PLANNING
Unit -11

Economics of Development and Planning

A good plan may fail due to faulty implementation. But a faulty plan cannot succeed through good implementation.
"Plan your work for today and every day, then work your plan."
-Margaret Thatcher

Introduction

- The concept "development" refers to the structural changes towards betterment. Until the World War II, interest was rarely shown on the problems of the present day third World Countries. After the Second World War, economists started devoting their attention towards analyzing the problems of underdeveloped countries and formulating theories and models of development and growth. The Under Developed Countries (UDCs) were once the colonies of England and other European countries. After becoming free and independent, there was an awakening to march towards economic development.

Approaches to Economic Development

- There are two main approaches to the concept of development viz i) the traditional approach and ii) the new welfare oriented approach.

1. Traditional Approach : The traditional approach defines development strictly in economic terms. The increase in GNP is accompanied by decline in share of agriculture in output and employment while those of manufacturing and service sectors increase. It emphasizes the

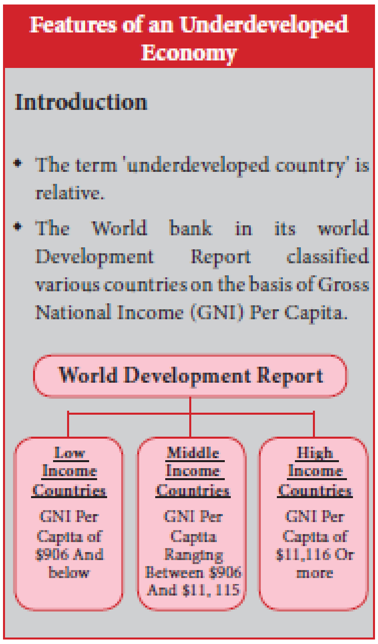
importance of industrialization. It was assumed that growth in GNP per capita would trickle down to people at the bottom.

2. New Welfare oriented Approach: During 1970s, economic development was redefined in terms of reduction of poverty, 'inequality' and unemployment within the context of a growing economy. In this phase, 'Redistribution with Growth' became the popular slogan.

- To quote Michael P. Todaro, "Development must, therefore, be conceived as a multidimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of growth, the reduction of inequality and the eradication of absolute poverty".

Underdevelopment

- The UDCs are characterized by predominance of primary sector i.e. agriculture, low per capita income, widespread poverty, wide inequality in distribution of income and wealth, over population, low rate of capital formation, high rate of unemployment, technological backwardness, dualism etc.



Meaning of Underdevelopment

- The term underdevelopment refers to that state of an economy where levels of living of masses are extremely low due to very low levels of

Percapita income, resulting from low levels of productivity and high growth rate of population.

Economic Growth Vs Economic Development

1. **State of Development**

- Generally speaking, economic development refers to the problems of underdeveloped countries and economic growth to those of developed countries.

2. **Nature and Level of Change**

- Development is a discontinuous and spontaneous change while growth is a gradual and steady change in the long run.

3. **Scope of Change**

- Growth simply means more output. But development refers to efficiency in production i.e. output per unit of input. It also implies changes in composition of output and in allocation of resources, reduction of poverty, inequality and unemployment.

4. **Extent of change**

- Economic development (wider concept than economic growth) is taken to mean growth plus structural change.

Differences between Economic Growth and Economic Development	
Economic Growth	**Economic Development**
Deals with the problems of Developed countries	Deals with the problems of UDCs
Change is gradual and steady	Change is discontinuous and spontaneous
Means more output	Means not only more output but also its composition
Concerns Quantitative aspects i.e. increase in per capita income	Quantitative as well as Qualitative
Narrow	Wider concept Development = Growth + Chang

Measurement of Economic Development

Economic development is measured on the basis of four criteria

- **Gross National Product (GNP):** GNP is the total market value of all final goods and services produced within a nation in a particular year, plus income earned by its citizens (including income of those located abroad), minus income of non-residents located in that country. GNP is one measure of the economic condition of a country, under the assumption that a higher GNP leads to a higher quality of living, all other things being equal.

