

THE INDIA ECONOMY REVIEW 2010

www.iipmthinktank.com
www.gidf.org

Volume VII | Quarterly Issue: 30th September 2010

SPECIAL ISSUE

RETHINK
EDIFY
DELINEATE

DOES COMMISSIONING NEED PLANNING?

Makeover of planning and the Planning Commission



AN IIPM THINK TANK

GREAT INDIAN DREAM FOUNDATION PRESENTATION

THE GREAT INDIAN DREAM



“A Society where man is at the centre of all activities, a society where exploitation of man by man has been abolished, where he is cared for as an in a family, where “to each according to his need” is practised, a society where non bureaucratic National Economic Planning is given due importance for sustainable optimum growth, where adequate social safety net is a reality and yet market’s advantages are fully taken care of for creativity and entrepreneurship, such a society can be truly described as humane society and the vision as “Humanism”.

Dr. M K Chaudhuri

The Great Indian Dream, 2003, Macmillan
India, New Delhi

“Let us together dream of a country where poor are not just merely reduced to statistics but where there are no poor. Let there be a day when small children are taken to a poverty museum like science museum where they shiver at the plight of the way people used to live in the last millennium. Let this dream take the form of a revolution and as long as our dreams keep outweighing our memories, India would remain a young and dynamic nation on this path to global equality. And for this let the wait not be for eternity. Let us together achieve this in the next 25 years.”

Prof. Arindam Chaudhuri

The Great Indian Dream, 2003, Macmillan
India, New Delhi



IIPM: THE FUTURE IS HERE

Since its incorporation (1973), IIPM has been an institution with privileged traditions, in the diversity of its fraternity, its global outlook, its world class research and its commitment to alternative national economic planning process.

It can be said, without much oversimplification that there are no 'underdeveloped economies'. There are only 'under managed' countries. Japan 140 years ago was an underdeveloped country by every material measurement. But it very quickly produced management of great competence, indeed of excellence. The policy inference is that 'management' is the prime mover and 'development' is the consequence. At IIPM, every one considers that development is a matter of human energies rather than economic wealth. And the generation and direction of these human energies is the task of 'management'. Accordingly, we formed **The Great Indian Dream**. Unlike any other dream, this is one dream which each one of us are determined to realise and that too in our own lifetimes. Each bit of cynicism and condemnation from pessimists makes us evolve even stronger and determined.

All our endeavours and initiative is towards realisation of this dream, where in we produce committed 'bare foot' managers and entrepreneurs who are needed by nation, on an insistent basis. As an educational institute, we aim at initializing a three dimensional personality in IIPMites, viz.

- ☞ Pursuit of knowledge in economics and management
- ☞ Commitment to economic, social, political and technological upliftment of masses and
- ☞ Cultivation of taste for literature, fine arts and etc.

Economists often have limited access to the practical problems facing senior managers, while senior managers often lack the time and motivation to look beyond their own industry to the larger issues of the global economy. It has set before it the twin tasks: to reorient education and research towards the needs of both the private and public sectors and to establish the link between the National Economic Planning and the development of private enterprises in Indian economy. IIPM dares to look beyond, and understands that what we teach today, other adopt tomorrow. IIPM's service output (education, research and consulting,) is a unique combination of two distinct disciplines: economics and management. Through this integration, IIPM helps guide business and policy leaders in shaping the Indian and global economy, bringing together the practical insights of industry with broader national and global perspectives.

A hall mark of IIPM is that it is armed with the comparative advantage of engaging the committed, passionate and brightest management post graduates and undergraduates, who pursued the education at IIPM and subsequently joined it, to realise the dream. IIPM alumni, spread across the globe, holding crucial decision-making positions in the corporate sector, are bonded by the one ideology of making a positive difference, turning that ideology into a movement itself.

The India Economy Review is another humble initiative towards the realisation of the same and more distinctly, engaging the broader publics and pertinent stakeholders.

SEARCH, SIEVE, SCHEME...

In economics, like in everyday existence, it is imperative to hear, perceive and consider what others have to say. Each issue of The IER brings together a selection of important contributions on a particular theme, authored by some of the brightest minds in different areas of Indian economics. The provocation for publishing these issues arises from the fact that over the years economic journals have become copious, exclusive and expensive. Most of the journals and a good many of the books have gone beyond the cerebral and financial reach of general students and other scholars. It is for them that these issues are primarily being raised and debated here.

Much about India is transparent enough. One does not require detailed criteria, cunning calibration or probing analysis to pinpoint India's problems and recognise its antecedents. There is in fact much that is perceptible about India. But not everything about India is even if simplistic is so simple. The learned reader would appreciate the fact that India is like an elephant that looms too large to be grasped within a distinct structure and paradigm the constituent parts of which would fail to reveal the entirety. Obviously and observably, no suggested solution to any protracted and complex socio-economic problem will satisfy all sides and stake-holders evenly. Consequently, there exists an enormous diversity in economic thinking and perspectives, as is also reflected in the viewpoints of different expert contributors in this issue. The intended outcome of this exercise is to facilitate the invention, improvement, deliberation and dissemination of innovation in economic thinking and national economic planning, insisting merely on well-grounded, open and unbiased debates, without predetermined outcomes. It is impossible to do justice to the entire field of Indian economics in a single issue. The topics selected for this issue are those which are of critical and immediate importance to India. Majority of them were freshly and exclusively written. Encapsulated, it is a constructive attempt aimed at helping India actualise its promises and potential. The editors hope that this issue of IER proffer the reader a flavour of dynamism and excitement and persuade her/him to participate in the journey towards realising 'The Great Indian Dream'. At the same time, it illuminates the terrible, practical problems of India and Bharat. [IER](#)

ACKNOWLEDGEMENTS

The IIPM Think Tank likes to thank all the internal faculty who have been instrumental in coordinating with many authors all across India and according their unstinted support. The assistance of Prof. R.Krishnan (IIPM Chennai), Prof. Amlan Ray (IIPM Lucknow), Mr. Robin Thomas (IIPM Ahmedabad) and Mr Angshuman Paul has been more valuable than, perhaps, they realise.

The First Words and The Last Word

RE-PLANNING THE PLANNING COMMISSION



Dear Readers

The transformation process of the Planning Commission has been a subject to an intense debate, after being in a state of suspended animation for long. But precisely since last few months the *raison d'être* of the institution is being examined afresh; especially in the backdrop of burgeoning market economy. With market economy becoming stronger, the role of the Planning Commission seems to become even more significant, considering the complexities and challenges of the Indian economy. But then, for that to happen, we need to revisit and re-look the entire organisation of the Planning Commission and its objectives. We may still fight shy of renaming our Planning Commission as it has happened in other countries, yet there are belligerent voices suggesting that the focus of the institution has to change with emergence of new development ethos. A cross country analysis would suggest that suggest that centralised planning has failed but more on account of the failure in the administrative framework, which has been bereft of any accountability, at all hierarchical levels. Which in turn slackened the pace of implementation considerably, and the Planning Commission became a universal 'villain'.

What's required today is a resolve, which is directed towards creation of a new organisation that will facilitate the private endeavours amidst the ever growing market economy through judicial allocation of resources and carefully devised policies that allow government intervention at necessary junctures, so as to neutralise the perils of the market economy. They need to readjust and take into consideration the universal social agenda, taking into account the interests of every stakeholder of the market economy! As pointed out by Hemanta Saikia, there is an urgent need for integrated planning since interpersonal and interspatial inequalities persist in India despite nearly six decades of planned economic development. Raj Aggarwal likewise advocates a balanced approach and spells out five principles as a guide to national economic planning. Rabin Majumder recommends the exploitation of Private Public Partnership (PPP) for success of planning and gradually decommissioning the Planning Commission.

This issue also carries opinion pieces by Anindo Banerjee who writes about the importance of integrated district planning exercise, while Debnarayan Sarker argues that lack of technological progress will cause a fall in the growth of worker's income. Even Gouri Pada Dutta agrees on the criticality of technological progress, but also mentions a word of caution on importance on the social aspect of science and need for an eco-friendly developmental approach.

This issue of IER carries voices of those who seek to provide the Planning commission with alternative approaches to Indian development. But more significantly they recommend transformation and makeover of the Planning Commission. We at the IIPM Think Tank, would enjoy the numerous seminal opinion pieces and research articles by eminent economists from world over.

Best,

Team – The IIPM Think Tank

**Centralised
planning
has failed
but more on
account of the
failure in the
administrative
framework**

CREDITS

Founder
Dr. M. K. Chaudhuri
 Editor-in-Chief
Arindam Chaudhuri
 Managing Editor
Prasoon.S. Majumdar
 Deputy Editor
Sray Agarwal
 Consulting Editor
Prashanto Banerji
K K Srivastava
 Research Fellows
Akram Hoque
Mrinmoy Dey
H.Divya Sharma
Mufaddal Poonawala
 Group Design Director
Satyajit Datta
 Senior Designer
Dinesh Chandelkar
 Designer
Saurabh Mishra
Parvesh Kumar Swami, Sujit Singh,
Karan Singh, Vikas Gulyani
 Senior Illustrator
Shantanu Mitra
 Production Manager
Gurudas Mallik Thakur
 Production Supervisors
Digamber Singh Chauhan
Soumyajeet Gupta
Satbir Chauhan
 Chief Marketing Advisor
Amit Saxena
 Marketing & Sales
Shweta Shukla
 IER Online
Neel Verma, Anil Kumar Sheoran,
Christopher Mani
 Principal Offices
 Satbari, Chandan Haula, Chattarpur,
 Bhatimines Road, New Delhi - 110074
 IIPM Tower, Junction of , 32nd Road & S.V.
 Road, Bandra (W), Mumbai - 400 050
 IIPM Tower, 419 100ft. Road, Koramangala,
 Bangalore - 560 034
 IIPM Tower, 893/4, Bhandarkar Road,
 Deccan Gymkhana, Pune - 411 004
 IIPM Tower, 145, Marshall's Road,
 Egmore, Chennai - 600 008
 IIPM Tower , 19, Inqulab Society, gulbai Tekra,
 Off C.G. Road, Ahmedabad - 380 015
 IIPM Tower, 6-3-252/2, Erramanzil, Banjara Hills,
 Hyderabad - 500 082
 We are keen to hear from anyone, who would like to
 know more about IIPM Publications. You can e-mail on
 shweta.shukla@iipm.edu or alternatively call Ms.Shweta
 at +91 11 42789904
Additional Thinking
 www.iipmthinktank.com
 www.iipm.edu
 www.iipmpublications.com
 www.arindamchaudhuri.com
 www.thesundayindian.com
 www.thedailyindian.com
 www.businessandeconomy.org
 www.gidf.org
 www.planmanconsulting.com
Printed by:
 Rolleract Press Servies, C-163, Ground Floor,
 Naraina Industrial Area, Phase-I, New Delhi - 16
Disclaimer :
 All efforts have been taken to ensure the veracity of the information
 contained in the research, however **the IIPM Think Tank** expressly
 disclaims any and all warranties, express or implied, including
 without limitation warranties of merchantability and fitness for a
 particular purpose, with respect to any service or material. In no
 event shall **the IIPM Think Tank** be liable for any direct, indirect,
 incidental, punitive, or consequential damages of any kind
 whatsoever with respect to the and materials, although the reader
 may freely use the research and material provided, **the IIPM Think**
Tank retains all trademark right and copyright on all the text
 and graphics.

(F)ACT SHEET

INTEGRATED PLANNING

(Examines economic, social and environmental costs and benefits, in order to determine most appropriate option to plan the best and most feasible course of action for the country's economy)

Central Agency in Plural Democracy

Sony Pellissery **12**

The Complexity and Need for Evaluation of Planning Agencies

William R. DiPietro **16**

Economic Planning and Industrial Policy

Raj Aggarwal **22**

Economic Planning: Revisiting Early Debates

Pradeep Banerjee **30**

Indicative Role and Planning Reintegration

Hemanta Saikia **42**

Foresight of Planning and Clarity in Commissioning

Prashant Singh **48**

TRANSFORMATIVE PLANNING

(Attempts at changing the psychology of the locale and community in order to attract economic and social capital which eventually leads to sustainable regeneration through synergising systems and accountability — this type of planning is predominantly forte of transition economies)

What Do We Want Them to Do Now?

Amal Sanyal **52**

Makeover of Planning and it's Commission

V.K. Srinivasan and S. Chakravarthy **58**

Decommissioning the Planning Commission

Rabin Majumder **68**

Whither Economic Planning?

MK Datar **74**

Legitimatization of Planning Bodies for Development

Gouri Pada Dutta **80**

Don't Throw the Baby with the Bath Water

Manoj Kumar **86**

COMPARATIVE PLANNING

(Provides grounded understanding of globally-practiced planning and key international actor while establishing a rigorous theoretical framework about global change at



PERSPECTIVES

EDITORIAL

Re-planning the Planning Commission*The IIPM Think Tank* 05

INTEGRATED PLANNING

In the State of Cryptobiosis*Sray Agarwal* 08

COMPARATIVE PLANNING

A Tale of Two Countries: India and Malaysia*Amir Ullah Khan* 94

Cover Design: Karan Singh

multiple scales especially about supra-national institutions and further teaches transnational and comparative methodologies of analysis about economic planning)

The Road to Prosperity: Market vs State*Rok Spruk***From State to Democracy: Two Views of Capitalism***David A. Andelman***DEVELOPMENTAL PLANNING**

(Involves the planning and application of a rational system of choices among feasible courses of investment and other development actions which aims at developing the whole economy of the nation)

Unhealthy Planning*Ravi Duggal***Inclusive & Integrated District Planning***Anindo Banerjee***Plan and Policies: Unsolved Riddle***Ajitava Raychaudhuri*

124

RESOURCE PLANNING

(Deals with resource allocation of inputs and decision-making in sync with market mechanism and highlights the value of addressing economic development and natural resources — simultaneously during the comprehensive planning process — along with focus on inclusive growth and the need for strategizing for rural economic development)

98

104

Is Big Dam a Planning Paradox?*Joyeeta Bhattacharjee*

130

Where's Natural Resources in the Development Strategy?*Debnarayan Sarker*

136

110 Plundered Histories, Forgotten Terrains & Entangled People*Goldy M. George*

142

In the State of Cryptobiosis

The current model of Planning Commission is quite obsolete and with emergence of market economy, the country needs a new commission with new roles — a cross-country analysis on how the commissions have changed worldwide with change in economic model

Sray Agarwal

Deputy Editor,
The IIPM Think Tank,
New Delhi

A brand new round of introspection seems to have started at the Yojna Bhavan. The Planning Commission was inceptioned with an aim of fueling and catalyzing (*at least with economic plans, if not with execution*) growth and development plans of India; it is now finding the need for refurbishing itself. Since the beginning it has been a non-political body having members inducted from intellectual capital of India. It obviously played a vital role during pre-liberalization phase and subsequently during the 90s. However, the role had started diminishing. With India gradually metamorphosing itself into a market driven econ-



omy, the very need of such centralized planning body is being questioned. Centralized planning commission saw itself flourishing in early 90s especially in socialist countries. Even countries like the United States and the United Kingdom — who had a capitalist model — had followed a pseudo-centralized-planning (*in the form of active state intervention*) model earlier, especially during the Great Depression. But today centralized planning system is more confined to a handful of developing countries where economizing resource is the main concern and also the main need. Even these countries, which came out from the clutches of imperialism relatively recently didn't have strong market mechanism unlike those developed capitalist economy which primarily flourished on their strong market economy and price mechanism. However, centralized planning in these countries came with its own loopholes. Since most of these recently freed developing economies lacked competent and strong administrations, these nations saw corruption creeping in their central planning modules.

For the uninitiated, the Planning Commission played a major role till late 80s primarily because the State intervention was quite extensive. The power corridor, in that period, was more obsessed with establishing heavy and basic industries, critical investment in infrastructure, transport etc. However, since liberalization, most of the ministries, bureaucratic departments, corporate entities, industry federations etc, started enjoying numerous flexibility and functional authorities, which to large extent were previously constituted the job description of our Planning Commission. The very objective of planning in a market economy is yet to be realized. In other words, in spite of

Almost all wonderful plans devised by our Planning Commission never saw themselves bearing fruits in reality

market economy getting stronger, our Planning Commission failed to reinvent itself in order to sync with this economic metamorphosis. In fact, almost all wonderful plans devised by our Planning Commission never saw themselves bearing fruits in reality. The plan always oscillated between time and cost overruns. The political pressure forced the Planning Commission to come up with projects without any justifiable feasibility report on financial or economic viability of the same.

