause
of planning and may, consequently, obscure our understanding of the vital questions involved, viz., objectives, nature, processes, outcome etc. It is, therefore, essential to know, at least broadly, planning in different types of countries.

From the point of view of economic planning, the countries of the world can be classified into three categories, viz., (1) advanced capitalist countries, (2) Soviet-type economies, and (3) non-Soviet type developing economies. Type of planning and the institutional framework within which it is undertaken vary as between these three categories.

In advanced capitalist economies, planning, in the sense of state intervention plays a pro-market, promotional role, the objective being to provide the right environment for the smooth functioning of the private sector. State intervention takes the form chiefly of the creation of infrastructure facilities. Since the pursuit of profit-maximisation is the overriding objective, meticulous and detailed planning takes place at the level of individual production units as evidenced by the increasing use of monitoring
techniques such as CPM and PERT in private enterprises and autonomous corporations in the USA. Nevertheless, generally, no plan for the economy as a whole, in the sense of a detailed blue-print for economic development, is adopted. Overall state intervention takes at best the form of the adoption of contra-cyclical measures and, therefore, aims at the maintenance of steady growth along the capitalist lines. Thus, there are other types of state intervention such as the provision of social security measures and other welfare programmes. However, such interventions seldom constitute co-ordinated parts of an integrated ex ante programme and are made mainly to rectify some of the side-effects of the market economy. Thus, whatever planning is adopted is carried out within the framework of the market mechanism without any attempt or intention to replace that mechanism. Above all, what is more important from our point of view in the present context is to note that planning, even in this restricted and loose sense of the term, has followed development.

In a Soviet-type economy, on the other hand, planning is essentially a substitute for the market-mechanism and development is planned within the bounds
of a system based on the social ownership of the major means of production. As inter-personal non-functional inequalities are absent, the only other major objective (other than growth) of planning is, therefore, the removal of regional disparities. This objective can, of course, come into conflict with the growth objective. The attainment of spatial balances tends to evade solution even in the USSR and China. It, therefore, seems that the problem of spatial imbalances has a stubborn tendency to persist under all systems. If this reality is recognised as an inescapable one, it becomes obvious that planning in the Soviet-type economies is predominantly aimed at a single objective, viz., growth.

A non-Soviet-type developing economy, on the other hand, is saddled with multiple problems such as low growth, inter-personal and inter-group inequalities, regional imbalances, unemployment and mass poverty. Hence, the degree of inter-objective conflicts involved in planning is far higher in such an economy than in a Soviet-type economy. Planning is an instrument of growth (unlike in advanced capitalist countries,
planning in this group of countries precedes development) and a socialist pattern of society is sought to be established through a planned process.

Thus, unlike both in an advanced capitalist economy and in a socialist economy where policy objectives are limited, in a non-Soviet-type developing economy characterised by the continued existence of a private sector, the pursuit of multiple, mutually conflicting, objectives makes policy intervention more complex and difficult. This fact needs to be kept in mind while evaluating the plan performance of such an economy because a strong tendency seems to prevail to compare such performance with that of the Soviet-type economies without having due regard for the entirely different institutional set up prevailing there.

The non-Soviet-type developing economies have adopted democratic planning whose success depends upon the voluntary co-operation of the people. But such co-operation is constrained by the existence of an institutional framework dominated by innumerable pressure groups with conflicting interests.
It is all the more important to bear in mind that in the countries belonging to the third category, the plan does not have the force of law. It only indicates to the government the desired directions of development. Consequently, many important economic decisions are taken outside the ken of the formal plan.\textsuperscript{5} Thus, programmes which have not been included in the plan are publicly announced by Ministers; some of the projects included in the plan are not implemented; and, again, projects are located at places other than those originally envisaged. Perhaps, the most conspicuous example in this regard was the promulgation in 1975 of the Twenty Point Programme by Mrs. Indira Gandhi, the then Prime Minister of India, lending credence (of course, inadvertently) to the view that basic issues such as abolition of bonded labour system and eradication of mass poverty cannot be resolved under the usual Five Year Plans of the country.