- **GNP per capita:** This relates to increase in the per capita real income of the economy over the long period. This indicator of economic growth emphasizes that for economic development the rate of increase in real per capita income should be higher than the growth rate of population.

- **Welfare:** Economic development is regarded as a process whereby there is an increase in the consumption of goods and services by individuals. From the welfare perspective, economic development is defined as a sustained improvement in health, literacy and standard of living.

- **Social Indicators:** Social indicators are normally referred to as basic and collective needs of the people. The direct provision of basic needs such as health, education, food, water, sanitation and housing facilities check social backwardness.

Determinants of Economic Development

- Economic development is not determined by any single factor. Economic development depends on Economic, Social, Political and Religious factors.

Economic and Non-Economic Factors

Economic Factors

1. Natural Resource: The principal factor affecting the development of an economy is the availability of natural resources. The existence of natural resources in abundance is essential for development. A country deficient in natural resources may not be in a position to develop rapidly. But a country like Japan lacking natural resources imports them and achieve faster rate of economic development with the help of technology. India with larger resources is poor.

2. Capital Formation: Capital formation is the main key to economic growth. Capital formation refers to the net addition to the existing stock of capital goods which are either tangible likeplants and machinery or intangible like health, education and research. Capital formation helps to increase productivity of labour and thereby production and income. It facilitates adoption of advanced techniques of production. It leads to better utilization of natural resources, industrialization and expansion of markets which are essential for economic progress.

3. Size of the Market: Large size of the market would stimulate production, increase employment and raise the National per capita income. That is why developed countries expand their market to other countries through WTO.

4. Structural Change: Structural change refers to change in the occupational structure of the economy. Any economy of the country is generally divided into three basic sectors: Primary sector such as agricultural, animal husbandry, forestry, etc; Secondary sector such as industrial production, constructions and Tertiary sector such as trade,

banking and commerce. Any economy which is predominantly agricultural tends to remain backward.

5. Financial System: Financial system implies the existence of an efficient and organized banking system in the country. There should be an organized money market to facilitate easy availability of capital.

6. Marketable Surplus: Marketable surplus refers to the total amount of farm output cultivated by farmers over and above their family consumption needs. This is a surplus that can be sold in the market for earning income. It raises the purchasing power, employment and output in other sectors of the economy. The country as a result will develop because of increase in national income.

7. Foreign Trade: The country which enjoys favorable balance of trade and terms of trade is always developed. It has huge forex reserves and stable exchange rate.

8. Economic System: The countries which adopt free market mechanism (laissez faire) enjoy better growth rate compared to controlled economies. It may be true for some countries, but not for every country.

Non- Economic Factors

- 'Economic Development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress.

– Ragnar Nurkse.

1. **Human Resources:** Human resource is named as human capital because of its power to increase productivity and thereby national income. There is a circular relationship between human development and economic growth. A healthy, educated and skilled labour force is the most important productive asset. Human capital formation is the process of increasing knowledge, skills and the productive capacity of people. It includes expenditure on health, education and social services. If labour is efficient and skilled, its capacity to contribute to growth will be high. For example Japan and China.

2. **Technical Know-how:** As the scientific and technological knowledge advances, more and more sophisticated techniques steadily raise the productivity levels in all sectors. Schumpeter attributed the cause for economic development to innovation.

3. **Political Freedom:** The process of development is linked with the political freedom. Dadabhai Naoroji explained in his classic work 'Poverty and Un- British Rule in India' that the drain of wealth from India under the British rule was the major cause of the increase in poverty in India.

4. **Social Organization:** People show interest in the development activity only when they feel that the fruits of development will be fairly distributed. Mass participation in development programs is a pre-condition for accelerating the development process. Whenever the defective social organization allows some groups to appropriate the benefits of growth. majority of the poor people do not participate in the process of development. This is called crony capitalism.

5. **Corruption free administration:** Corruption is a negative factor in the growth process. Unless the countries root-out corruption in their administrative system, the crony capitalists and traders will continue to exploit national resources. The tax evasion tends to breed corruption and hamper economic progress.