Across the world, with change in economic model, the centralized planning system saw its gradual demise. Starting with the Soviet Union, the Central Committee of the Communist Party of the Soviet Union that was designed as the highest body of the Communist Party of the Soviet Union (CPSU) started off well but with time was reduced to just a rubber stamp body and saw its closure in 1991 with demise of the Communist Party itself. Present day, the Economic, Social and Environmental Council of France is actually a consultative assembly with limited roles. Unlike ours, it does not play a role in the adoption of statutes and regulations but is only there as an advisory body assisting the lawmaking bodies on social and economic areas and policies, if any. Most of the time the body is largely dormant or inactive and responds only when the executive arm asks for proposal on social or economical issues. Talking cue from France's Economic and Social Council, the United Kingdom (UK) designed its own planning body called the

National Economic Development Office or NEDO, which later on was restructured to assist its new corporatist economic planning forum called National Economic Development Council (NEDC). The main work of NEDC (*with assistance from NEDO*) was to act as a forum for collective bargaining between management, trades unions and government in an attempt to address Britain's relative economic decline. However, this was abolished in 1992 and UK now is a member of the European Union's Economic and Social Committee (*EESC or EcoSoc*). EESC is more of a consultative assembly comprising employers, employees, trade unions and representatives of various sectors. In simple word it's like CII or FICCI from India. The role of the EESC is largely consultative though it sometime gets involved in the matters of social policy, social and economic cohesion, environment, education, health, customer protection, industry, transport, indirect taxation and few more. It is nowadays focusing on boosting the role of civil society organisations in non-member countries. As recent as 2008 China also have remodelled its centralized planning body (*State Planning Commission and State Development Planning Commission*) to create the National Development and Reform Commission (NDRC). The NDRC mainly works to formulate policies for economic and social development and advice on streamlining economic system of the country. The NDRC is actually a remodelled body of the State Planning Commission (SPC).



During early 1980s and 1990s, many governments who used to follow a planned economy model began deregulating in a big way and started adopting more market-oriented planning model. In case of USSR, the change of economic system itself became the reason for its closure. Attributes and agendas, which were previously scrutinized by central planning body, were now left to the private sector wisdom. Today centralized planning system exists in very few countries like Cuba, Libya, Saudi Arabia, Iran, North Korea, Burma and India, to a limited extent. Countries like France, China and Russia, to a large extent follow a planning process wherein the main objective is to maintain a coordination (*and develop synergy*) between state and private entity. These countries follow Indicative planning model (*aimed to bridge information gap in economies and increase economic performance*). The main work of the body is to advice the state to design subsidies, grants, and taxes but then it limits itself to advis-



The transition should be gradual and the intervention of the state should not be lifted at one go

ing on broad planning issues only. The main reason behind the writing off of planned economy body is the way today consumers react in a market-oriented system. In a market economy, where free price system dominates, centralized planning fails to recognize and track consumer preferences, and thus fails to co-ordinate production. This problem was also discussed by economist Ludwig von Mises as economic calculation problem and economist János Kornai as shortage economy theory. Centralized planning also fails to address issues of surpluses, efficiency and competitive pricing. Central planning system is less likely to encourage innovation compared to a free market system. This is evident from the way the US made advancement in science in technology even during cold war in spite of being economically weaker than the Soviets.

Economist Robin Hahnel extends the thought and explains, “Combined with a more democratic political system, and redone to closer approximate a best case

version, centrally planned economies no doubt would have performed better. But they could never have delivered economic self-management, they would always have been slow to innovate as apathy and frustration took their inevitable toll, and they would always have been susceptible to growing inequities and inefficiencies as the effects of differential economic power grew. Under central planning neither planners, managers, nor workers had incentives to promote the social economic interest. Nor did impending markets for final goods to the planning system enfranchise consumers in meaningful ways. But central planning would have been incompatible with economic democracy even if it had overcome its information and incentive liabilities. And the truth is that it survived as long as it did only because it was propped up by unprecedented totalitarian political power.”

Coming back to from where we started, the whole debate on transforming the Planning Commission to Systems Reform Commission does hold a lot of rationale. The commencement of transition should not be too fast and sudden as it may lead to wastage of resources and give rise to dead-lock among ongoing project. The transition should be gradual and the intervention of the state should not be lifted at one go. There should be minimum regulatory involvement, particularly where common resources are concerned. In order to make sure our ministries have sound assistance from policy experts at all levels, involvement of technocrats would be a requirement too. This will not only allow

flexibility but will also increase the use of latest technology (*which today is not use extensively*); besides it will also introduce the plan panel to internationally practiced standards. Moreover, along with all this process in place, it must be made sure that the information flow is very transparent and accessible. In order to gain trust and acceptance of majority (*from various stake holders*) the planning process should have provision of disclosure of information. This will also help the market to function without any major hiccups and will also reduce the probability of market failure. The planned agenda should further be audited by an independent third party body (*may be Comptroller of Auditor general aka CAG*) to check the feasibility of the project. With Planning Commission moving towards more indicative planning than directive planning, it makes less sense for states to follow the conventional model of planning model. In the era of market economy, the state has to realize that its emphasis and priorities needs a change. The conventional role of state are (were) Planning, Promotion, Regulation and Production, but with change in economic model the state should focus more on planning and production rather than regulation. The problem here is not with the process but with the system that defines the process. Afterall, when a system fails, it is not enough to just fix the pipes but the institutions that fix the pipes. [IER](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Central Agency in

With the changing role of the state in a globalised world, planning process in democratic country like India calls for 'planning as persuasion' where different voices get rightful place than being made into 'abstract citizens' to attain neutral planning

Just like the function of painting dramatically changed after the invention of photography, the function of planning too drastically changed after the State has redefined its role in relation to market and civil society in a globalised world. There is no suggestion to do away with planning (*see Stiglitz 1997; Bagchi 2007*). Rather, creative use of older paradigm of planning means not merely 'seeing like a state' (*Scott 1998*), but also planning after 'seeing like a household', 'seeing like a market' and 'seeing like a collective' all at the same time. Some authors (*see Wade 1990*) have argued that where there is a synergy of such different 'sights' through division of allocation decisions between market and the State, growth is more likely to occur. This paper aims to spell out the rationale for a new type of planning in democratic society like that of India, which could be termed as 'planning as persuasion'.

Neutral Planning for Political Masters

Valuation is at the heart of policy making. Value-conflicts also refer to equity as the goal of public policy. Is there neutral planning when equity is the goal? It is good to be reminded of the history of Planning Commission to answer this. Ideological

conflicts between Gandhians and Nehruvians in the pre-independence period (*that time to go after industrialization or not*) resulted in the formation of National Planning Committee in 1937 (*Chatterjee, 2001: 273*), in the hope that such 'neutral' committee would be able to find a workable path despite of ideological controversies. The committee reemerged as Planning Commission after independence.

Vibrancy of democracy is the existence of different voices. Once these different voices are made into 'abstract citizens' a neutral planning is achievable. Fortunately, different voices in our country have not chosen to make the 'exit' option. That has made planning a challenging affair. Guha (2008) has argued that ideological divisions in the Indian society determine the nature of scientific inquiry in this country. There is no reason to believe that intellectual space exists apart from ideological orientations. As ideological divisions are deeply political, the 'positioning' in fact saturates any intellectual space. Valuations are entrenched in such ideological divisions. This has macro level applications at the decision making level for policy, also at micro level of policy implementation since policy performance is also dependent on the set of beliefs, values and judgments of participants.

Reason-dominated planning has been the hallmark of modernity, and such rational determination in the planning process "...must know the physical resources whose allocation is to be planned, it must know the economic agents who act upon these resources, know their needs, capacities, and propensities, know what constitutes the signals according to which they act, know how they respond to those signals." (*Chatterjee 2001: 281*). There is always a lot of residue while technocratic planners gain such information. Such residue works as politics outside the political process upsetting the plans. A lot of what is attributed as 'implementation deficit' is actually design failure. Free market propagators such as Friedman believed when planning is completely left to market such residue does not exist, since local people know what is best. Such thinkers, therefore, believed that hope for India is not from big industrialists or government planned public sector units, rather from street-level entrepreneurs who had perfect information about local realities. But, we may argue a planning that leaves space for such entrepreneurs is still desirable.

There are two options for planning here. One, ignore ideologies and pronounce like Clinton's presidential cam-

Plural Democracy

Sony Pellissery

*Associate Professor,
Institute of Rural Management,
Anand*



paign in 1992: ‘It is economy, stupid’. Second, denounce such simplification and let planning acknowledge ideologies more seriously. In the Indian context, the second approach has more worth since planning has taken issues of inequality and poverty, which requires differential treatment of different groups. India has not seen individuals like Bismark in Germany or Beveridge in the United Kingdom, i.e., those who have made practical application of the social rights through policy instruments in those countries. But, Planning Commission has filled this void to some extent. Chelliah (2007) has shown in a paper how Planning Commission could undertake the responsibility for developing backward states through differential policy prescriptions. This differential policy prescription (*see chapter 4 of Sachs [2005] or Galbraith [1972] for more details*), which is primarily an equity-based argumentation could be effective only when ideologies have been taken seriously. What is the nature of planning when ideologies are taken more seriously?

Planning in Interactive Contexts

Charles E. Lindblom (1977), in his famous *Politics and Markets*, showed how intellectually guided ‘decision’ and socially guided ‘volition’ are two modes of reaching solutions: “The

Persuasion is demystifying the impossibility of means-ends dichotomy and releasing the power of ideas

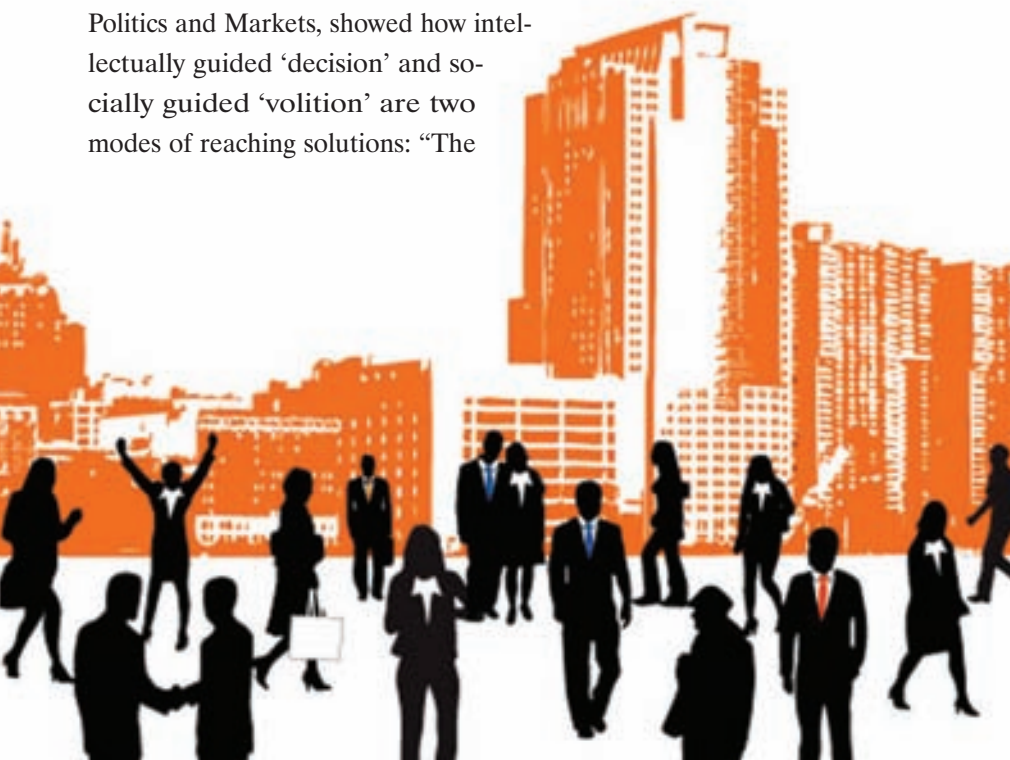
model of the intellectually guided society, Model 1, specified that some people in the society are wise and informed enough to ameliorate its problems and guide social change with a high degree of success. According to Model 2, however, ‘everyone well knows himself to be fallible’, as J. S. Mill argued in “On Liberty.” While in the Model 2 interaction becomes part of the decision making. In the process of interaction to reach an agreement persuasion or bargaining or coercion takes place. A healthy democracy should aspire to carry out the role of persuasion to a great extent, which could ensure deepening of the democracy as well.

Persuasion is not merely about reasoned arguments and backing with evidence, but also winning the other comprehensively, even by appealing to values. “Power has a rationality that rationality does not know, whereas rationality does not have a power that power does not

know” (Flyvberg, 1998: 2). Persuasion with reasoned arguments alone is the voice of the experts. Ethnographic revelations about such expert-led planning have been scandalous, and has been moderately criticized as ‘anti-politics machine’ (Ferguson, 1994). Such anti-politics machine of planning also initially sidelines the ideational frame of social change by effectively blocking the new ideas on the periphery. Good example is to look at how most of the grandiose plans have ignored the way social and structural processes producing poverty at local level. A slowly, but steadily, growing stream of literature on social structures of accumulation in India, has shown how both planning process as well as market is entrenched in the social structures. Such entrenchment retards the development of a liberal capitalism, as well as threatens the fabric of democracy by stifling the voices which have limited economic resources.

Persuasion is the ability to take cognizance of such different voices and to allow intellectual space not to stifle new ideas. “Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.” (Keynes 1936: 383).

A persuasive planner could act as a policy entrepreneur. A policy entrepreneur is engaged in streamlining the problems and solutions to the political environment. Technically, this process is called as ‘opening of policy windows’ (Kingdon 1995; Roberts & King, 1991). Properties of problems in pluralist democracies are often ‘constructed’ than given. Solutions are



often picked up rather than created. What is important is aligning these two to the third one, namely, political environment. Art of persuasion is bringing these three into a synchronization. Here, role of planner is not merely acting as ‘handmaid to political master’ but to assume the role of ‘speaking truth to power’. A good example is K.N. Raj (*at a young age of 26*), architect of the first Five Year Plan, in opposing Nehru’s ambitious Soviet-style plan, by pointing out the incompatibility between high investment and democratic fabric of the country.

Policy and planning has primarily worked within the framework of means-ends dichotomy. What policy means would achieve the goals desired. Persuasion is demystifying the real impossibility of means-ends dichotomy. What is good for one section is bad for another. Or what is of strong interest for humanity is of least interest for future generation or environment. Thus, exhibiting the impossibility of means-ends dichotomy becomes possible by juxtaposing the existing claims with new ideas. In the instrumental rationality newer ideas have little space. Once the means-ends dichotomy is overcome, the instrumental rationality has limited role. Thus, persuasion is interested in cogeneration of practical wisdom by engaging with stakeholders who present new ideas or different voices of democracy. Decisions arrived through this manner would be in tandem with volition of the members of society, thus gaining more legitimacy for them.

Conclusion

Choosing and deciding has been the older style of planning and policy making. In post-modern plural democracies, persuasion becomes the hallmark of planning. Here, practice of the policy is the concern,

and aims at minimizing the implementation deficit. What practice will take place will be determined by institutionalizing as to what is given for practice is practical or not. This is feasible when there is shared values and beliefs of citizens and the State. In other words, merely by a Weberian bureaucratic insulation from ‘societal interests’, a policy may not be successful. Rather, autonomy gained through such insulation must be capable of cogenerating synergy by aligning with the internal structure of society. Dialogue has to happen to generate these shared platforms or aligning process. This dialogical process actively encourages different voices and new ideas to take centre stage than experts occupying such spaces. Thus, embedded autonomy is designed and generated rather than working only with existing embedded autonomies (*existing social ties of the internal structure of society with internal structure of the State*). This is truly the State as a social construct, not in a passive sense, but in active sense (*creating new ties*) if we are continuously reconstructing the State. This is true Swaraj, where neither there is fear for the citizens about the mighty arm of the state to control their behavior, nor there is fear for the State machinery as to whether society would take over the former. [IER](#)

References and Additional Thinking

- Bagchi, A. (2007) “Role of the planning and the planning commission in the new Indian economy”, *Economic and Political Weekly*, November 3.
- Chatterjee, P. (2001) “Development planning and the Indian state” in *State and Politics in India* (ed. Partha Chatterjee) New Delhi: Oxford University Press.
- Chelliah, R. J. (2007) ‘Strategy for poverty reduction and narrowing regional disparities’, *Economic and Political Weekly*, August 25.
- Ferguson, J. (1994) *The anti-politics machine: ‘Development’, depolitization, and bureaucratic power in Lesotho*. Minneapolis: University of Minnesota Press.
- Flyvbjerg, B. (1998). *Rationality and power: Democracy in practice*. Chicago: The university of Chicago press.
- Galbraith, J. K. (1972) *Economics, Peace and Laughter*. New York: New American Library.
- Guha, R. (2008) “Autonomy and ideology”, *Economic and Political Weekly*, February 2.
- Keynes, John M. (1936) *The General Theory of Employment, Interest and Money*. New York: Harcourt, Brace and Company.
- Kingdon, J. W. (1995) *Agendas, alternatives, and public policies*. New York: Harper Collins.
- Roberts, N. C. & Paula J. King (1991) “Policy Entrepreneurs: Their Activity Structure and Function in the Policy Process”, *Journal of Public Administration, Research and Theory* 1 (2) pp. 147-175.
- Sachs, J. (2005) *The end of poverty*. London: Penguin Books.
- Scott, J. E. (1998) *Seeing like a state*. New Haven: Yale University Press.
- Stiglitz, J. E. (1997) *Economics of the public sector*. New York: W. W. Norton & Company.
- Wade, R. (1990) *Governing the market*. Princeton: Princeton University Press.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

The Complexity and Need for Evaluation of Planning Agencies

The evaluation of an entity such as government agencies is particularly difficult as the goods or services provided by them do not have any market value, so the effectiveness of cost-benefit analysis becomes questionable as even the experts will have vested interest in providing the same goods and services

William R. DiPietro

*Professor of Economics,
Daemen College,
Amherst, NY, USA*

There seems to be a general tendency for modern governments to get bigger, more bureaucratic, and less efficient. Why might this be the case?