The deviations from the approved plan is sought to be justified by the apologists of market economies by pointing out the 'failure' of planning. In support of their contention, they cite, quite persuasively, the individual freedom granted to the people in China.
and the gradual opening up of the Chinese economy to foreign technology and investment. While this line of argument is not altogether unconvincing, its absolute nature is open to question. For one thing, the individual freedom granted is limited in scope and without prejudice to the quintessence of the system, viz., the social ownership of the major means of production. Secondly, the tendency need not necessarily be an infallible proof of the failure of planning per se, as it could very well be due to a change in the outlook of the rulers. However, as this point by itself can furnish a theme enough for a major enquiry, we do not intend to dwell on it here at any length. Our purpose here is to point out the stupendous nature of the tasks involved in planning in a non-Soviet-type developing economy where a multiplicity of objectives are pursued simultaneously.

A non-Soviet-type developing economy, launching upon a course of planned development, is confronted by yet another serious problem, viz., the lack of consensus on an appropriate development strategy. The other two types of countries do not face this problem. In the case of advanced capitalist countries, the course of
development is a 'natural' and spontaneous one determined by market forces, while in the Soviet-type countries, it is determined by the government. In the case of the non-Soviet type developing economies, on the other hand, the course is not determined exclusively by either the market or the government, but by both. (In the private sector, by market forces and in the public sector, directly by the government). As far as the functioning of the two sectors is also concerned, there are peculiarities. The private sector, unlike its counterpart in the advanced capitalist countries, is sought to function in accordance with the social objectives stipulated in the plan. Conversely, the public sector while undoubtedly functions in the interest of social good, is nonetheless, required to facilitate the functioning of the private sector which is supposed to play a complementary role.

Since planning is for development in the broad sense of the term, it must be based on a development strategy. Unfortunately, despite the large and growing corpus of literature in development economics, the appropriateness of a development strategy is still a controversial issue. We still do not know many of the
causal factors in the development of a country rendering the choice of a development policy with certainty impossible. Thus, the task of development planning still remains a formidable one. However, the observation that since the wealth of a society consists of the capacity to produce goods and services rather than the volume of goods and services available at any point of time, the accent in the initial stages of development should be on the building and expansion of the infrastructure base of the economy appears to be convincing. In this sense, the lines along which to proceed are clear and simple. The selection of projects at these stages cannot be based on any scientific tests of investment planning such as cost-benefit analysis, for the creation of infrastructure is a pre-decided matter and what is really relevant is the selection of the least-cost methods of creating it. Thus, there is a certain degree of crudeness of planning in the early stages of development.

Nevertheless, two snags, apart from the choice of the efficient and economical methods, can arise here. The first is that while the importance of physical infrastructure in propelling development is
well recognised by all, the role of social services is still in the realm of controversy. Writers like Theodore W. Schultz regard expenditure on social services as investment, whereas, according to Arthur Lewis, at the margin, such services are consumption rather than investment. However, what is important here is to note that even if treated as consumption goods, the fact that social services spur economic development by removing the institutional impediments to development underlines the need for providing such services. Nevertheless, serious problems can arise here. As 'social capital' is not fully self-financing, the burden of providing it has to be borne on the general budget. This fact, in conjunction with the ever-increasing popular demand for it may provide ample scope for misdirected and wasteful expenditure.