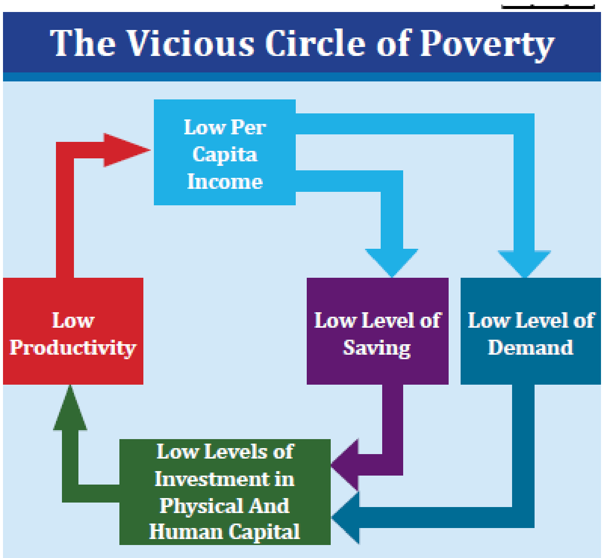
6. **Desire for development:** The pace of economic growth in any country depends to a great extent on people's desire for development. If in some country, the level of consciousness is low and the general mass of people has accepted poverty as its fate, then there will be little scope for development.

7. **Moral, ethical and social values:** These determine the efficiency of the market, according to Douglas C. North. If people are not honest, market cannot function.

8. **Casino Capitalism:** If People spend larger propotion of their income and time on entertainment liquor and other illegal activities, productive activities may suffer, according to Thomas Piketty.

9. **Patrimonial Capitalism:** If the assets are simply passed on to children from their parents, the children would not work hard, because the children do not know the value of the assets. Hence productivity will be low as per Thomas Piketty.

Vicious Circle of Poverty



- There are circular relationships known as the 'vicious circles of poverty' that tend to perpetuate the low level of development in Less Developed Countries (LDCs). Nurkse explains the idea in these words: "It implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. For example, a poor man may not have enough to eat; being underfed, his health may be weak; being physically weak, his working capacity is low, which means that he is poor, which in turn means that he will not have enough to eat and so on. A situation of this sort relating to a country as a whole can be summed up in the proposition: "A county is poor because the country is poor".

- The vicious circle of poverty operates both on the demand side and the supply side.

- On the supply side, the low level of real income means low savings. The low level of saving leads to low investment and to deficiency of capital. The deficiency of capital, in turn, leads to low levels of productivity and back to low income. Thus the vicious circle is complete from the supply side.

- The demand-side of the vicious circle is that the low level of real income leads to a low level of demand which, in turn, leads to a low rate of investment and hence back to deficiency of capital, low productivity and low income.

Breaking the Vicious Circle of Poverty

- The vicious circle of poverty is associated with low rate of saving and investment on the supply side. In UDCs the rate of investment and capital formation can be stepped up without reduction in consumption. For this, the marginal rate of savings is to be greater than average rate of savings.

- To break the vicious circle on the demand side, Nurkse suggested the strategy of balanced growth. If investment is made in several industries simultaneously the workers employed in various industries will become consumers of each other's products and will create demand for one another. The balanced growth i.e. simultaneous investment in large number of industries creates mutual demand. Thus, through the strategy of balanced growth, vicious circle of poverty operating on the demand side of capital formation can be broken.

Planning
Meaning

- Planning is a technique, a means to an end being the realization of certain pre-determined and well-defined aims and objectives laid down by a central planning authority. The end may be to achieve economic, social, political or military objectives.

Definitions

- Economic Planning is "collective control or suppression of private activities of production and exchange". -Robbins

- "Economic Planning in the widest sense is the deliberate direction by persons in-charge of large resources of economic activity towards chosen ends". -Dalton

Economic Planning in India

- Consists of economic decisions, schemes formed to meet certain predetermined economic objectives and a road map of directions to achieve specific goals within specific period of time. The current thinking of economic planning is fairly new, somewhat rooted in Marxist socialism. In the 20th century, intellectuals, theorists, thinkers from Europe put forward the idea of state involvement to stop capitalism and the inequality of society.