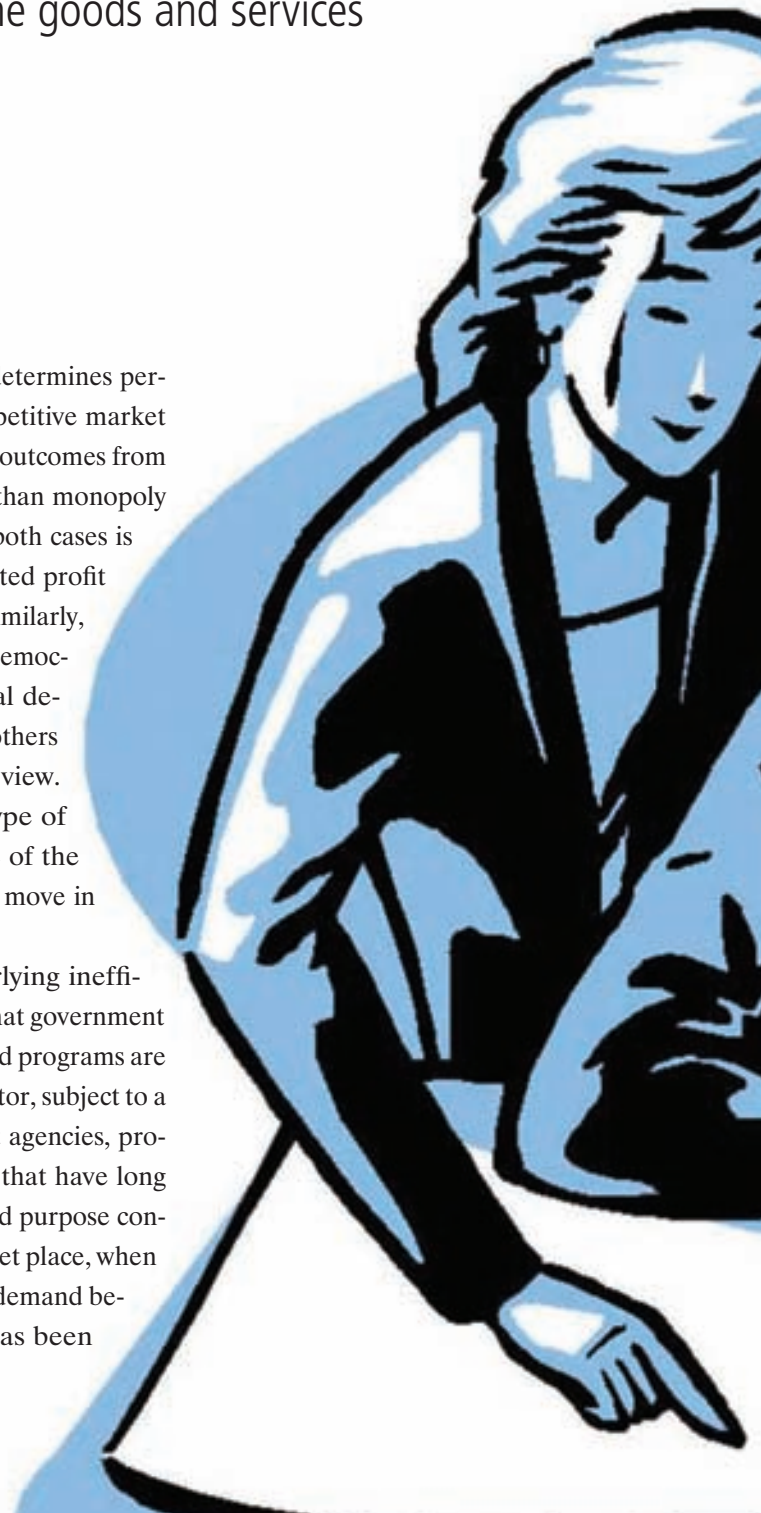
Lately, many econometric studies are finding that the size of government in most countries is beyond the optimal level that is needed to provide maximum economic growth. When this condition exists, any further expansion of the government leads to a reduction in the rate of economic growth.

Economic growth is essential for progress. It is economic growth that enables the standard of living to rise. It is through economic growth that surpluses above the basic needs of society become available. These surpluses can, in turn, be used for investment in human capital, physical capital, research, infrastructure, and other important uses thereby creating a virtuous upward investment growth cycle.

One of the key tenets of economics is

that design or structure determines performance. A purely competitive market structure results in better outcomes from the viewpoint of society than monopoly even though business in both cases is conducted by self-interested profit maximizing individuals. Similarly, within the framework of democracy, some governmental designs will be better than others from the social point of view. The question is what type of changes in the structure of the government is needed to move in this positive direction.

A major factor underlying inefficiency in government is that government bureaus, commissions, and programs are not, unlike the private sector, subject to a market test. Government agencies, programs, and departments that have long lost their functionality and purpose continue to exist. In the market place, when a product is no longer in demand because, for instance, it has been



supplanted by a superior product, such as was the case with typewriters by computers, the business of the inferior product becomes unprofitable and quickly ceases to exist. Resources are freed from unproductive uses and become available for more valuable pursuits.

Grapevines, roses, fruit trees, and other plants need pruning on a continual basis to be healthy and to bear abundant fruit. Similarly, the government needs to

trim off ineffective parts of its body so as not to develop into a cumbersome, burdensome, useless social entity. How might this be accomplished? One possibility is that anytime there is a legislative establishment of a new body, agency, or government commission for some purpose, that at the very same time legislation is enacted that the newly created body,

agency, or
commis-

sion will be automatically discontinued or cease to exist in a specified number of years, unless it is proven at a reasonable time prior to its anticipated dissolution, to still be important. In other words, all agencies, commissions, and bureaus, of the government should be considered as temporary, and there should be a general felt consciousness by the public and by government employees of their temporary nature. Everyone, most especially those working in the agencies, must have an understanding that agencies are for public service and will only continue to exist as long as they have a worthwhile



future from the point of view of society as a whole. A second possibility is for the government to do an entire comprehensive evaluation of all agencies on a periodic basis with each and every agency's continued existence contingent on their worth at the time of the evaluation.

Even if future evaluation of government agencies is predetermined at incep-

tionals in the good or service are generally consulted. However, a lot of times, these experts are experts or have become experts precisely because they work or have previously worked in providing the good or service. This means, as a rule, that they have a vested interest in the continuance of the good or service and are inclined to overstate the value of the

course, the optimal size of an agency is up to the point where the marginal benefit equals the marginal cost of running the agency. If there is a hard time agreeing on valuing the total value of an agency, how much more so, if even possible, of getting people with different assessments of value, to agree on the value of the marginal benefit of an agency.

What about planning? Is economic planning valuable? How valuable? The answers are, to say the least, both historically and at the present time, a bit controversial. The valuation of planning differs depending on who you ask, and, it must be kept in mind, it is the valuation of planning that is fundamental in making the decision of whether or not to have a planning agency and in properly ascer-

In a democracy, people expect the govt to help them in the face of life's difficulties to try to help them

tion or there is a periodic general evaluation of all government agencies, a major problem, perhaps even an insurmountable one, is that, the evaluation of government functions, especially in democracies, is extremely difficult, and, the pruning, the winnowing down of the government and the elimination of agencies deemed no longer to be effective is even more difficult.

An essential reason for the complication is the valuing of government goods and services and the agencies providing them. For most government goods, there is no market value on these goods and services. How does one value these goods and services when there is no market value and when different people, different constituencies, value them differently, sometimes totally differently? Can cost benefit analysis be used effectively when the very value of the benefits is just what is under question? In the process that is commonly used to assess the value of an agency, there is generally an upward bias in the estimate of the worth of an agency. Typically, in order to evaluate an agency, to evaluate the value of the good or service an agency provides, experts or profes-

sionals in the good or service. For instance, the government might bring in an army general to discuss whether there is need for the continuance of a particular military agency for defense.

In addition, there is a potential unemployment problem. The government is always subject to competing welfare goals that are not necessarily compatible. In a democracy, people expect the government to help them in the face of life's difficulties, or, at least, to try to help them. One of the goals of government is to maintain high levels of employment. If the government eliminates an agency of government that is now dysfunctional in order to increase efficiency within the government itself, or in the economy as a whole, it generates unemployment. If there are a large number of people in the agency, its elimination is also likely to have substantial negative multiplier effects on the economy.

Making a judgment on the continual existence or elimination of a government agency may be less onerous than deciding on the scale of operation of an agency once the decision for its continued existence is deemed to be appropriate. Of



taining the scope and nature of a planning agency. Those on the left place a high value on planning, while those on the right give little, or no, or negative value, to planning.

A potential positive aspect of planning, upheld by those who place a high value on planning, is that it leads to greater economic stability. A capitalist system's main concern is with profits, not with consumption. Its focus on profits makes it highly unstable and subject to recurrent crisis. Planning can be used to dampen the unwanted gyrations in the economy stemming from a market system.

On the negative side there is power and the threat of power that comes with planning. It is no accident that a centrally planned economy like the Soviet Union

produced a Stalin. Hierarchy and power is part and parcel of the very nature of planning. Planners believe they know what is best for others and impose their will on others. Power, employed in planning under the rationale and guise of doing well for others, is an unwanted problem. Power is anti-freedom and addictive. A real risk of planning is that,

Power, employed in planning under the rationale and guise of doing well for others, is an unwanted problem

without careful monitoring, it can easily get out of control and usurp freedom.

In psychotherapy, they have found that human beings tend to blossom in relation-

ships that encourage them to find and develop their own inborn potentiality, their own direction, and to discover their real selves and become authentic, independent, autonomous actors in the drama of life. The economy is a social system consisting of human beings in a nexus of social relationships. A government that promotes a healthy social environment

and refrains from interfering with the development and natural direction of social relationships by the imposition of its will is likely to reap the fruits of a more creative, a more productive, and more innovative society.

There is a general human tendency and belief that once we understand the operation of any phenomenon we can then bring it under our conscious control for our own benefit. However, there are some instances for which detailed conscious control may not be the preferred option. Scientifically, we might know all the intricate movements and the necessary coordination of the various muscles to lift a water glass from the table to get a drink of water, but would probably go insane if we had to consciously decide to do each and every step involved.

The recent overall interpretation of planning by the West has been from a triumphant point of view. The west points out that the world has had a major social experiment in planning in the former Soviet Union and in other countries and that centralized planning has failed, especially in the areas of economic efficiency and economic growth. A more nuanced



view is the notion of convergence. The notion of convergence is that countries are becoming more and more alike over time, so that, the capitalist west is incorporating some planning aspects into their system, and the planned economies are becoming more capitalistic by incorporating market elements into their systems.


There is little doubt that extensive centralized Soviet style planning is inefficient and dampens incentives to produce. However, the historical record seems to indicate that it is possible that planning, when used as an overall guide or as a general blueprint for the direction and coordination of an essentially market economy, may be helpful, or at least, not harmful, in facilitating the transition from a less developed to a modern economy. China is a case in point. South Korea and Japan are other examples in which overall planning were used in combination with the market in the development process.

In terms of economic development it may be that there are different amounts and kinds of planning that are optimal for different stages of economic development. Perhaps at an initial stage of development, a lot of centralized planning may be helpful, but with further development, it needs to be set aside to allow markets to rule, but with further development, as economies become older and more mature, greater planning may once again be needed.

In early stages of development, a planned economy may be helpful to jump-start the economy. Indeed, perhaps, limited human capital resources can only be used in an effective way by consolidating them in a planning agency. However, in later stages of development, a directed economy may retard eco-

nomic development as the economy now has a life of its own which is not given free reign to express itself when directions are given from above. However, once the planning authority or any agency becomes established in the government it becomes entrenched and is difficult to remove even when its functions become obsolete or dysfunctional. An analogous thing often happens in a relationship between a father and a son. In the father



son relationship, when the son is a small child, there is an advice giving role adopted by the father and, at this stage of development, the advice that is given is really needed by the son. To take just one striking example, the son as a little child may be naturally attracted to the beauty of fire but is unaware of the danger of fire, so the father warns him not to touch fire or he will get hurt. When the son becomes a young man, inappropriate continuance of the habituated advice giving role by the father can inhibit the independent development of the son and deflect him from following the path he is inherently meant and destined to go. 

References and Additional Thinking

- Chobanov, Dimitar and Adriana Mladenova. (2009). "What is the Optimum Size of Government", Institute for Market Economics, http://ime.bg/uploads/335309_OptimalSizeOfGovernment.pdf, June 2010.
- Elliott, John E. (1958). "Economic Planning Reconsidered", *Quarterly Journal of Economics*, 72(1), pp. 55-76.
- Friedman, Milton. (2009). *Capitalism and Freedom (Fortieth Anniversary Edition)*, University of Chicago Press, Chicago.
- Hauner, David and Annette Kyobe. (2008). "Determinants of Government Efficiency", IMF Working Paper No. 08/228, International Monetary Fund (IMF), Washington, DC.
- <http://www.imf.org/external/pubs/ft/wp/2008/wp08228.pdf> August 2010.
- Potts, Nick. (2001) "Is it Time to Finally take Dr Kalecki's Rational Planning Medicine?", *International Journal of Social Economics*, 28(3), pp.667-680.
- Rogers, Carl A. (1961). *On Becoming a Person*, Houghton Mifflin Company, Boston.
- Sakharov, Andrei. (1990). *Memoirs*, Alfred A. Knopf, New York.
- Vedder, Richard K. and Lowell E. Gallaway. (1998). "Government Size and Economic Growth", Joint Economic Committee, U.S. House of Representatives, pp. 1-15, <http://www.house.gov/jec/growth/govtsize/govtsize.pdf>, February 2010.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Economic Planning and **Industrial** Policy

For several reasons national economic planning is required in a developing country like India but it should account for challenges of rapid change due to technological advances and globalization opting for a middle way between the two extremes of central planning and over reliance on market signals — a framework for avoiding the corner solutions

Raj Aggarwal

*Sullivan Professor of International Business and Finance,
University of Akron*

The debate on economic planning often ends up with people in two opposite corners — those that believe in government-led central economic planning in one corner versus those that believe in relying completely on market signals in the other opposite corner. The reality is that neither corner is a desirable place. Government economic planning has a difficult time picking winners and avoiding being hijacked by powerful interests while market signals have just as often proven to be unreliable as shown, for example, by the recent 2008-09 global financial



crises. This note contends that the best form of economic planning avoids either extreme corner.

Economic planning has been considered important in India at least ever since independence. We have had a number of five year plans over the last sixty plus years. India has made remarkable progress in this period with especially rapid progress since the deregulatory moves of the early 1990s. Nevertheless, the role played by economic planning can be and is being vigorously debated in In-

dia. Indeed, national industrial policy remains controversial globally.

Even in corporations and other organizations, where strategic and operational planning is widely adopted, smart executives recognize the limitations of such exercises. While planning allows an or-

ganization to prepare its responses to events and environmental changes, it limits flexibility and nimbleness – two qualities that become critical in environments that change rapidly. Business planning seems to work best in a static or slow moving environment. It seems the same may be true for nations.

The year 1989 seems to have been a turning point for economic planning.