The second snag is that there is no quantitative method of determining the amount or extent to which over-head capital (both physical and social) should exist as a pre-requisite for economic development. As Oscar Lange rightly points out "they (infrastructure) by themselves are not a factor bringing about
Economic development, according to the prevailing notions, is measured by the volume of goods and services produced by an economy. Hence, directly productive activities seem to call the tune here. Accordingly, a "sequence of development" based on "development via shortage" (of social overhead capital) is recommended. However, a crucial question in planning in a mixed economy is the division of economic activities between the public sector and the private sector. The private sector cannot be expected to undertake directly productive activities in the face of inadequate social overhead capital, much less to create such capital by itself. Whereas, at least conceptually, it can be expected to respond to the stimuli created. Hence, the government under such a planning regime has to undertake the responsibility of creating such capital. Besides, due to the lumpiness of such investments, a certain amount of surplus cannot always be ruled out. All the same, in the absence of norms regarding adequacy, large scope for overdoing may exist with the result that directly productive activities will be totally neglected. Thus, the government is inextricably caught in the horns of what may be called a development dilemma.
The difficulty of planning in a non-Soviet type economy referred to above gets compounded if such an economy is also a federal one where planning is a concurrent responsibility of the Central Government and the Governments of the federating units. The most typical case in this regard is India which has a federal set up, a democratic Constitution and a planned economy.

Centre-State relations and state level planning in India

Planning in India takes place within the framework of a mixed economy. The public sector provides the necessary infrastructure which results in lowering the cost curves of the private sector, thus giving the latter incentives for undertaking productive activities. In the public sector, planning responsibilities are divided between the Centre and the states. Schemes of an inter-state nature and also those involving very high investment outlays are undertaken by the Central Government while schemes whose impact is limited mainly or exclusively to individual states fall within the functional responsibility of State Governments. Thus, subjects such as basic and heavy industry, major ports, railways, and telecommunications are within the
Central purview while the states deal with agriculture, irrigation, power, small and medium industries, minor ports, health etc. There are also programmes which are concurrently undertaken by both the Centre and the States. From the listing of the subjects falling within the purview of the respective Governments, it is obvious that the State Governments deal with matters immediately affecting the life of the people. In this sense, States' plan performance is subject to public scrutiny more closely than that of the centre.

However, an understanding of the manner in which State plans are formulated and implemented requires an understanding of the position of the State in the Indian federal polity, for the entire gamut of Centre-State relations has its bearing upon planning at the State level.

That the states in India ought to be 'free' to formulate and implement their plans is necessitated by their diversity in terms of size, population, availability of resources, levels of development already achieved, socio-cultural milieu, and above all, historical experience. In all these respects, the states widely differ from one another. Hence, a
centralised national plan may not be able to take account of the diverse socio-economic and geographical peculiarities. This fact has been recognised from the very inception of planning in the country and the states have, therefore, been required to formulate their own plans taking into account their socio-economic problems and development potentials. However, the states' planning initiative is said to be severely circumscribed by the fact that the scale of Centre-State relations is unduly tipped in favour of the Centre.

First of all, the monetary policy which affects the pace of implementation of the various programmes and projects through changes in the price level is the exclusive preserve of the Central Government.

The State Governments' control over the private sector is nominal. On the other hand, the Centre, through its industrial licensing, credit, and fiscal policies, can exercise significant control over the investment decisions of the private sector.

A very serious factor acting as a deterrent to the States' initiative in planning and has raised much hue and cry against the existing scheme of
Centre-State relations is the excessive dependence of the States on the Centre for plan assistance. It is an incontrovertible fact that the federal balance of fiscal relations in India disproportionately favours the Centre. This is because most of the buoyant and elastic sources of revenue are with the Centre whereas the states which are Constitutionally enjoined to perform more responsibilities are assigned revenue sources most of which are less elastic and have political implications. The states, after meeting their non-plan revenue requirements find themselves left with little or no surplus from their own revenues at their existing levels of exploitation, making it imperative for them to rely on Central assistance for the new plan. By virtue of this excessive reliance on Central assistance, the states, it is alleged, are bound to toe the Central line in planning though it may be out of step with their own problems and potentialities.