- Soviet Union adopted economic planning for the first time in 1928 that enabled the country to turn into an industrial superpower. The idea of economic planning was strengthened during the Great Depression in 1930s. The outbreak of the World War II also required adequate and suitable planning of economic resources for the effective management after the effects of post war economy.

- After Independence, in 1948, a declaration of industrial policy was announced. The policy suggested the creation of a National Planning Commission and the elaboration of the policy of a mixed economic system. On January 26, 1950, the Constitution came into force. In logical order, the Planning Commission was created on March 15, 1950 and the plan era began on April 1, 1951 with the launch of the first five year plan (1951-56). The evolution of planning in India is stated below:

1. **Sir M. Vishveshwarya (1934):** a prominent engineer and politician made his first attempt in laying foundation for economic planning in India in 1934 through his book, "Planned Economy of India". It was a 10 year plan.

2. **Jawaharlal Nehru (1938):** set-up "National Planning Commission" by a committee but due to the changes in the political era and second World War, it did not materialize.

3. **Bombay Plan (1940):** The 8 leading industrialists of Bombay presented "Bombay Plan". It was a 15 Year Investment Plan.

4. **S. N Agarwal (1944)** gave the "Gandhian Plan" focusing on the agricultural and rural economy.

5. **M.N. Roy (1945)** drafted 'People's Plan". It was aiming at mechanization of agricultural production and distribution by the state only.

6. **J.P. Narayan (1950)** advocated, "Sarvodaya Plan" which was inspired by Gandhian Plan and with the idea of Vinoba Bhave. It gave importance not only for agriculture, but encouraged small and cottage industries in the plan.

- After considering all the plans, in the same year Planning Commission was set up to formulate Five Year Plan in India by Jawaharlal Nehru. He was the first Chairman of Planning Commission, Government of India.

Case for planning

- The economic planning is justified on the following grounds.

1. **To accelerate and strengthen market mechanism**: The market mechanism works imperfectly in underdeveloped countries because of the ignorance and economy comprises the non-monetized sector. The product, factor, money and capital markets are not organized properly. Therefore the planned economy will be a better substitute for free economy.

2. **To remove unemployment:**
Capital being scarce and labour being abundant, the problem of providing gainful employment opportunities to an ever-increasing labour force is a difficult task. The need for planning in underdeveloped countries is further stressed by the necessity of removing widespread unemployment and disguised unemployment in such economies.

3. **To achieve balanced development:**
In the absence of sufficient enterprise and initiative, the planning authority is the only institution for planning the balanced development of the economy. For rapid economic development, underdeveloped countries require the development of the agricultural and industrial sectors, the establishment of social and economic overheads, the expansion of the domestic and foreign trade sectors in a harmonious way.

1. **Development of Agriculture and Industrial Sectors:** The need for developing the agriculture sector along with the industrial sector arises from the fact that agriculture and industry are interdependent. Reorganization of agriculture releases surplus labour force which can be absorbed by the industrial sector. Development of agriculture is also essential to supply the raw material needs of the industrial sector.
2. **Development of Infrastructure:** The agriculture and industrial sectors cannot develop in the absence of economic and social overheads. The building of canals, roads, railways, power stations, etc., is indispensable for agricultural and industrial development. Infrastructure involves huge capital investment long gestation period and low rate of return. The state alone can provide strong infrastructural bases through planning.

3. **Development of Money and Capital Markets:** The expansion of the domestic and foreign trade requires not only the development of agricultural and industrial sectors along with social and economic overheads but also the existence of financial institutions. Money and capital markets are not adequate in underdeveloped countries. This factor acts as an obstacle to the growth of industry and trade. So planning alone can provide sound money market and capital market.

4. **To remove poverty and inequalities:** Planning is the only path open to underdeveloped countries, for raising national and per capita income, reducing inequalities and poverty and increasing employment opportunities. Has it happened in India in the last 65 years?