That year saw the break-up of the Berlin Wall, a symbolic affirmation of the fall of communism.¹ It was also the year the remarkable growth of the Japanese economy peaked. The communist countries and Japan were both known to have built their considerable economic successes with heavy reliance on national economic planning and industrial policy (*Aggarwal, 1999a*). After 1989 most of these centrally planned countries started converting their economies to rely much more on market signals to guide economic growth. Similarly, other countries that already had market-based economies started down a similar path with a strong focus on de-regulation. Interestingly, this global move towards less reliance on national economic planning and regulation lasted for about two decades until the developed country financial crises of 2008-09. Over-reliance on free markets and too little regulation seems to have



played a major role in this recent set of crises and the resulting recession, reminding us again of the need for light but appropriate regulation.

So, we are now at a cross-road in terms of national economic planning. What is the best mix of reliance on market signals and government regulation going forward? While the answers will undoubtedly change over time and be somewhat different for each country, and reasonable people can and will disagree on exact details, it would be useful to frame the debate with some general principles. This brief note is an attempt to provide the essentials of such a framework.

A few caveats are in order. This paper

economic planning often places an undue burden of providing appropriate and timely information about consumption patterns to production organizations. As noted by many conservative economists like Hayek and von Mises, this is often impossible and seems to have been a major reason for the failure of the Soviet economic system. A second reason for the failure of central economic planning is the need to own or control the means of production to ensure that appropriate plans are carried out. However, the lack of private ownership or control makes it difficult to motivate workers to produce appropriate products efficiently (*e.g., a collectively owned sick cow may die while a*

costs, but also by lack of capital, ability to assess or take on risks, or limited access to arbitrage opportunities. Fourth, many production processes often cannot respond instantly to new demand and this necessary delay may induce cyclical variations and instability in market responses. Finally, there are many market externalities that may limit the social value of market signals (*Aggarwal, 2004*). Many economic actions depend on free or underpriced resources in the “commons” and many economic actions benefit a wider set of agents than the one that bears the cost of such action. In such cases of market externalities, market signals based economic actions are usually inefficient and/or impractical.

Thus, it seems that both the extremes of central economic planning and complete reliance on market signals for economic guidance are imperfect and have many flaws and limitations; and neither extreme is an appropriate approach to national economic planning. Next we examine some additional factors that are useful in thinking about the middle way of economic planning.

Indian Environment for Economic Planning: There are numerous arguments that have been advanced to support economic planning. It should be noted that it is very difficult for any government (*or even private*) organization to pick industries and sectors that are winners or even those that are likely to succeed in the future. Nevertheless, based on market externalities, among the arguments put forward for economic planning in India are the following:

First, while India in the past was a wealthy country (*even as late as the 18th and early 19th centuries India produced ap-*

Markets need reliable public information; but production of such information may be too costly

is not a comprehensive statement or analysis of economic development — a topic still not well-understood. Neither is this paper intended to be a rigorous analysis of economic planning. It represents somewhat of a personal view of economic planning and it includes somewhat simplified statements that are nevertheless directionally correct and appropriate. It is not a review of the voluminous economic planning literature as that has been covered elsewhere (*e.g., Rostow, 1990*).

The Environment for National Economic Planning

Limits of the Corner Solutions: Economic planning can fail because of many reasons. First, it may be impossible to anticipate important trends, inflexion points, and other changes. Central eco-

similar privately owned one may survive as the owner is more likely to take care of the cow in an all night session if necessary). A market based economy can overcome these and other limitations of central economic planning.

However, market signals are not perfect either. Markets can be inefficient and subject to bubbles. These imperfections can result from a number of possible factors. First, markets need reliable public information to function; but such information may be too costly to produce or be unlikely to be produced by private entities. Second, market participants may not behave rationally — numerous behavioral biases among market participants have been extensively documented. Third, price discrepancies in markets need to be arbitrated away efficiently but such arbitrage may be limited not only by information

proximately 25% of the then global economy), in 1950 India was a poor country accounting for roughly two percent of global GDP. Since then while our economy has grown considerably to perhaps the fourth or fifth largest economy in the world (*in purchasing power terms*), on a per capita basis India is still a predominantly rural and poor country (*e.g.*, Aggarwal, 2010). We are also a democracy and the poor in India know how to use their considerable voting power. Thus, adequate benefits of national economic growth must flow to the rural majorities. This may not happen automatically in an economy driven solely by market signals. There are many reasons for this type of market failure. For example, poor people are often uninformed consumers and often lack enforce-

We are also a democracy and the poor in India know how to use their considerable voting power

able property rights (*DeSoto, 2000*). In addition, technological progress seems to increase economic inequality. Governments and economic planners may have a role in ensuring resource flow and encouraging businesses to serve the poor and those at the bottom of the pyramid (*Prahalad, 2005*).

Second, many hostile nations and

forces surround India and some resources must be dedicated to national defense – another activity that cannot be driven by market forces. Economic planning and fiscal policy needs to ensure adequate resource flows to defense.

Third, the Indian government like other governments all over the world may want to provide subsidies and other support for high risk business activities that have social benefits – benefits that go beyond private benefits (*Rajan and Zingales, 2004*). Protection of “infant” industries is an example of this goal. Another example of this argument is the expressed need for governments to support basic research and technical activity that can be critical in economic development.²

Fourth, it is the role of the government to provide a level playing field for businesses limiting excessive market power through anti-monopoly legislation and regulation (*Olson, 1982*). These anti-monopoly measures need to account correctly for market size and for the



global or local nature of the market for a given product or service. Another aspect of providing a level playing field that the government must provide for the uniform disclosure of reliable and audited financial statements.

Fifth, human capital is not infinitely available, tradable, or moveable and takes time to develop and deploy. The government must often provide subsidies and plans to encourage the efficient development and deployment of human capital (Aggarwal and Agmon, 1990). India faces a particularly significant demographic challenge in this regard as its population entering the job market is projected to be one of the largest in the world over the next few decades. While a country's educational system influences its level and quality of human capital, the efficient deployment of human capital is much more complex, depending on gender policies, and other political, cultural, and social labor market rigidities. The importance of improving educational systems and of reducing such labor market rigidities is critically important in this information age.

Sixth, the government and economic planners must often take the lead in providing basic infrastructure such as transportation systems, power grids, and communication lines. The Indian government is finally focused on making major efforts in this area.

Role of Late Industrialization: Late industrialization has some advantages when a country develops economically and



technologically later than some other countries. Such a late developing country can possibly learn from the experiences of the more advanced countries and avoid some of the pitfalls that may be suffered by the pioneering country. As pioneers, the leading economies often have to try various measures and developmental approaches not all of which work out (Ag-

garwal, 1999c). Nevertheless, some of these lessons may not apply to another country or may not be transferable. In any case, in developing national economic plans, it is often useful to study the experiences of other economies that have undergone similar challenges a few years or decades earlier. However, any such lessons of late industrialization are being rapidly made obsolete by rapid advances in technology and globalization.

Fortunately, there is a new twist to old advantages of late industrialization — countries can now skip some steps in the

A late developing country can possibly learn from the experiences of the more advanced countries

process of economic growth. Newly developed countries can leapfrog many intermediate technologies. For example, many countries have very successfully skipped the development of land lines and gone straight to wireless telephony. Now there may be opportunities in skipping the development of centralized generation of electric power since distributed power generation (*such as solar, wind, geothermal, etc*) may become more economic in future. There may be similar opportunities in other areas too. It is important that economic planning and regulation encourage technological leapfrogging wherever possible.

Technology: It has been contended that we now live in a transformational age as we have been moving from the industrial age to the information age (*moving from the age of the atom to the electron and the photon*). The age of hulking industrial machines is being replaced by the age of small and svelte information appliances (*such as computers, cell phones, and other objects with embedded intelligence*).³ Aggregate consumption is getting lighter and more tradable as the proportions of heavy consumer products with mechanical components are declining while the proportions of services and lighter products made of plastics and consisting of photonics and electronics are increasing in every economy. Due to technological progress, much of the new production processes depend on electronic information flows (*often over the internet*) and the most important wealth producing assets are now intangibles. Another feature of the modern age is that fixed production costs (*including the costs of development*) are now much more important while variable costs have been declining as a proportion of

In this information age, product life cycles are shrinking and the business environment is much more dynamic

total costs. This costing development allows much greater flexibility in pricing policies and for innovative corporate strategies especially against less well-heeled competitors. Lastly, in this information age, product life cycles are shrinking and the business environment is much more dynamic.

Economic planning must reflect this increased pace of change and the critical need to upgrade technologies used by domestic firms. Indeed, the traditional factors of production seem to be changing in importance. While still necessary, it is no longer land, labor, and capital that are critical in the production process. The information age processes require little land and labor, and with capital flowing globally with ease, good business ideas can attract the required capital. Instead, in this information age, the critical resources are ideas and entrepreneurship. The economic planning process must ease and encourage the implementation of entrepreneurship and new ideas, and the development and efficient deployment of human capital.⁴

Globalization: As the speed and ease of cross-border communication increases with technology, consumer tastes, production, and business organizations are all becoming more global. Barriers to trade and investment have been declining for the last half a century and the process accelerated with the move from central economic planning to market based economies in the late 1980s (*Friedman, 2005*). With the rise of the information

age, products are getting lighter and so more cost-effective to move across borders and over long distances. Lastly, globalization is also being driven by the wealth creating effects of international trade and investment.

Finally, globalization makes technology more valuable by providing larger markets and, at the same time, technology facilitates globalization with increased ease of cross border communication and transfers. Thus, this mutually reinforcing process between technology and globalization creates a vortex of ever accelerating economic change (*Aggarwal, 1999b*). Neither economic organizations nor economic planning can any longer afford to take just national perspectives.

As this brief review indicates, there are many reasons for national economic planning and regulation. However, national economic planning and regulation must also account for the challenges of rapid change brought about by twin mutually reinforcing factors, technology and globalization. Finally, national economic planning and regulation must reflect a middle way between the extremes of central planning and over-reliance on market signals. The next section provides some guidelines to frame that balancing process and come up with that required middle way.

A Framework for National Economic Planning⁵

A useful way to think about a framework for economic planning that balances between the two extremes noted at the start

of this note, is to think about a set of guiding principles. A minimalist framework for national economic planning based on just five principles is presented below. The implementation of these guiding principles/framework will, in many cases, require detailed explanations and implementation guidelines.

One of the first principles is that the nature and usefulness of planning will differ depending on particular conditions. It seems clear that planning is more useful in static or slow moving economies and industries. In environments that are dynamic and changing rapidly, directive planning is less useful and in fact may even be harmful. In such cases, flexibility and nimbleness are more important. One reason why the Japanese and communist strategies for economic growth stopped

the next principle.

A third principle has to do with the nature of planning or regulation. Two extreme cases are 1) when planning or regulation states what cannot be done, with other actions allowed, or 2) when planning or regulation specifies what can be done, with other actions prohibited. The first approach is clearly more flexible compared to the second approach. It is safe to observe that before the reforms of the early 1990s in India the planners emphasized the second approach and Indian economic growth rose dramatically when the planners started emphasizing the first approach after the early 1990s.

A fourth principle of economic planning requires that each regulation should have a sunset provision when enacted.

mation for markets is like oxygen for humans, and in some cases provision of appropriate and greater information disclosure may allow a market imperfection to decline or disappear, obviating the need for more extensive regulation of business activity.

It should be noted here that these five principles form a minimalist framework and should be considered to be the core to guide thinking on economic planning. Indeed, as indicated earlier, the implementation of these guiding principles/framework will, in many cases, require detailed explanations and implementation.

Conclusions

Neither the extreme of central economic planning nor the other extreme of reliance on market signals alone are appropriate approaches to national economic planning. Complete reliance on central planning or on market forces are each inadequate and fraught with serious limitations. Economic planning must find a workable middle way to encourage and support conditions that enhance economic growth. This note provides a pragmatic and balanced framework of five principles to guide thinking about national economic planning. [IER](#)

Endnotes

¹ Serious fascination with communism and socialistic central economic planning started with the Congress of Europe in 1889 and so it seems that it lasted exactly a century.

² China seems to be very successful in encouraging the import and adoption of foreign technology by Chinese firms.

³ In 1957, I was the proud owner of a new

Planners need to carefully assess which environments are fast changing and which ones are slow moving

working may have been the fact that their economies had developed so much that they lost the advantages of late industrialization when a planning can be guided by the successes of the more developed economies. Planners need to assess which environments are fast changing and which ones are slow moving (*e.g., the application of technology seems to speed up changes in any industry*).

A second principle for government regulation and economic planning is the need to articulate and document the nature of market failure that needs to be addressed (*markets are by no means perfect*) with a given regulation or subsidy (*Schleifer, 2005*). This requirement is particularly important in implementing

Conditions change and regulations must be re-assessed to see if they are still optimal. This is particularly true for regulations that are designed to protect “infant” industries or to correct another market failure. In most cases, each regulation will develop a set of economic agents that depend on that regulation and will oppose any changes no matter how useful for the country as a whole (*Stigler, 1971*). No country has just an economy, they are all political economies.

Fifth, instead of regulations prohibiting or allowing certain behavior in response to market failure, in some cases it may be necessary only to ensure greater and appropriate disclosure as a regulatory mechanism (*Baumol et al, 2007*). Infor-



Japanese radio with one transistor that was much lighter than the existing tube radios. Half a century later it is contended that a modern well-connected person in 2010 owns and operates products with more transistors than he or she has neurons in their brains (*Fortune*, 6th September 2010, p. 64).

⁴ As has been noted earlier, a well-educated internet connected individual located anywhere can be a formidable global competitor.

⁵ The thoughts in this section are partially based on my experiences in training emerging market regulators at the US Securities and Exchange Commission in the early 1990s just after the Berlin Wall fell and many formerly centrally planned economies were starting to develop capital markets.

References and Additional Thinking

- Aggarwal, Raj, (2010), "Indian Integration with the World Economy: Important Role of M&A and Corporate Restructuring" Review of Market Integration (Winter): Forthcoming.

- Aggarwal, Raj, (2004), "Puzzles in International Economics and Finance: Central Bank of Ireland Edgeworth Keynote Lecture" *Economic and Social Review* 35 (No. 1, Winter): 241-250.
- Aggarwal, Raj, (1999a), *Restructuring Japanese Business for Growth* (Boston: Kluwer Academic, 1999):
- Aggarwal, Raj, (1999b), "Technology and Globalization as Mutual Reinforcers in Business: Reorienting Strategic Thinking for the New Millennium" *Management International Review* 39 (Special Issue No. 2): 83-104.
- Aggarwal, Raj, (1999c), "Nature of the Asian Economic Crises: Role of Positive Feedback Cycles" *Journal of World Business* 34 (No. 4, Fall): 392-408.
- Aggarwal, Raj, (1990), "Technology Transfer and Economic Growth: A Historical Perspective on Current Developments" in T. Agmon and M. Von Glinow, (eds.), *Technology Transfer in International Business* (New York: Oxford University Press): 56-76.
- Aggarwal, Raj and Tamir Agmon,

(1990), "The International Success of Developing Country Firms: Role of Government-Directed Comparative Advantage" *Management International Review* 30 (No. 2): 163-180.

- Baumol, William J., Robert J. Litan, and Carl J. Schramm, (2007), *Good Capitalism, Bad Capitalism and the Economics of Growth and Prosperity* (Yale University Press).
- De Soto, Hernando, (2000), *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books).
- Friedman, Thomas L. (2005), *The World is Flat* (Farrar, Straus, and Giroux).
- Olson, M. (1982), *The rise and decline of nations*. (New Haven, CT: Yale University Press).
- Prahalad, C.K. (2005), *The Fortune at the Bottom of the Pyramid* (Wharton School Publishing).
- Rajan, R. G. and L. Zingales (2004), *Saving Capitalism from the Capitalists* (Princeton University Press).
- Rostow W.W., (1990), *Theorists of Economic Growth from David Hume to the Present*, (London: Oxford University Press).
- Shleifer, Andrei, (2005), "Understanding Regulation," *European Financial Management*, 11 (No. 4), 439-451
- Stigler, G. J. (1971), 'The theory of economic regulation', *Bell Journal of Economics*, 2, pp. 3-21.