The Centrally Sponsored Schemes are accepted by the states primarily for taking advantage of the grants/loans attached to such schemes. It is even observed that left to themselves the states would not
have included many of these schemes in their plans. This was made amply clear at the meeting of the National Development Council for finalising the Seventh Five Year Plan. At that meeting, the Chief Ministers almost unanimously demanded substantial reduction in the number, if not total abolition, of Centrally Sponsored Schemes.

Again, the Central Government enjoys great control over the supply of basic materials such as cement, iron and steel, fertilizer etc. which are so vitally essential for the implementation of programmes and schemes in the state sector. The shortage or non-availability of these materials and their price hike effected by the Centre through the policy of administered prices, can upset the schedule of plan implementation in the states.

The major irrigation and power projects included in the state plans have to be approved by the Planning Commission and the Central Water and Power Commissions. The delay in sanctioning the approval results in time and cost-over-runs. Thus, for reasons which are beyond the control of the state governments, their
programmes are adversely affected. Similarly, the foreign exchange required for the projects of the State Governments has to be released by the Central Government. The delay in such releases delays the implementation of the projects with all the adverse consequences.

Further, the States' capital budget is alleged to be crucially dependent upon the whims of the Central Government. As has already been observed, most of the states can hardly break even on the non-plan revenue front unless grants in-aid under Article 275 of the Constitution are forthcoming on the basis of the recommendations of the Finance Commissions, thus rendering it impossible for them to transfer any surplus for capital investment purposes. Inevitably, they have to resort to borrowing for raising investment funds. A state which has an outstanding debt to the Centre has perforce to obtain the latter's permission before entering the capital market. An inescapable outcome of the asymmetrical scheme of fiscal federalism and the increasing tempo of development is that invariably every state is
indebted to the Centre. The phenomenon of states' mounting debt arrears to the Centre compels the states to obtain fresh loans from the former in order just to meet the obligation of interest payment on the previously contracted loans. As a matter of fact, Central loans have become the major source of the capital budgets of the state governments. This is rather a peculiar feature of the Indian federation. In other countries, there is either a joint borrowing authority, like in Australia, or the units enjoy independent borrowing powers. This fact has created a patron-client relationship between the Centre and the States rather than a sense of partnership in the development process. This has conditioned a way of thinking that is hardly conducive to development planning which calls for initiative on a partnership basis on the part of the Central and State Governments. What is even more serious is the fact that there are no uniform terms and conditions relating to the distribution of Central loans among the states. The amount, the rate of interest and the duration of the loans vary widely as among states, thus, making the allotment of Central loans to states depend upon
the former's whimsical impressions about the latter. Of course, considering the diversity of Indian states in matters of necessity for resources and their ability to repay the loans, it is in the fitness of things to ensure sufficient flexibility in the Centre's policy in this regard. However, the same diversities which require initiatives suiting the respective conditions without compromising the sense of self-reliance and self-respect also call for a set of criteria which ensure a fair degree of objectivity. The absence of such criteria at present cramps the sense of responsibility of the states.

Moreover, the major institutional lenders such as the Reserve Bank of India, the scheduled banks, and the Life Insurance Corporation of India are under the policy directions of the Central Government.

The iniquitous nature of the central grip over state plans is more glaringly discernible in the case of externally financed projects. Even in cases where the funds are advanced by the concerned external agency as a grant, the Centre releases to the states
only a portion of the funds, and that, too, a certain part as grant and the remaining part as loan. Though the rationale of such a policy has been questioned since long back, the Union Government does not seem to have found it necessary to change it.

The secondary importance attached to the states in the planning process can be discerned from the fact that even though the *inter se* distribution of Central assistance to state plans is governed, from the Fourth Plan onwards, by the objectively devised Gadgil Formula, there is no formula for sharing the aggregate national plan outlay between the Centre and the States. As things stand at present, the States' share is a residue arrived at after meeting the requirements of the Central Ministries.