- Hence, Arthur Lewis says, "Planning is more necessary in backward countries to devise ways and means and to make concerted efforts to raise national income"

Case against planning

- The failure of market mechanism invited state intervention in economic activities through planning. The prime goals of economic planning are stabilization in developed countries and growth in LDCs. But the economic planning also is not free from limitations. It may retard private initiatives, hamper freedom of choice, involve huge cost of administration and stop the automatic adjustment of price mechanism. The arguments against planning are discussed below.

1. Loss of freedom

- The absence of freedom in decision making may act as an obstacle for economic growth. Regulations and restrictions are the backbone of a planned economy. The economic freedom comprises freedom of consumption, freedom of choice of occupation, freedom to produce and the freedom to fix prices for the products. Under planning, the crucial decisions are made by the Central Planning Authority. The consumers, producers and the workers enjoy no freedom of choice. Therefore, Hayek explains in his book 'Road to Serfdom' that centralized planning leads to loss of personal freedom and ends in economic stagnation. The decisions by the Government are not always rational.

  But, freedom to private producers will be misused; profit will be given top priority, welfare will be relegated.

2. Elimination of Initiative

- Under centralized planning, there will be no incentive for initiatives and innovations. Planning follows routine procedure and may cause stagnation in growth. The absence of initiatives may affect progress in following ways.

  a. The absence of private ownership and profit motive discourages entrepreneurs from taking bold decisions and risk taking. Attractive profit is the incentive for searching new ideas, new lines and new methods. These are missing in a planned economy.

  b. As all enjoy equal reward under planned economy irrespective of their effort, efficiency and productivity, nobody is interested in undertaking new and risky ventures.

  c. The bureaucracy and red tapism which are the features of planned economy, cripple the initiative as they cause procedural delay and time loss. The ease of doing business is disrupted. It is because of this, even socialist countries like Russia and China offer incentives to private enterprises.

3. High cost of Management

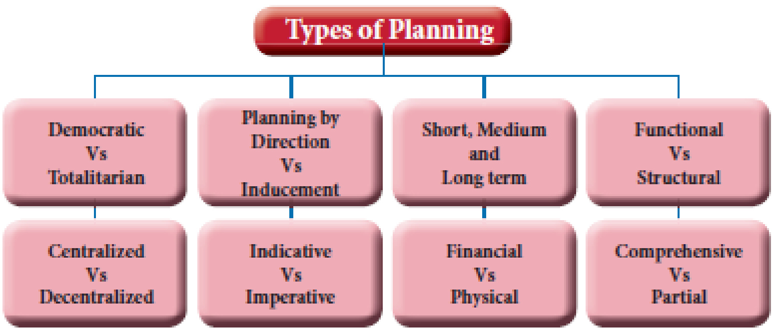
- No doubt the fruits of planning such as industrialization, social justice and regional balance are good. But the cost of management of the economic affairs outweighs the benefits of planning. Plan formulation and implementation involveengagement of an army of staff for data collection and administration. As Lewisremarks, "The better we try to plan, the more planners we need". Inadequate data, faulty estimations and improper implementation of plans result in wastage of resources and cause either surplus or shortages.

4. Difficulty in advance calculations

- Price mechanism provides for the automatic adjustment among price, demand and supply in a Laissez Faire economy. The producers and consumers adjust their supply and demand based on price changes. There is no such mechanism in a planned economy. Advance calculations in a precise manner are impossible to make decisions regarding the consumption and production. It is also very difficult to put the calculations into practice under planning. Excess supply and excess demand can also happen in the market oriented economy. Infact it has happened in many expitalistic economies, including the US.

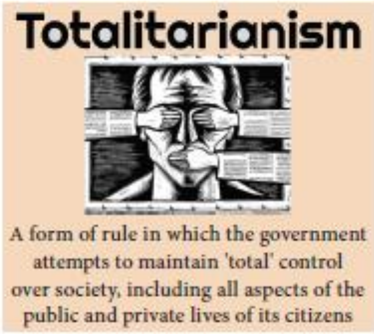
- The arguments against planning are mostly concerned with centralized and totalitarian planning. The democratic planning, planning by inducement and decentralized planning especially under mixed economies give equal role for private sector and public sector. Planned economy appears to be more efficient operationally than a market economy. So the question is not one of plan or no plan but one of the type of plan. The right mix of market mechanism and state intervention in right proportion will promise accelerated economic growth accompanied by stability and social justice.