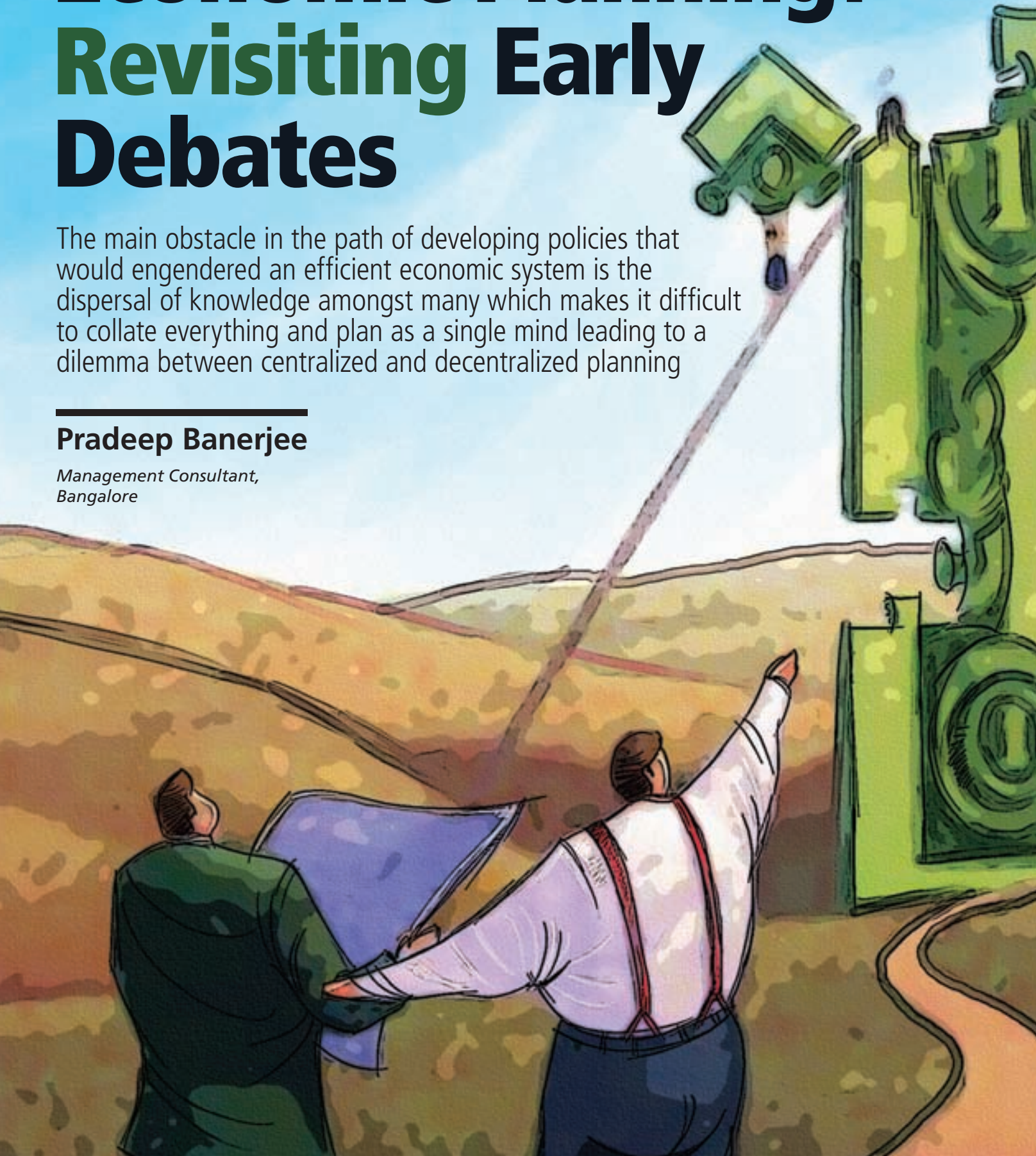
(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization. The author is grateful to D. Haake, J. Goodell and his other colleagues for useful comments but remains solely responsible for the content.)

Economic Planning: Revisiting Early Debates

The main obstacle in the path of developing policies that would engendered an efficient economic system is the dispersal of knowledge amongst many which makes it difficult to collate everything and plan as a single mind leading to a dilemma between centralized and decentralized planning

Pradeep Banerjee

*Management Consultant,
Bangalore*





The middle decades of the twentieth century are important for it is during these decades that a number of countries emerged as independent nations across the world. These nations in most cases emerged as those that had experienced colonial rules. The transition was from one of being locked into a centre-peripheral structural mode to that of emerging into a status where the immediate relationship was relatively less tied up with such historical determinacy. Size of these newly crafted nations notwithstanding, the contextual concerns that emerged were those related to prospects that these nations had as new bodies situated in the prevailing network of existing nations. It is not surprising, therefore, that developmental economics as an academic discipline, with a focus on the economy and the polity of these nation units, emerged as a concurrent body with an autonomous approach. It may not be an exaggeration to add that the approach was one that transcended many others; in terms of practice, the approach found support from political practitioners. The perspective to be adopted for endearing a move-forward of the economy also benefited from experiences of a number of other nations. The period of Great Depression and the manner in which the State had stepped in offered an experiential learning the magnitude of which had hitherto not been witnessed. Again the pattern of State intervention in the management of the Soviet economy during the twenties and the thirties offered illustrative lessons that emergent nation States could count on as options tried out elsewhere. As far as the productive capacity of the nation was concerned and as far as the gross outputs produced by these installed pro-

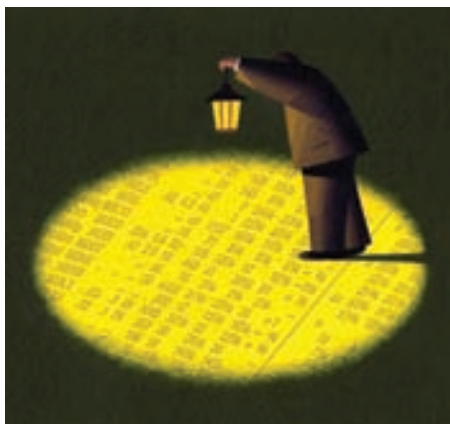
ductive capacities were concerned, the lessons were there to see. The history of events of the world earlier had not probably seen anything of the magnitude that these illustrations confirmed. If it was possible elsewhere at the event level, it was not difficult to recognize the possibility that similar results could be replicated in these newly emerged nations. The formats were to be arrived at and inputs from academic disciplines referred to in stand-up relationship with political feasibility specific to a nation did seemingly offer a broad framework in which economic growth in large measures could be targeted by the State.

This general framework was applicable to the Indian case too. The sluggish backwardness associated with the Indian economy was a scenario that required measures of interventions that could support leap forwards of the type witnessed in other economies. And this could be done, it was recognized, by invoking the role of certain institutions. The role of the State was coming to be recognized as an important one as illustrations of remedy measures taken to address depression, or a loss in growth in the economy on the one hand, and that to accelerate growth in the other were recorded. State as an institution could not remain a laissez faire one



in such times. The other institution was that of the market. The market brought with itself a number of issues which were quiet clear when a comparative picture was drawn of those economies that had developed markets and those that had only nominal ones. Underdeveloped economies and underdeveloped markets seemingly share a sine qua non relationship inimical to economic development. The State and Market relationship had, then, a validity that needed to be accounted for. If these were some of the important institutions, then there were certain methodologies that were required to be put in place so as to provide a manner to address these as part of a common framework. Economic planning was an early answer as the bridge between the State and that of market. The role of the State in forging the relationship by adopting this bridge was an activity of essence. The State in India opted for this as part of its intervention in the politico-economic landscape. It did so by setting up the Planning Commission, and also made this institution organizationally relevant by relating it to the political leadership in charge of deciding on construct of economic policies expected to engender the process of economic development. Planning for the economy was a critical input, and the State soon after independence took steps to institutionalize the process of planning for the economy as part of the economic development process.

The prospects of what are identified as 'market failure' and that of 'government failure' were aspects that could well happen on putting the stated State, market and economic planning troika-schema into practice. These were concerns not just for select nation states as India. There were issues that were faced by emergent



nations across the world at those points in time. Where the differences between nation states emerged as issue of consequence was in that of the specific historicity of each of these nations. The historic specificity of India emerging from long

combinatorial input has when brought in as a whole. The manner in which economic planning was leveraged by the State to both intervene and as also to develop the market was a critical one.

Economic Planning — Issues that Play a Critical Role

A superficial reading of economic planning as a mode of intervention by the State would mean taking an instrumentalist view of that which is meant to be associated with planning. Economic planning need not be brought down to a level of being a mode of an instrumentalist intervention alone. Viewed as such, the essence dwindles to one of methodology and we are presented with an approach that

Economic planning was an early answer as the bridge between the State and that of market in India

period of direct colonial rule was different from that of Korea which had a comparatively much shorter period of Japanese rule. Nonetheless, in both instances the role of the State in relating with the market and the adoption of state planning in matters economic are very much in evidence. Historic evidence also points out that the pattern in which this eventually worked out was quiet different in one nation state over that of the other. The manner of intervention that the combination of State, market and economic planning was structured, that is the combinatorial input, was specific to a nation state and the results that were realized say in terms of the changes in per capita income confirm this in good measure.¹ The role of each of the combinatorial input is important, and so is that of the effect that the

gets limited to the richness, or the lack of it, of that methodology. In an early paper, Hayek initiated a debate on economic planning². And he did so by asking a question, and which was as to, 'What is the problem we wish to solve when we try to construct a rational economic order?'³ Hayek alluded that if looked at using common suppositions, that is the instrumentalist format referred to here, the answer is not far and it is amenable to logical inference. What is implied is that in case we have all the appropriate information about what society wants, and also the obtainable ways and means to address these, the economic calculus to be adopted for addressing the economic problem posed is not a difficult one to resolve. The error in methodology is in the assumption that we know the blueprint in which allo-

Search for a rational economic order by adoption of this process could likely lead to entering a blind alley

cation of resources is to be done. In other words, the assumption depends on the strong case that there indeed is ‘a single mind’ that sets upon itself to arrive at a solution to the problem that the data makes it available for working out a resolution. The problem in creation of a rational economic order instead, and as Hayek points out, is not about the calculus that we exercise to allocate the given resources that we have; it is about ‘how to secure the best use of resources known to any of the members of society, for ends whose relative importance only those individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge not given to anyone in totality.’⁴ The essential point of note is that the issue has been widened to bring in the ‘use of knowledge in society’ to address the aspect of planning that is involved when the task before us is one about allocation of resources that the process of economic development calls for. It is a misnomer, then, to assume that there indeed could be a planner who can take on himself the task of allocation of resources and work on an economic calculus that when implemented would lead to economic development. A search for a rational economic order by adoption of this process could quiet likely lead to entering a blind alley. This so for while planning is ‘the complex of interrelated decisions about the allocation of our available resources’, the format required to put this into practice at the economy wide level posed a number of issue that required decisions.⁵

The issue is not one of the applicability

of economic planning per se as a mode of choice to bolster economic development. That is given, for economic development is about economic activities at one level and it is unlikely that any economic activity can indeed be bereft of economic planning. Transactions carried out in society involve the coming together of people, and implicit in this coming together is that people interact with each other in order to carry out transactions. The economic process involved here is continuously triggered by transactions and in which interacting people who cooperate with each other to carry forward transactions of an economic nature come with knowledge to do so that they bring along with them. Each interacting agent comes along with a plan or the knowledge of as to how best to allocate resources such that he can efficiently participate in transactions that interest him. These in turn forms the basis that makes up the economic process. Noting the holding of dispersed knowledge amongst many people, Hayek points out that one of the problems of coming with economic policies that would engender ‘an efficient economic system’ is related to this dispersal of knowledge. The dispersal of knowledge among many makes it that much difficult to collate the available knowledge as an aggregated unit available with one single mind.

Economic Planning is a Responsibility — Identifying Actors

While the issue of collation of dispersed knowledge remains, there remains yet another question that is connected with



economic planning. It is that of ‘who is to do the planning’. As regards the answer to this, Hayek puts forward in a manner that is best written citing his words. ‘This is’, Hayek writes, ‘not a dispute about whether planning is to be done or not. It is a dispute as to whether planning is to be done centrally, by one authority for the whole economic system, or is it to be divided among many individuals.’⁶ Eco-



transactions according to preferences that they had set up for themselves. As regards tying up the planning process with the existing knowledge, for that is what planning was supposed to deal with, it was to be decided as to which of the chosen systems turned out to be more efficient to put into effect on hand existing knowledge. For it is with fuller exercise of existing knowledge that planning for the economy would work out to be the best for society. In terms of working out as to how this is to be carried out in the real frame of an economy, the germane question is the feasibility of doing so.

Faced with this situation, the way forwards is to ask as to whether there would be success in transferring the knowledge that is dispersed among many individuals to a centralized authority such that this body can make decisions regarding allocation of resources. Note that in this case the data that is currently dispersed as knowledge amongst many individuals have to be first transferred to the central agency. The knowledge data flow includes data that is related to even incremental changes that occur in the economic proc-

mental changes in knowledge data. Incremental changes in knowledge data, a common place event of occurrence, represent a change in the state of the economic process and this change in the state is an important event that has to be provided for. A steady state situation that records no incremental changes could be a theoretician's delight but a practitioner's no-go situation. True as much as a steady state could be desirable, it still remains confined to an assumed state that is much away from the realities of economic life. The knowledge data under reference, then, is a sum total of all these changes. It is only on receipt of such knowledge data that the central agency responsible for economy wide planning can move ahead with the task of economic planning. The resultant economic order is an output of the aggregation and integration of data received by the central planner and the actions that he initiates. A contra to this would be to determine the feasibility of transferring such additional knowledge as would be required to those who already had knowledge to start with such that these dispersed individual knowledge

For it is with fuller exercise of existing knowledge that planning would work out to be the best for society

economic planning had entered the lexicon with a tilt on central planning and this implied driving the entire economic system of a nation in accordance with a cohesive plan made ready for the economy. This was in contrast to that which was underscored as competition, for competition referred to decentralized planning and wherein this planning was carried out by those who came onward to carry out

ess. Economic transactions are entered into by individuals and by firms, and any participant in a transaction knows that incremental changes that constitutes the day to day level of activities come in a myriad of forms and very often do come with a compelling time constraint. The knowledge data, in other words, has time relevance and that of place relevance too. There is an essential relevance of incre-

holders could arrive at plans that are in sync with those their collaborating partners come up with. The point is as to which of the option would society expect to more likely succeed when relating to economic planning to start with and economic development as a consequence of the opted planning mode?

Offer of Planning Options to

Choose From

This is the point of a fork in the road that requires to be addressed. Herein onwards the choice requires to be made as to how society would be able to deliver for itself the more efficient pattern of economic development using the most appropriate pattern of economic planning. The chosen format would henceforth be required to address economic problem of society. The format requires addressing the part created by changes that are a part and parcel of the economic process itself. It is here that Hayek brings in a formulation of that what needs to be an integral ingredient of economic planning which seeks to address economic problem of society. And the role of changes is called upon centre stage, for it is these changes that are a proxy for economic life. Hayek points out that, 'If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decision must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of resources immediately available to meet them.'⁷⁷ It follows that adoption of the route whereby data collected from dispersed units with knowledge and transferred to a central planning agency that integrates all such data elements and finally comes out with instructions as part of economic planning would be to travel a wide of the mark road. It is unlikely to work out when the practice for doing so is called for. The economic problem of the society, then, can be expected to continue given the unhelpfulness of the resolution mode so opted. The solution has to emerge on adoption of a format that is built on 'some form of decentralization'.



The adoption of decentralization as the format remains in sync with the observation about changes that these occur both in time and place. The process of decentralization helps because it enables the use of specific knowledge 'of the particular circumstances of time and place' by a knowledge bearer and this without any delay by the knowledge bearer in carrying out the change.

Knowledge of the here and now in a decentralized format is useful, and yet it is possible that this knowledge may have limitations insofar as decisions require to be taken based on this knowledge in formats that are in sync with changes that are occurring in the economic system in general. To bridge this gap there needs to be a method by which the decentralized deci-

sion maker gets to know that appropriate set of knowledge elements based on which he gets to be equipped to take correct decisions. It is not that he needs to know every single one of knowledge bit as with the central planner whose role assumes that he needs to do so. As to what he needs to know, Hayek points out that, 'It is always a question of the relative importance of the particular things with which he is concerned, and the causes which alter their relative importance are of no interest to him beyond the effect on those concrete things of his own environment.'⁷⁸ There is for that reason a narrowing down of the knowledge requirement by the decentralized decision maker. It is not on a global database that he requires to take decisions on which would impacts his

Economic problem can be expected to continue given the unhelpfulness of the resolution mode so opted

Entire network works out as a single market with relevant information available to the dispersed units

planning. His decisions are based on having a knowledge of the specific issues that concerns him at that point in time and place. If he is a producer of goods that require say aluminum as an input material he needs to know the availability of the metal to him such that he can plan for its utilization. He needs to know for instance as to whether there is a need for substitution given the impact of a change that he witnesses as part of his interactions. The knowledge base that needs to be transmitted to the individual decision maker to augment his planning needs is restricted to those of direct concern alone. And this knowledge-need could turn out to be but a small fraction of all that which is happening in the

real world concerning the input material. The available knowledge is dispersed amongst many knowledge bearers in the economy and that poses no problems in terms of planning by one such decision maker. This is in contrast to the other case where knowledge at the aggregate level has to be available to make a start on economic planning. The concern that remains to be addressed is as to the mechanism by which appropriate knowledge gets to be made available to a large number of people interested in that knowledge for effecting allocation of resources. It is to address the issue of that required mechanism that the price system is brought in as one that works as a mechanism that effectively augments communication of information required.