It appears that the above situation which has inexorably given rise to a "bottom-down" approach to economic planning could not have been visualised at the time of framing the Constitution, for the attention of the leaders seems to have been focused almost exclusively on the quantum and pattern of Central assistance with practically no thought given to the question of state autonomy in the matter of planning.
This might be probably due to the fact that social and economic planning which is enshrined in the Constitution as a concurrent subject was supposed to provide sufficient scope for state initiative. However, experience has shown that "the Centre has entered the State and Concurrent fields in a big way through the fiscal and financial instrument at its command and converted a large number of the state subjects virtually to Concurrent if not Union subjects."

From the foregoing account of the prevailing Centre-State relations, it is obvious that these relations place many limitations on state level planning. We have given a fairly detailed account of these limitations in order to avoid being unduly harsh in our criticism of the plan performance of the states. Nevertheless, the existence of these limitations should not be considered as solely responsible for the shortfalls in the plan performance of the states, for, as will be shown later, the states in India do enjoy considerable functional freedom within the planning spheres earmarked for them. The crucial question, then, will be, have they exercised this freedom judiciously? If not, what are the imponderables against which they are helpless?
A few preliminary observations about Kerala economy

Planning in Kerala is subject to all the limitations that the Indian federal polity imposes on state level planning. In this sense, an account of its plan performance may give a general idea about state level planning in the country. However, to the extent that the state possesses certain unique characteristics which definitely influence the course of planning, the temptation to generalise from its experience for all the states in the country should be kept in check. In the following paragraphs, therefore, we present some of the salient features of the state's economy.

Usually, Kerala has been characterised as a 'problem state'. The twin problems confronting the state are food-shortage and chronic unemployment. As the state's domestic production of food accounts for only less than half the total requirements, the remaining quantity has to be 'imported' from other states. Unemployment, whose level is the highest and which causes growing social and political unrest, is related to the structural characteristics of the state's economy. Land-man ratio is the lowest in the country
and scope for any significant extension of the net area under cultivation is non-existent. In the case of the services sector, the saturation point has already been reached. At the same time, the industrial sector, whose expansion is the ultimate solution for unemployment, does not show any tendency to expand.

As far as public expenditure is concerned, the state has the characteristic of a welfare state with substantial expenditures on social services and social welfare programmes. Expenditure on social services, taken as a proportion of total budget expenditure, is the highest whereas the proportion claimed by administrative purposes (general services) has been comparable with that of other states. Obviously, the proportion on economic service is much smaller and had been declining over the years. As the expenditure on economic services is meant for the building and maintenance of productive assets, this pattern of expenditure conclusively shows the inadequate attention given to the productive base of the economy which continues to remain fragile. Thus, the enormous expansion of the services sector has been at a very high cost, viz., the declining attention devoted to the economic base.
Another important feature of the state's socio-economic lay-out is a well-developed infrastructure. As far as road transport is concerned, the state occupies the pride of place among the Indian states. The state's development effort under the Five Year Plans has been concentrated on the exploitation and expansion of power and irrigation. Of the total plan expenditure, as high as one-fourth has gone into the power sector. However, as the state's power production is entirely hydro-based, the power system is crucially dependent on the monsoons. While the state enjoys some cost advantage in power generation, much remains to be desired in the case of transmission and distribution. The electricity supply in the state is notorious for unsteady supply and voltage fluctuations; and loss of power in distribution is the highest in the State. Also, there has been power theft on a significant scale. The state has witnessed intermittent load-shedding and power cuts (sometimes going upto 100 per cent) for high-and extra-high-tension consumers, i.e., the industries, resulting in loss of production and throwing thousands of industrial workers out of employment. It would seem that unsteady
and unreliable power supply is one of the (if not the) major reasons for the tardy progress of industrialisation in the state. Productive consumption of electricity is the lowest in Kerala (in the case of both agriculture and industries). Also, it is of significance to note that most of the power projects are located in the central part of the former Princely state of Travancore.

Very high importance has been given to the construction of major and medium irrigation projects (the state has no multi-purpose irrigation projects) the majority of which are concentrated in the two districts of Palghat and Trichur.