Types of planning



- Economic planning is a process under which attempts are made to achieve desired targets of economic development within a specified period of time. There are different types of planning which differ in ideology and the procedure in execution

1. **Democratic Vs Totalitarian:**

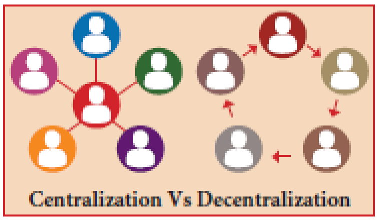


- Democratic planning implies planning within democracy. People are associated at every step in the formulation and implementation of the plan. A democratic plan is characterized by the widest possible consultations with the various state governments and private enterprises at the stage of preparation. The plan prepared by the Planning Commission is not accepted as such. It can be accepted, rejected or modified by the Parliament of the country.

- Under totalitarian planning, there is central control and direction of all economic activities in accordance with a single plan. Consumption, production, exchange, and distribution are all controlled by the state. In authoritarian planning, the planning authority is the supreme body. It decides about the targets, schemes, allocations, methods and procedures of implementation of the plan.

2. **Centralized Vs Decentralized:**

- Under centralized planning, the entire planning process in a country is under a central planning authority. This authority formulates a central plan, fixes objectives, targets and priorities for every sector of the economy. In other words, it is called 'planning from above'



- Under decentralized planning local organizations and institutions formulate, adopt, execute and supervise the plan without interference by the central authorities. In other words, it is called 'planning from below'.

3. Planning by Direction Vs Inducement:

- Under planning by direction, there is a central authority which plans, directs and orders the execution of the plan in accordance with pre-determined targets and priorities.

- Under planning by inducement, the people are induced to act in a certain way through various monetary and fiscal measures. If the planning authority wishes to encourage the production of a commodity, it can give subsidy to the firms. Thus, planning by inducement is able to achieve the same results as under planning by direction but with less sacrifice of individual liberty.

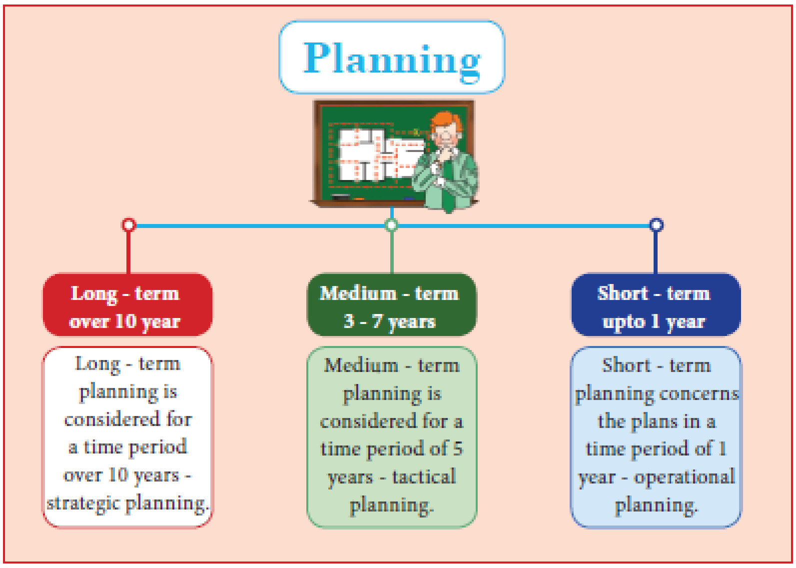
4. Indicative Vs Imperative Planning:

- Indicative planning is peculiar to the mixed economies. It has been in practice in France since the Monnet Plan of 1947- 50. In a mixed economy, the private sector and the public sector work together. Under this plan, the outline of plan is prepared by the Government. Then it is discussed with the representatives of private management, trade unions, consumer groups, finance institutions and other experts. The essential function of planning is coordination of different economic units. The state provides all types of facilities to the private sector. The private sector is expected to fulfill the targets and priorities. The state does not force the private sector but just indicate the areas of operation and targets to be fulfilled. In short, the planning procedure is soft and flexible.