Hayek does elaborate the manner in which the price system works to address communication of information. The 'most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action.'⁹ To illustrate the way the price system works, the instance of the supply of a raw material like tin is taken. Proceeding with a situation wherein the supply of tin to existing users gets constrained given that a new opportu-

nity has emerged, or that an existing source of supply has closed shop, the point that is made is that to a great many users the reason as to why there has arisen a constraint in supply of the material is knowledge that they do not seek to know. They need to know as to the manner in which the utilization pattern of tin is altered such that the changed pattern of utilization dampens impact of non-supply of the material. While some would work on meeting demand by opting for alternate sources of supply of tin, in other cases the knowledge bearers would work on substitution measures that reduces consumption of tin per se. In case some knowledge bearers come to know of the new demand for tin, they would take measures to address the new demand by transferring supplies to cater to the new point of demand. All these activities would get initiated without most knowledge bearers knowing the reasons as to why the constraint in supply occurred in the first place. As against the central planner who requires knowing causes at the global level and working the impact at a local level, the dispersed knowledge bearers, restricting themselves to information accruing from immediate interactions, come to receive the information content relevant to them in terms of planning on allocation of the resource that they need to carry out. The entire network works out as a single market with relevant information available to the dispersed units. This is what the price system gets done in an economy. Hayek, accordingly points out that, 'The mere fact that there is one price for any commodity ... brings about the solution which (*it is just conceptually possible*) might have been arrived at by one single mind possessing all the information which is in fact dispersed among all the



people involved in the process.’¹⁰ The price system which has not been one that has been arrived at as a premeditated construct instead works as a ‘marvel’. The ‘marvel’ is that a scarcity in availability of the input material tin in the illustrated instance leads a large number of users of the raw material shift their options to alternate directions. What is also important is that this movement is associated with very few being in the know of the reasons for the emergence of scarcity. Given the scarcity, alternatives are sought out by tens of thousands of respondents without any one of these respondents being ordered to do so. In this case, the market and its participants have not been offered conscious directions to do so by any cen-

tralized authority. This formulation turns out to be the answer for the option that is available as regards the choice that is to be made between decentralized planning and that of centralized planning.

Economic Planning as Part of a Larger Construct

The decentralized perspective of economic planning was not viewed without its political counterpart. The decentralized aspect was viewed as one that was closely tied to that of freedom given that the decentralized option was considered akin to ‘freedom in economic affairs’. Centralized economic planning, it was held, was not so, and Hayek brought in an added implication of drawing up a single

plan for allocation of resources of society by a centralized agency. The issue was one about ends that were involved when planning of this type was opted for. There was a need for addressing planning requirements by what was acknowledged as a ‘moral rule’ and by adopting of which central planners could take responsibility for allocation of resources held by society. It follows, then, that there needs to emerge an agreement on the ends that were to be realized by centralized planning such that the questions of many could be addressed. The availability of such a ‘moral rule’ was a moot issue, for such a ‘moral rule’ that would be all encompassing was simply not available. The worrying aspect was that in the absence of such availability, the operant format for economic planning that would be adopted instead would be one that sought agreements otherwise and compulsion was not ruled out from the scenario.

The implications that Hayek arrived at following this perspective was the impact that such a compelled application of economic planning would have on the political environment. Such an allowance, Hayek emphasized, would lead to a ‘clash between planning and democracy’, and wherein the clash ‘arises simply from the fact that the later is an obstacle to the suppression of freedom which the direction of economic activity requires.’¹¹ Mises¹², of the same Austrian School that Hayek belonged to, had earlier written about as regard the inherent shortcoming in arriving at economic calculation in a socialist economy. Basing his arguments on the less than effective pricing system which allows pricing of producer’s goods in a socialistic environment, Mises observed that the system could only gravitate into an uncertain one without a rational eco-

The movement is associated with very few being in the know of the reasons for the emergence of scarcity

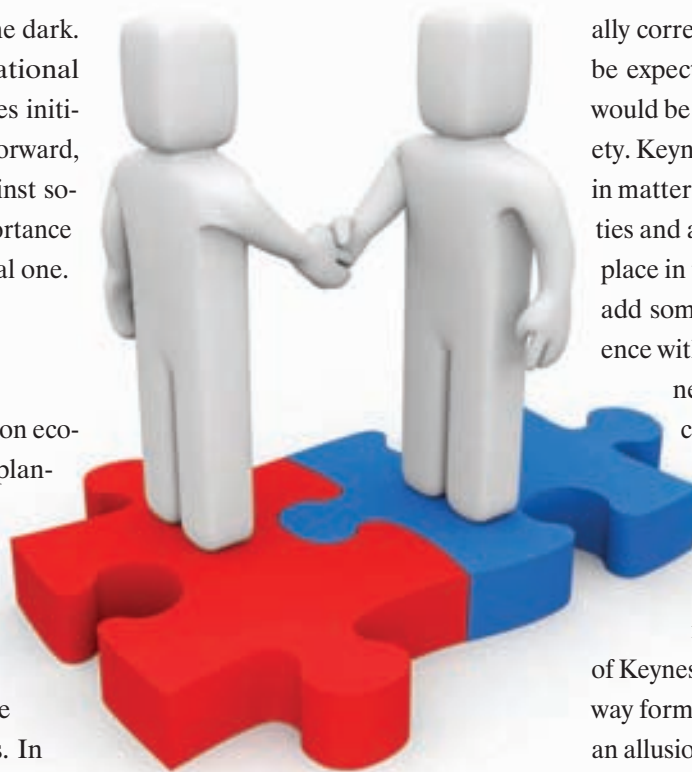


economic order. In his influential 1920 article, **Economic Calculation in the Socialist Commonwealth**, Mises wrote that ‘in the socialist commonwealth every economic change becomes an undertaking whose success can be neither appraised in advance nor later retrospectively determined. There is only groping in the dark. Socialism is the abolition of rational economy.’¹³ The debate that Mises initiated, and one that Hayek carried forward, was one of pitting liberalism against socialism, and in this debate the importance of economic planning was a central one.

Economic Planning and Sharpening of the Debates

The debates that were carried out on economic planning and centralized planning in the perspective of market processes held up important lessons for those that would be interested in these formulations. The debates were not just one-sided. It turns out that these were subjected to critical assessments. In this context Boettke points out that the ‘intellectual biases of the time failed to appreciate not only the economic problems of planning, but ignored political difficulties of planning.’¹⁴ Economic planning, in other words, could work insulated from political processes even if centralization of such planning was opted for. The formats of the political aspects opted for were muted ones indeed. Keynes, who would propose governmental role in economic planning in significant measures, wrote to Hayek stating that, ‘I should therefore conclude your theme differently. I should say that what we want is not no planning, or even less planning, indeed I should say that we almost certainly want more. But planning should take place in a

community in which as many people as possible, both leaders and followers, wholly share your own moral position. Moderate planning will be safe if those carrying it out are rightly oriented in their own minds and hearts to the moral



was in favour of a pattern where centralized planning would be carried on by the political structure and aided for the purpose by benevolent civil employees responsible for such planning. The orientation of those in charge of carrying out centralized planning required being morally correct and when this was so it could be expected that the planning configure would be able to realize goals set for society. Keynes who was an active participant in matters related to governmental activities and aware of the trends that did take place in the societal context did however add something more in his correspondence with Hayek. ‘Dangerous acts’, Keynes wrote, can be done safely in a community which thinks and feels rightly, which would be the way to hell if they were executed by those who think and feel wrongly.’¹⁷ This, Friedman points out, is an expression of Keynes’s ‘bequest to politics’.¹⁸ The half way format, in a manner of speaking, was an allusion to the relationship of the State and economic planning.

Economic planning could work insulated from political processes even if centralization was opted for

issues.’¹⁵ Keeping with this approach, Keynes proposed that, ‘What we need therefore, in my opinion, is not a change in our economic programmes.....what we need is the restoration of right moral thinking – a return to proper moral values in our social philosophy.’¹⁶ This was in response to the ‘moral rule’ that Hayek had referred to in the context of who would carry out economic planning for the economy. Keynes, one can read into this,

This was not all, and other economists, concerned with the approach towards economic planning outlined by Hayek and Mises, debated that the move towards centralized planning was not a handicapped road to take. And nor did they agree that economic planning would lead to the emergence of an authoritarian political regime. Rebutting Hayek on the approach that he had adopted as regards political implication of centralized plan-

ning, Durbin, an academic, and a Labour Member of Parliament of the United Kingdom, wrote in *The Economic Journal* stating that ‘in this country, we have no need to fear the development of a centralized administration. We have a long tradition of increasing democracy combined with the growing activity of the State.’¹⁹ Durbin offered a distinct approach to economic planning as an alternative. Durbin did this by clarifying as to what planning was not, and having done that stated as to what the term economic planning meant. Planning, then, ‘does not in the least imply the existence of a plan – in the sense of an arbitrary industrial budget which lays down in advance the volume of output for different industries. Planning does not, and should not, imply any dogmatism about the future. It is not possible to tell in detail what will happen to human tastes, to technical invention, to general standards of security and well being. It would therefore be foolish in the extreme to attempt to lay down plans which could not be amended quickly in the light of changing social requirements.’²⁰ As regards what economic planning was, Durbin pointed out that, ‘We use that term to indicate a principle of administration and not an inflexible budget of production.’²¹ Economic planning also meant ‘a change in direction of responsibility’, and whereupon, ‘Instead of looking towards small and unrepresentative minorities of shareholders, the persons or Corporations directing production would look upwards, or towards a Central Economic Authority, for guidance on the larger questions of output, prices, investments and costs.’²² The appeal to benevolent executors for executing economic planning as seen earlier was perceptible here to. The arrangement

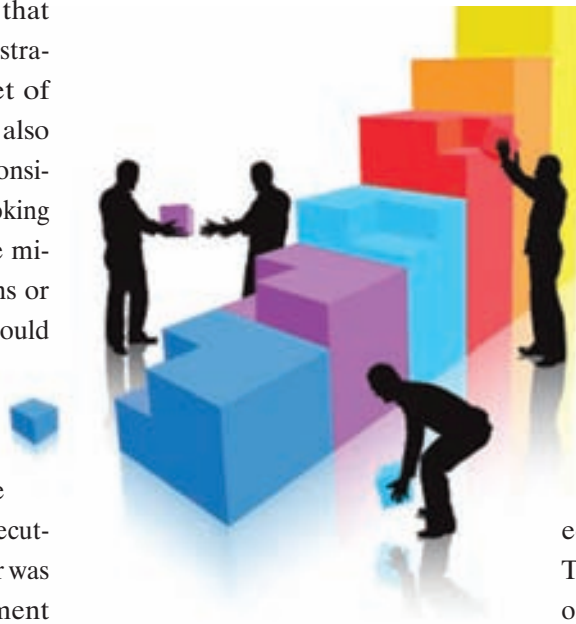
prescribes that the matter would be carried forward with due responsibility associated with such activities. As in the earlier instance where Keynes noted the possibilities of things not going fully right as expected, so it was here too. Durbin pointed out that with ‘centralising of responsibility’ it was not that problems in the economic sphere would not be there. ‘It is certain’, Durbin wrote ‘that great mistakes will be made in experimenting with new institutions’.²³ That, however, need not be a deterrence for it was expected that economic planning carried out under this arrangement would quiet surely be an effective one.

Economic Planning — Debate Pointers and Current Validity

The early debates on economic planning referred here were carried out over nearly three decades and this during a period of time when new nation states

were coming into being. These debates were instructive because these took up issues that were fundamental to the economy and the polity of nations. In the Indian instance it was of bearing given that the political independence of the country came in at a time when the debates had reached a peak level. The approach taken up in these debates had been broadened to include many a relevant aspect of economic planning and political form associated with planning. In other words, the debate pointers were well formed. Economic planning in the Indian context did involve the role of the State and while the political economy was not entirely a centrally administered one national planning impacted a significant part of the economy. The format of economic planning had an influence of that used in Soviet Russia. Economic planning strategies, for that reason, did include an important role for investment

Regulatory measures directing economic activities were introduced as part of the economic planning



planning with investment targets being outlined as part of the period bound economic plans made for the economy. A part of the reason to promote investment planning was also to avoid market failures occurring from inadequate accessibility of infrastructural facilities required for the economy. In addition to investment planning, regulatory measures directing economic activities were introduced as part of the economic planning scenario adopted. These configurations were part of methodologies related to allocation of resources.

The experience of the economy since independence has been reviewed extensively, and explanatory thesis forwarded to explain the efficacies of economic planning and consequent economic development that has ensued.²⁴

In a study of economic performance carried out in the backdrop of development initiatives carried out in India, Datta-Chaudhuri points out that the 'important question for developing societies is how to develop a mutually supportive structure of market and non-market institutions, which is well-suited to promote economic development. This makes normative development economics a difficult art.'²⁵ That is also a reason as to why debates of the type referred to about economic planning bring in their relevance. The issues that were raised about economic planning retain their validity even as some time has elapsed from then when these were first raised. In the years that made up the closing decades of the century, there has been evaluation of the pattern that economies with centralized planning planned their economic development and following which methodologies in use have been changed. These have happened for both large economies and as also smaller ones. Such changes have occurred as a consequence of debates on the processes in use and economic planning has been one of these that have garnered attention. Revisiting early debates on economic planning in the context of the State and the market does provide a learning platform. The point of note is that issues raised in these early debates retain their validity. It is for this reason that revisiting these earlier debates retains relevance. An informed choice about options available on this date amongst the manner in which eco-

nomic planning is to be carried out suggests such a revisit. [IER](#)

Endnotes and Additional Thinking

- ¹ "World Bank Data on GNI" available at <http://data.worldbank.org/indicator/NY.GNPPCAP.CD> (accessed 25th August 2010). The South Korean State (Republic of South Korea) had adopted state planning for the economy beginning the early sixties (1962). The GNI per capita was \$16,900 in 2005. It grew to \$21,530 in 2008. The comparative data for India was \$740 and \$1,040 respectively for these two years.
- ² Hayek, F. A. (September 1945), "The Use of Knowledge in Society", *The American Review*, Vol. XXXV, No. 4, pp. 520-530.
- ³ Ibid., p. 520.
- ⁴ Ibid., p. 520.
- ⁵ Ibid., p. 520.
- ⁶ Ibid., pp. 520-521.
- ⁷ Ibid., p. 524.
- ⁸ Ibid., p. 525.
- ⁹ Ibid., pp. 526-527.
- ¹⁰ Ibid., p. 526.
- ¹¹ Hayek, F. A. (1944), 'The Road to Serfdom', University of Chicago Press, Chicago, p.70.
- ¹² Ludwig Heinrich Edler von Mises (1881-1973) was an influential economist of the Austrian School.
- ¹³ Mises, L. E., 'Economic Calculation In the Socialist Commonwealth', available at <http://mises.org/pdf/econcalc.pdf> (accessed 23rd August 2010), p.17.
- ¹⁴ Boettke, Peter, J. (1995), "Hayek's The Road To Serfdom Revisited: Government failure in the argument against socialism", *Eastern Economic Journal*, Vol. 21, No. 1, p. 15.
- ¹⁵ Donald Moggridge, ed., John Maynard Keynes, *The Collected Writings*, Vol.

XXVII: Activities, 1940-1946, pp. 385, 387, 388 referred to in Friedman Milton. (Spring 1987), John Maynard Keynes, Federal Reserve Bank of Richmond, *Economic Quarterly*, Volume 83/2, p. 20.