Two alarming features of the development of power and irrigation projects in the state have been (1) the proliferation of projects and (2) the inordinate delay in their completion resulting in staggering time- and cost-over-runs. The selection of the projects is not based on any scientific criteria such as cost-benefit analysis. Large-scale, avoidable waste has been involved in the development of both power and irrigation.
The development of the infrastructure base has not, however, succeeded in motivating the private sector to undertake directly productive activities on any significant scale. In fact, a clear dichotomy exists between services and commodities. While social services, especially education and health, have expanded substantially, commodity production seems to have remained stagnant or increased only slowly as is exemplified by the 'import' of nearly all items of day-to-day use. Thus, Lewis' observation that due to differential supply elasticities, expansion of services need not necessarily lead to production of more commodities while the converse is most likely to happen seems to be empirically substantiated by the Kerala experience. Of course, the provision of social services raises the skill and productivity of labour; but due to the backward nature of the commodity producing sector, such labour cannot be productively absorbed within the state and hence, labour shows an ever-increasing tendency to migrate whenever opportunities arise. Thus, in a very crude sense, one can say that Kerala is a 'service-exporter' and a 'commodity-importer'.

It is in the field of education that Kerala is far ahead of other Indian states. The state spends nearly one-third of its budgetary expenditure on education. It has a wide network of educational institutions, mostly in the private sector. In fact, the field of education has been deftly used by a few pressure groups and their political spokesmen in the state as a manipulative lever for furthering their interests at very high public cost.

Kerala is a middle income state in terms of per capita income. However, in the matter of taxation, it stands close to the most advanced states such as Punjab, Haryana, Gujarat and Maharashtra. In its pattern of taxation, the principle of equity seems to have been given the go-by. While sales tax has increased enormously over time, the buoyant cash crop sector has been only tangentially taxed. This light tax burden, in addition to the heavy doses of subsidies flowing into that sector, is due to the political clout it enjoys.

As a result of the ever-increasing burden exerted on the revenue budget by the social services sector, the non-plan expenditure had been rising fast creating
deficits on the revenue account and necessitating grants-in-aid under Article 275 of the Constitution on the basis of the recommendations of the Finance Commissions. The state, consequently, has earned, the dubious distinction of being a 'grant-in-aid state'. As the grant-in-aid recommended by the Finance Commissions used to be inadequate to wipe out the deficits (due to differences in the forecasts of revenue and expenditure made by the state Government and reassessed by the Commissions), on many occasions, plan funds had to be diverted for closing the revenue gaps. Consequently, the State, ever since the commencement of planning, had to be content with smaller plans as is corroborated by the fact that the per capita plan expenditure used to be one of the lowest. At the same time, most often, the targets for additional resource mobilisation used to be over-achieved.

An important fact which deserves special mention in this regard is the decreasing scope for fresh initiative in planning. Nearly half the total budgetary expenditure of the state is incurred on the payment of salaries and wages. Another portion goes for the maintenance of the completed projects. The major chunk
of the remaining resources has to be earmarked for the spill-over schemes, especially in the power and irrigation sectors. After meeting all these commitments, what becomes available for undertaking new schemes is meagre. It appears that, in the face of inadequate resources, fast-rising non-plan expenditure and the increasing claims of spill-over projects, a stage will soon be reached where the state is not able to take up any new projects while the economy is way behind achieving the targets set in various fields.

Of course, the public sector undertakings can generate surplus resources which can be used for plan purposes. However, ironically in Kerala, such undertakings, instead of generating surplus resources for deployment elsewhere, have become a liability to the general budget compelling people to question the very rationale of maintaining them.

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Notes and References

1. "The term 'economic planning' was not used until the Communist Government of the Soviet Union introduced the 'First Five Year Plan' in 1928" — Joan Mitchell, Groundwork to Economic Planning, Secker and Warburg, 1966, p.15.


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