- Under imperative planning, the state is all powerful in preparation and implementation of the plan. Once a plan is drawn up, its implementation is a matter of enforcement. The USSR President Stalin used to say, 'Our plans are our instructions'. There is complete control over the entire resources by the state. There is no consumer sovereignty. The Government policies and procedures are rigid. China and Russia follow imperative planning.

5. **Short, Medium and Long term Planning:**

- Short-term plans are also known as 'controlling plans'. They encompass the period of one year, therefore, they are also known as 'annual plans'. The medium-term plans last for the period of 3 to 7 years. But normally, the medium term plan is made for the period of five years. The medium-term planning is not only related to allocation of financial resources but also physical resources.



- Long-term plans last for the period of 10 to 30 years. They are also known as 'perspective plans'. The basic philosophy behind long-term planning is to bring structural changes in the economy.

6. **Financial Vs Physical Planning:**

- Financial planning refers to the technique of planning in which resources are allocated in terms of money while physical planning pertains to the allocation of resources in terms of men, materials and machinery.

7. **Functional Vs Structural Planning:**

- Functional planning refers to that planning which seeks to remove economic difficulties by directing all the planning activities within the existing economic and social structure. The structural planning refers to a good deal of changes in the socioeconomic framework of the country. This type of planning is adopted mostly in under developed countries.

8. **Comprehensive Vs Partial Planning:**

- General planning which concerns itself with the major issues for the whole economy is known as comprehensive planning whereas partial planning is to consider only the few important sectors of the economy.

- 13th August, 2014. The Prime Minister is the Chairperson of NITI Aayog and Union Ministers will be Ex-officio members. The Vice- Chairman of the NITI Aayog is the functional head and the first Vice- Chairman was Arvind Panangariya.

Functions of NITI Aayog

1. **Cooperative and Competitive Federalism:** To enable the States to have active participation in the formulation of national policy.

2. **Shared National Agenda:** To evolve a shared vision of national development priorities and strategies with the active involvement of States.

3. **Decentralized Planning:** To restructure the planning process into a bottom-up model.

4. **Vision and Scenario Planning:** To design medium and long-term strategic frameworks towards India's future.

5. **Network of Expertise:** To mainstreamexternal ideas and expertise into government policies and programmes through a collective participation.

6. **Harmonization:** To facilitate harmonization of actions across different layers of government, especially when involving cross-cutting and overlapping issues across multiple sectors; through communication, coordination, collaboration and convergence amongst all the stakeholders.

7. **Conflict Resolution:** To provide platform for mutual consensus to intersectoral, inter-departmental, inter-state as well as centre-state issues for all speedy execution of the government programmes.

8. **Coordinating Interface with the World:** It will act nodal point to harness global expertise and resources coming from International organizations for India's developmental process.

9. **Internal Consultancy:** It provides internal consultancy to Central and State governments on policy and programmes.

10. **Capacity Building:** It enables to provide capacity building and technology up-gradation across government, benchmarking with latest global trends and providing managerial and technical know-how.

11. **Monitoring and Evaluation:** It will monitor the implementation of policies and progammes and evaluate the impacts.

- Initiatives like Atal Innovation Mission, Ayushmaan Bharat approach towards water conservation measures and the draft bill to establish the ational Medical Commission to replace the Medical Council of India have all been conceptualized in NITI Aayog.

- NITI Aayog is also bringing about a greater level of accountability. It has established a development monitoring and evaluation office which collects data on the performance of various ministries. Using such data, the Aayog makes performance based ranking of states to foster a spirit of competitive federalism. The success of NITI Aayog can be evaluated after a substantial period of time.