- ¹⁶ Ibid.
- ¹⁷ Friedman, Milton. (Spring 1987), Op cit., p. 20.
- ¹⁸ Friedman, Milton. (Spring 1987), Op cit., p. 20.
- ¹⁹ Durbin, E. M. F. (December 1945), "Professor Hayek on Economic Planning and Political Liberty", *The Economic Journal*, Vol. 55, No. 220, p. 370. Evan Durbin who taught at the London School of Economics during 1930-1945 was a contemporary of Hayek who was at the School during 1931 and till 1950. Durbin was the Labour MP (United Kingdom) for Edmonton Constituency during 1945-1948.
- ²⁰ Durbin E. M. F. (1935), "The Importance of Planning", *New Trends in Socialism*, pp. 149-150, referred to in Durbin, E. M. F. (December 1945), Op cit., p. 360.
- ²¹ Durbin, E. M. F. (1945), Op cit, p. 360.
- ²² Durbin, E. M. F. (1945), Op cit, p. 362.
- ²³ Durbin, E. M. F. (1945), Op cit, pp. 366-367.
- ²⁴ Bardhan, Pranab. (1984), 'The Political Economy of Development in India', Basil Blackwell, Oxford.
- ²⁵ Datta-Chaudhuri, Mrinal. (1990), "Market Failure and Government Failure", *Journal of Economic Perspectives*, Vol. 4, No. 3, p. 38.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Indicative Role and Planning Reintegration

In the age of Globalisation, to attain optimum result Indian Planning process need to be integrated with the market rules striking a balance between indicative planning and inclusive planning with State acting as a facilitator

Hemanta Saikia

*Lecturer, Dept of Economics,
H.P.B. Girls' College,
Assam*

Development planning have played a pivotal role in successful upliftment of millions people out of poverty especially in South Asian countries including India. In exception, in many transitional countries, planned development process sometimes hinders development standards which may be due to violation of the basic rules of the development process and may be over emphasis on planning apparatus. However, in case of contemporary era, the main problem is to balance market economy with the public policy. Even though this problem may not crop up in the early stage of the development but with the expanding market frontiers and the pace towards extreme capitalism, the imbalance in between two sides are seemed to be acute and sometimes question the authenticity of the planning process. In this regard, after gaining independence from British colonial rule, South Asian embraced a development strategy whose key components formed the substance of development planning process. However,

these countries have changed their development process from inward looking policy to an outward one, especially following the process of liberalization and other components of globalization. This in one hand expands their frontiers of development, on the other hand shifts gears of expansion. But the end result is a contradiction between governmental rules, directions and ideology with the market based waves of procedures. So in modern form of capitalism and international atmosphere of trade and investment, the planning process needs to be integrated with the market rules as unless they are reformed and recapitalized with the development rules, the planning process may not be able to provide optimum result.

Planning Process and Economic System

Economic planning is a cognizant design of development for any nation. This is because different countries have different political as well as economic systems. In the socialist countries the role of the

Government in economic planning is very inclusive and undeviating. In contrast, in a industrially developed capitalist countries the role of the planning are limited to so called indicative planning. Between the above two groups of extreme cases we have the vast majority of the third world developing countries of Asia, Africa and Latin America, which have adopted the course of planned economic development in the post-war years with own national state and government. But in all structures, the state plays an active and directives role in planning the development of the national economy. Economic development in these countries is, therefore, planned as well as induced and directed by the market forces. On the one hand, economic planning to be meaningful, it cannot be merely of an indicative type nor can it be in the absence of monopoly control over means of production, of an imperative type. It is to be judicious mix of the two. The state has to adopt a proper mixture of direct and indirect controls.



Development Planning

The outline of pre-1950 India can be summarized as India's status as a land of riches in the history of its deficiency. The mixed reputation has changed in recent centuries, and India is seen these days primarily as a land of poverty, famines, diseases, immorality, caste, untouchability, autonomy and pandemonium. The sixty years of sovereignty brought India a good deal of repute worldwide. However reputation was offset by tragic images of human mortification, poverty and miseries until the beginning of the new millennium and in this parlance balanced regional development is a necessary step towards securing economic justice which is one of the fundamental views of the Indian constitution. Further, the 42nd Amendment of the Indian constitution, made an explicit direction towards a socialist state in India which bolstered the need for balanced regional development. Thus one finds balanced regional development to be a recurring theme in the designing of India's economic policy and planning. At the same time, India's effort to gather speed of industrialization & improve international competitiveness received a boost up with the declaration of the New Industrial Policy in July 1991. Following liberalization, the role of the public sector in the Indian economy has somewhat minimized and is dwindling more and public-private partnership is now emerging as the preferred medium for initiatives in development. Given this background there is urgent need to think for the role for planning in India.

For a country like India where resources are limited, allocation of the resources must be guided by an elegant indicative plan and the state can play a vital role not only as a facilitator but also as a provider of basic infrastructure and

collective physical resources. Thus, planning can be accommodating in a market economy by providing "indication, coordination and recommendation". However the planning in a largely market-driven economy cannot proceed on the same footing as in an economy that is heavily controlled by the state. In the Indian context, this implies that there has to be a clear swing in the focus of planning now as compared to the past. As noted at the outset planners in India are amply aware of the need for such a change. The economic crisis of 1990, however, has altered India's approach to economic policy. With resource allocation left to the market, anxieties were raised that the growth pattern in the post-reform phase would be skewed in favour of the already better-off states. However control over investment in the private sector beyond the purview of the planning commission, development planning can at best be indicative which was recognized after globalization even the Eighth Plan too. That planning now has to be mostly indicative and the state can at best be a facilitator for private enterprise was reiterated in the three plans that followed the Ninth, Tenth and Eleventh. At the same time, the foundations that helped in implementation of the plans during the controlled economy era also remained almost intact despite their well known shortcomings and irrelevance in the changed economic surroundings. Given this background, there is a

need of justification and modification review for planning process in India as there are several short comings of planning process of India in the present circumstances. Indian planning focused on three particular features of the planning methodology and the planning process. These are one, the lack of sophisticated plan models to ensure inter-sectoral consistency among production targets set by the plan. Even for an indicative plan, some idea is needed of the projections of key macro-variables in the varied time perspectives. Thus a major function of the planning commission must therefore be to prepare a macro-perspective plans which would indicate the growth and major characteristics of the economy with a longer perspective of plans.

Planning and Transformation

While India adopted planning under a strong interventionist circumstances, its approach to planning differed in several crucial respects from that of the socialist economies. In India, the means of production have been and continue to be privately owned and regardless of the significant expansion of the public sector, the private sector owns more than half of the resources stockpile and accounts for nearly three-fourths of the annual output. Planning in India has brought about major structural shatters which are viewed as a way of avoiding the unnecessary rigours of an industrial and equally India's development prospects were rated rather high, domestically as well as internationally. However, in the nineties with the collapse of USSR and many of the East European socialist economies, the centralized

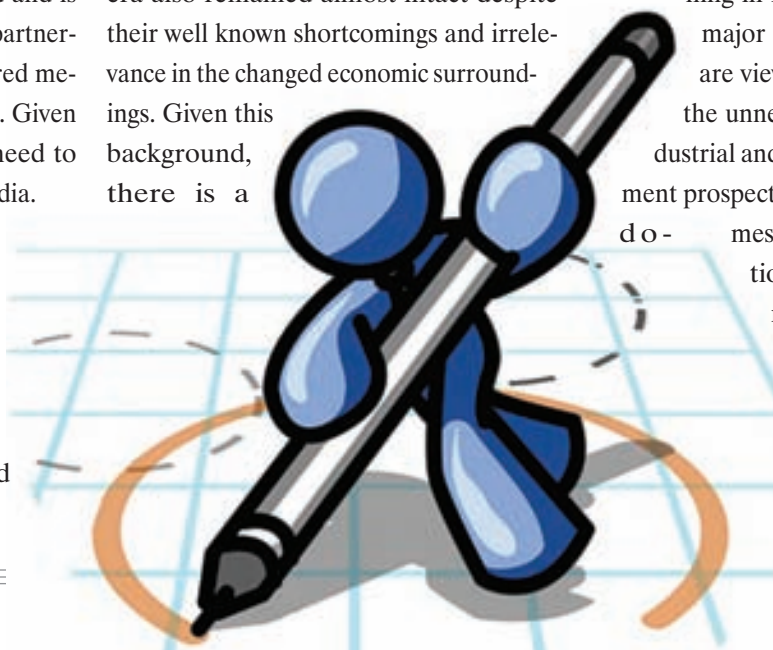


Table 1: Central Government: Revenue, Expenditure and Fiscal Deficit (% of GDP at current market prices)

Expenditure Heads	Total Revenues	Tax Revenues	Non-tax Revenues	Loans Recovery of	Disinvestment PSU	Total Expenditure	Interest	Defence	Subsidies	Plan Expenditure	Other Expenditure	Fiscal Deficit
1990-91	10.67	7.56	2.11	1.00	0.00	18.52	3.80	2.71	2.12	4.99	4.90	7.85
1991-92	11.50	7.67	2.44	0.92	0.47	17.06	4.10	2.71	1.88	4.74	3.90	5.56
1992-93	11.02	7.22	2.68	0.85	0.47	16.38	4.20	2.35	1.45	4.90	3.50	5.37
1993-94	9.50	7.22	2.56	0.72	-0.01	16.51	4.30	2.54	1.35	5.08	3.30	7.01
1994-1995	10.12	6.66	2.33	0.63	0.50	15.87	4.40	2.30	1.17	4.68	3.30	5.75
1995-96	9.85	6.90	2.37	0.55	0.03	15.01	4.20	2.26	1.07	3.90	3.60	5.16
1996-1997	9.81	6.85	2.38	0.55	0.03	14.69	4.30	2.16	1.13	3.91	3.10	4.88
1997-1998	9.81	6.28	2.51	0.55	0.06	15.24	4.30	2.32	1.22	3.88	3.50	5.84
1998-1999	9.53	6.01	2.58	0.61	0.34	16.04	4.50	2.32	1.36	3.84	4.10	6.51
1999-2000	9.90	6.60	2.70	0.50	0.10	15.30	4.60	2.40	1.30	3.90	3.10	5.40
2000-01	9.90	6.50	2.70	0.60	0.10	15.50	4.70	2.40	1.30	3.90	3.20	5.70
2001-02	9.70	5.90	3.00	0.70	0.20	15.90	4.70	2.40	1.40	4.40	3.00	6.20
2002-03	10.90	6.50	2.90	1.40	0.10	16.80	4.80	2.30	1.80	4.50	3.50	5.90
2003-04	12.60	6.80	2.80	1.40	0.60	17.10	4.50	2.20	1.60	4.40	4.40	4.50
2004-05	11.80	7.10	2.60	2.00	0.10	15.80	4.00	2.40	1.50	4.20	3.70	4.00
2005-06	9.66	7.55	2.15	0.30	0.04	14.13	3.70	2.25	1.33	3.93	2.92	4.09
2006-07	9.66	8.20	1.94	0.14	0.01	13.62	3.51	2.00	1.33	3.97	2.82	3.33
2007-08	10.95	8.88	2.07	0.10	0.78	14.40	3.46	1.85	1.43	4.14	3.52	2.56
2008-09	9.69	7.9	1.74	0.11	0.01	15.86	3.45	2.05	2.33	4.94	3.10	6.05
2009-10	9.37	7.55	1.82	0.11	0.42	15.99	3.56	2.21	2.13	4.94	3.10	6.05
2010-11	9.84	7.70	2.14	0.07	0.58	15.99	3.56	2.12	1.68	5.38	3.22	5.50

Source: Planning Commission

planning as a tool of economic development has come under severe attack. There is a move towards decentralized and indicative planning world over. The spectacular development experience of the East Asian economies also point to the strong role of indirect state intervention through manipulating market mechanism in the development process. The role of planning is as a result, undergoing changes where the private sector is being encouraged much more to achieve the socially desirable out-

come. The approached paper of the 11th five year plan also recognised the relative roles of the planning commission in private economy and stated that economic policy is moving in a direction that involves an erosion of the role of the state in the development process. However the objective of accelerating growth cannot be achieved without expanded role for the state in some areas. In fact the role of the government needs to be restructured to reduce direct intervention in, and commitments of scarce

public resources to, areas where the private sector operating under competitive markets can deliver.

Budgeting for Planning

Generally the Government has to incur certain portion of funds every year for fulfilling planning which is different in year wise phasing. However, the resources generally fall much short in India of what would be indispensable to accomplish the plan targets. The situation is such in certain

areas that there is no certain plan model to estimate the expenses such as defence budget. Now India's defence expenditure is 2.5% of its GDP.

Sometimes it also happens that some certain sudden external shocks aside which replicate the budget expenditure. For example, during 1960s Indian planning suffered two major shocks caused by exogenous factors in the 1960s. The first came in the shape of the war with China in 1962 and the second in the form of successive harvest failures in 1965 and 1967. The first shock caused a sharp increase in India's defence outlays and a severe curtailment in public investment of

year the budget should have a longer term outlook and dedication broadening beyond one year. Since five years may be too long and the budget should be set in a more time frame, so many countries in the world now regularly prepare their investment plan as an integral part of their annual budget making. In a multi-year budgeting framework these plans should also reveal the private investment patterns relative to what was assumed in the original five year plans. Along with multi-year budgeting, reform is needed also in the system of expenditure classification in the government budgets. In case of Malaysia, the national

Crises of Confidence

The frequency of crises in recent years has drawn attention to the weaknesses in the international financial system. Each of the major crises in the 1990s - Mexico in 1994, East Asia in 1997, Russia in 1998 and Brazil in 1999 and global financial crisis of 2007-2008 had features peculiar to itself but they all shared an important common characteristic. They were crises of confidence originating in the capital account and therefore very different from earlier episodes of payments problems in developing countries which typically arose in the current account. The vulnerability of Indian economy to such crises has increased from the 1990s as it had liberalized restrictions on capital movements in order to integrate more fully into global financial markets and improve their access to international capital flows. Any financial crisis may form an economic disaster the ultimate effect will be on both budgeting and planning models. So Planning process of India urgently needs to comply with the market directives while forming and implementing the plan model. The reforms currently underway in the banking sector and in the capital market, combined with the agenda for reform identified for the insurance sector, represent a major structural overhaul of the financial system. It will certainly bring India's financial system much closer to what is expected of developing countries as they integrate with the world economy. It is essential to continue these reforms along the directions already indicated and to accelerate the pace of change as much as possible. It is also important to recognize that financial sector reforms by themselves cannot guarantee good economic performance. That depends upon a number of other factors, including especially the maintenance of a favorable

Planning process of India urgently needs to comply with the market directives while forming plan models

the government. That would call for planning in terms of building up capability to meet threat perceptions or force planning which are critical for making any meaningful estimates for defence needs. If the amount available falls short of the estimated requirements, the planning commission should overcome this by mobilising more resources though raising revenue or cutting expenditure. So in such circumstances planning is not directive rather a force one.

In the table, the plan expenditure shows a steady relationship with the revenue over the years in India. The revenue, expenditure and fiscal deficit are remaining the same with respect to GDP showing a little tendency of decline. So planning process needs to incorporate these deficits to have continuous expansion of the economy.

Long Term Perspective in Planning and Budgeting

Instead of focusing only on the upcoming

planning mechanism comprising long-term perspective planning (*10-20 years*), medium term (*5 years*) and short term (*annual*) ensures that the country meets the overriding development goal of national unity. The long-term perspective planning includes the First Outline Perspective Plan that contained the New Economic Policy (*1971-1990*), the Second Outline Perspective Plan (*OPP2*) containing the National Development Policy (*1991-2000*) and the Third Outline Perspective Plan, which accommodates the National Vision Policy (*2001 - 2010*). Thus in India, although there is no apparent link between the annual budgets and the five year plans, expenditures set out in the budget are required to be classified in a manner that carries a positive impact to the contrary. In the absence of any link between the budgets and the five year plan, the rationale of development is not served.

macroeconomic environment and the pursuit of much needed economic reforms in other parts of the real economy.

Fiscal Autonomy of the States and Transfer System

A major factor that has impeded the realisation of the goals of planning has been the tendency on the part of the centre to manage state events from central level. Soon after planning was launched, powers of controlling manufacturing investment in the private sector were occupied by the centre complemented by the control over financial institutions. Even though some liability for delivering public services was dispersed to the states by the constitution, the states were supposed to follow the dictates of the centrally designed plan. However things seemed to change with liberalisation. Demanding cooperative federalism, the states seemed to be regaining their autonomy in economic policymaking. It was expected that the twin imbalances that marked the federal fiscal system would be taken care of through transfers mediated by the finance commission. The results achieved have however fallen short of expectations in important respects. So in implementing economic reforms needed to push the economy forward there is no alternative but to reform the fiscal institutions of the federal system. In the path of this transition from plan to market economy, it is needed to reforms Indian fiscal policies and institutions.

Conclusion

It is widely recognized that India's planning process has been one of the most consistent among such efforts undertaken in the Third World. The Plan efforts have contributed significantly in many fields, most notably in the increase in food production. However,

a number of problems still remain. The desire for planning at multiple levels remains largely unrealized despite the commitment made by successive governments. This contradiction has seriously undermined the concept of making planning more democratic and responsive to people's aspirations. Further, regional inequalities and income inequalities persist in India despite planned economic development. This is a serious problem, which if uncorrected, can lead to more strain on the political fabric of the Indian state. Centre state relations, particularly in regard to planning functions and powers to mobilize financial resources, have been under stress. At the same time public resources are needed to be used optimally and thus planning is needed even in a market economy. However, the function of planning in a predominantly market-driven economy has to be symptomatic, co-coordinative and authoritarian. That provides the good reason for India's Planning Commission to engage in preparing development plans for the economy periodically even after liberalisation. However as it can't control investment in the private sector so such planning can at best be at least indicative. So the five year plans are now seek to provide an indicative path of development by setting out the imperatives for alternative growth scenarios in terms of macro-variables. It is still be necessary for planning commission to integrate and coordinate the plans of different ministries and undertakings of the central government, and bring them in line with the medium and long-term goals while keeping within the budget constraint. At the same time, the system of transfers from the centre needs to be reformed. There should be some rethinking on the relative roles of the planning commission and the finance commission. [IER](#)

References and Additional Thinking

- Amaresh Bagchi (2007): 'role of planning and the planning commission in the New indian economy: case for a review', Economic and Political Weekly, November 3, 2007.
- Godbole, Madhav (2001): 'Finance Commissions in a Cul-de-sac', Economic and Political Weekly, January 6.
- Gupta, Shivshankar P (1983): 'A Note on Relative Roles of the Planning Commission and the Finance Commission' (mimeo).
- Kuznets, Paul (1990): 'Indicative Planning in Korea', Journal of Comparative Economics, Vol 14, No 4, December.
- Larson, E, D T Orletsky and L Kristin (2001): 'Defence Planning in a Decade of Change', Project Air Force, Rand.
- Parikh, Kirit (1993): 'Planning Is Dead: Long Live Planning', paper presented at Mahalanobis Birth Centenary Conference at ISI, Kolkata.
- Premchand, A (2001): Budgeting for Economic Development, Oxford University Press, New Delhi.
- Rao, M G and Nirvikar Singh (2005): Political Economy of Federalism in India, Oxford University Press, New Delhi.
- Rao, M G (2006): 'Great Divide', Economic Times, December 21.– (2007): 'Comments on the Paper – Unfinished Reform Agenda: Fiscal Consolidation and Reforms' by T N Srinivasan.
- Shourie, Arun (2004): Governance, Rupa, New Delhi. Singh, N K (2006): 'Eleventh Plan or Eleventh Version of the Same Plan?', Indian Express, August 6.– (2007): 'Lets Do a Perception Check', Indian Express, April 29.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Foresight of Planning and **Clarity** in Commissioning

The importance of balancing planning and execution with each other and why should it be in relation to each other?



Prashant Singh

Country Head – Direct Sales & Agency, Royal Sundaram Alliance Insurance Co. Ltd



Great people do not stumble on success by sheer luck. They achieve it through foresight of planning and clarity in commissioning. One of the greatest quality one must possess for winning is the definiteness of purpose — the knowledge of what one wants and a burning desire to possess it.

Planning and Commissioning. Two terminology, seemingly simple, and for those interested to explore, what these processes are all about, can Google, and uncover a sea of definitions, meanings, explanations. But does the essence lies in just a bookish definition??? Obviously not! It lies in our own interpretation - what we, and the world at large understands and achieves through these processes. The significance and sequence of these two processes — their application and after-effects of improper application — and the precedence or usefulness of one process over the other.

The importance is underlined by the fact that the Nation set up Planning Commission way back in 1950 in pursuance of declared objective.

In other words, commissioning follows planning. It ensures we achieve, what we set out to do.

- Is it? But what if it's the other way round? What if, we try achieving our objectives without any plan? Wont we succeed? Well, the answer is that there are actually quiet real chances of success but there may be equal chances of we falling flat on our face. It is to avoid this fall, that entities ranging from a common man to global powers see the value of an advance planning process and then its crisp execution.
- One may avert at this point that does planning always tantamount to success?

And does it ensure success even if the manner in which the plan is commissioned is somewhat or totally faulty? The answer is a complete 'No'. Greatest of strategies remain great only in theory unless executed and implemented well.. There may be more chances of a weak plan resulting in success, if its execution is excellent, but chances of a great plan succeeding in the face of weak execution are close to nil.

- Some may ask — Of the two processes, which process should exactly assume precedence? Some may say, it would be utopian to simultaneously excel in both the processes completely. But some, who make all the difference in the world we operate, may say it is not. Strategizing and implementation work in tandem. Peter Ferdinand Drucker's statement 'Plans are only good intentions unless they immediately degenerate into hard work' digs deep into the essence, relevance and interdependence of both these processes.

Importance of Execution

Each Organisation or every Individual aspire success, some achieve it too; success should not be coincidental – Leaders need to create the environ affable to its happening and make that happen 'by choice' and not 'by chance'. To ensure guaranteed success, clear plan needs to be formulated and balanced & prioritized utilization of the resources be determined.

Any successful project is well planned and nothing is too soon for the start. A good game plan and gambit are merely the stepping stones, still excellence is accomplished by appropriately putting the resources to utility. The following table renders a glimpse as to how varying degree of excellence, non-excellence or medioc-

ity in the planning and execution phase affects any project outcome:

Plan	Execution	Outcome
Good	Good	Thumping Success
Good	Poor	Outright failure
Poor	Good	Wastefulness
Poor	Poor	Doom
Average	Average	Moderate Results
Average	Good	Success
Good	Average	Moderate results which could be better

The tabular illustration strongly suggests that if both planning and execution is superlative, success is guaranteed. However, even if the plan is of average nature, but if it is executed excellently, there are bright chances of assured success.

Planning and Execution can be a good example of a "yin-yang" pair for any project to get successful. It is said that when yin or yang are out of balance they affect each other. Likewise, if planning or execution is not in tune with each other, they would affect each other too. These two processes not only have to be individually excellent but should also be excellent in relation to each other.

Even though, element of execution is as, or rather more crucial in determining success of any project, however we, at times, underplay its importance by over-emphasizing on the element of planning. Surprising but true! Even in our speech, we tend to stress more on the planning aspect of the project than its execution strategy. What, we at times, overlook, is that even the best of plans would only give theoretical pleasure unless coupled with an equally distinguished implementation.

Certain key guidelines to be adhered to during execution of any plan:

1. Clarity and relevance of goals which is seeking the need for a plan.
2. The planning process should be driven excellently and the final plan validated

- by the experts in the concerned field
3. Proper team selection — Right people for the right job.
4. Transparency and accountability at each level of operation.
5. Regular Update and Reviews of the project with the stakeholders
6. Flexibility in terms of being open to Course correction — in long term projects, many times the external / internal environments throw up challenges and need for a course correction.
7. Tight control on expense and cost management; sometimes, when we start the project, enthusiasm and availability of funds, may at times prompt us to spend on trivial things, making later project

plan? It would make an interesting study to understand how the planning and execution strategies of these luminaries differ from those of many others.

There are innumerable instances where despite having the best of resources in terms of money, manpower, machines and plans, success eludes, only because of lacuna in the execution process. For instance, in the case of the impending common wealth games 2010, despite the event being highly critical and a matter of national prestige, glitches in its execution has not only attracted negative press but also a question in the mind of the common man that 'Are we really capable of hosting such a grand sporting event?'.

Planning and Execution can be a good example of a "yin-yang" pair for any project to get successful

expenses of more critical nature difficult to afford so a tight control on expenses is essential.

8. Ownership of mistakes and learning from them.
9. Robust 'R&R policy' — Rewarding and recognizing each milestone publically. Each small achievement to be celebrated to keep the motivation levels soaring.
10. Adhering to timelines — At times the projects are complete after they become obsolete. Hence delivering on the agreed time is important.

What differentiates success from failure? Why business giants like Dhirubhai Ambani, Bill Gates or distinguished players like Sachin Tendulkar, Pele can be counted on our fingertips? What is the secret of their success? Did god just pick them as his favorites or did these people all had a

A small but true example which demonstrates the power of planning and commissioning:

In an organization, desperate efforts were being made to implement 'Balanced Scorecard' as performance measurement tool for its employees. Significant time was spent in the pre-planning stage because the top management desired a fool-proof strategy. Finally, the best consulting firm was hired and after investment of considerable resources in terms of time, effort and money, an exhaustive as well as robust plan was designed. The plan was enthusiastically presented by the consulting firm to the top brass and received huge applause. The consultants developed the plan, charged heavily and went home. Now it was the organization's turn to act on the plan, implement it all across, drive it, execute it and reap its benefits.

But there lied the fault. The first round of improper execution, primarily because of no fixed accountability or owner of the process, led to complete lack of receptivity of this tool by the employees, who gave it thumbs down as just another management gimmick. Post this discouraging and lukewarm response, the project was shelved.

However after a gap of almost two years and changes in the top management, the project was revived. A dedicated resource who would own and drive the process was appointed. Progress of this initiative was tracked regularly on a daily basis. An excitement was created around this new product, a buzz was created and it was served afresh to the employees like old wine in new bottle. The management was not only fully determined and committed to see the plan is implemented, but that it is implemented 'excellently'. The same employees who had earlier mocked at the Balanced scorecard strategy changed their perception when as promised by the management, they began receiving their first quarter performance-linked incentives measured through the BSC. The buy-in was ensured and this project was a resounding success. Not only did excellent planning executed with emine-

In yet another glaring example, an organization had to make repeated attempts at launching an employee engagement programme within the company before it culminated in success.

Why repeated? Simply because, during the earlier attempts, the same plan, driven rather weakly, failed miserably. In the absence of ownership of the initiative by the supposed process owners, the execution process fell apart.

However, the same plan struck a success story, when it was executed after introducing minor changes in the team. The team, in sync with the sentiments of the engagement programme, understood that for any such initiative to be successful, its execution must involve all-encompassing employee participation. Hence, their execution strategy witnessed large-scale contests/events/quizzes/forums/celebrations, where all employees could mail in their suggestions and had a say about the programme. The suggestions were not only invited, but the ones found exemplary, were also acted on. Even a relatively small activity, such as that of selecting a name for the engagement initiative, was carried out through contests across locations. The selected name created an immediate connection as it had been a participative exercise. The employees had a feeling of belonging and because they were kept thoroughly en-

gaged – a plan which was central to the execution strategy, the programme was a thundering success.

Conclusion

One of the simplest definitions of management defines management 'as an art of getting things done' putting the resources available to optimum use. True enough. But how, if not by getting it done through a well executed proper plan, which is the foundation for future success?

Why do governments need planning commissions? Can nations not progress without developmental strategies? Why despite devising the best of schemes, desired results are not achieved? Why does even a five year old's parent need to plan or discipline his child's studies and ensure that the plan is followed? Why certain companies post record-breaking success year after year while certain others fold operations before they begin? Not necessarily, because these entities didn't plan well or did not attempt to implement their plans well. Maybe a third or a fourth factor is at play. But it doesn't take away the vital importance, these two forces, i.e., planning and commissioning play in the larger scheme of things.

It can be safely concluded that Planning & Commissioning are those two important ingredients of any project, which have to work in tandem. If not managed carefully, these forces may not only lead to wasted resources, but also underachievement & sub-par performance with obvious failure. [IER](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)



What Do We Want Them to Do Now?

Instead of dismantling Planning Commission which will demolish substantial intellectual capital, the roles of the Planning Commission need to be redefined in order to prevent it from being a non-performing government office

Amal Sanyal

*Department of Accounting,
Economics and Finance
Lincoln University, New Zealand*



The central place of the Planning Commission in the Indian economy is being slowly but surely taken over by markets. Since the reforms started, economic policy has been trying to give markets more power in resource allocation except where significant externalities are involved. As a result, major tasks of the Planning Commission are gradually being assumed by markets. The transition of course faces hurdles and is occurring bit by bit as consensus is reached on individual elements of policy. But it is expected that eventually markets will be established in resource allocating position in most areas. This raises questions about the relevance of the Commission in the new environment and calls for possible change in its role.

Any proposed change in the role of the

Planning Commission will have ramifications beyond the Commission itself. They will have widespread effects on the functioning of business and the economy. As the Commission loses its central role in resource allocation, the so-called commanding heights of the economy would be controlled more and more by private business. In the new situation some of the existing tasks of the Commission would become superfluous. The nature of the private sector's interaction with the government will adjust to the new conditions creating new channels and rules of engagement. Further, the Commission's strategic position in approval and clearances built up over the years may produce obstruction rather than help. Anticipating these developments, a probable suggestion could be to dismantle the Commission altogether and distribute any remain-

ing duties to relevant ministries. But the Commission has a substantial pool of expertise on the economy, infrastructure, technology and social services, and a stock of experience and information. Disestablishing the Commission would destroy this substantial intellectual capital. Secondly, the Commission networks with a large number of institutions all over India, and the social capital value of the network is significant. The networks will continue to have utility in dealing with social services, poverty, rural job creation, community development, ecology and environment; and managing inter-institution relations. Given this, I would suggest that we neither dismantle the Commission nor allow it to degenerate into a non-performing government office. We should instead make the best possible use of the intellectual and social capital accumu-



lated at so much cost.

As stated earlier, the philosophy of the new dispensation is to empower markets while taking care of market failure. I will suggest that these two central ideas be used to weave out a new 'job description'

ability to ensure efficiency, the so-called market failure, is widespread in the management of environment, natural resources, the ecosystem and in common properties. Failure of fairness occurs in the supply of merit goods where even ef-

fective mechanism and tools.

As think-tank, its task should be to design incentives, mechanisms, institutions and checks and balances

for the Planning Commission of the country and make it the spearhead of our reforms as much as it had spearheaded our planned development.

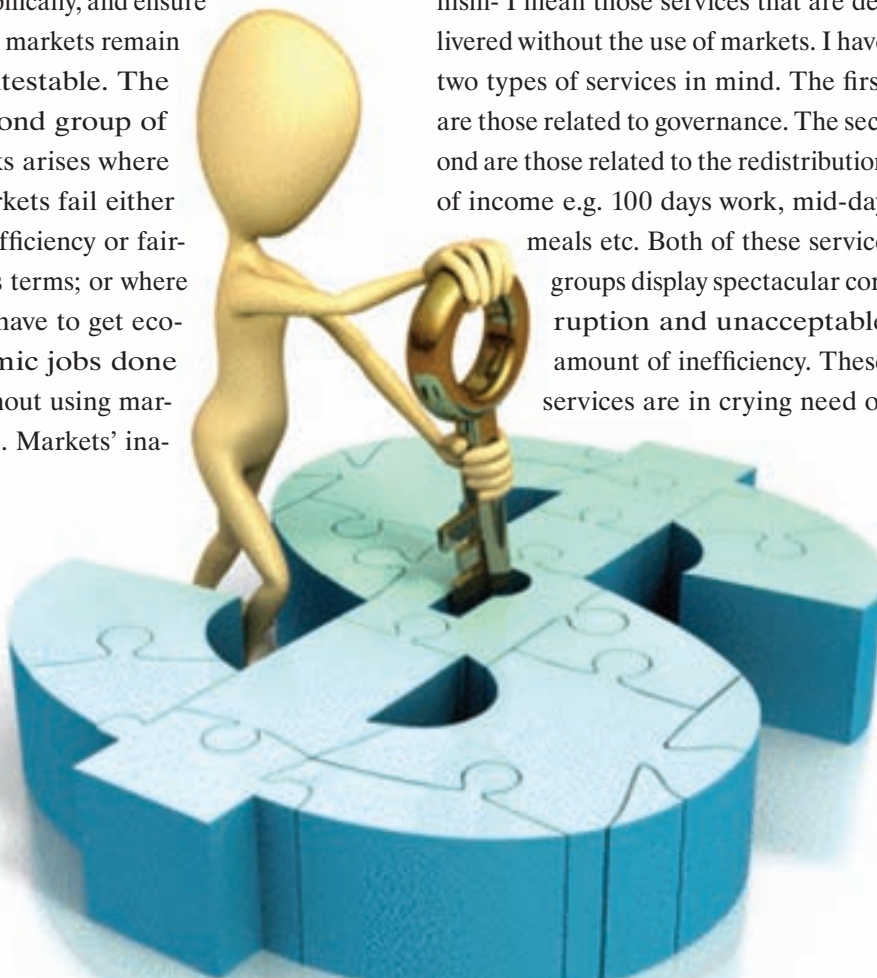
The first of the two tasks revolves around markets. It is about developing those markets that are currently under-developed or are over-ridden with institutions that curb their autonomy. The Commission will also have to establish missing markets, extend existing markets geographically, and ensure that markets remain contestable. The second group of tasks arises where markets fail either in efficiency or fairness terms; or where we have to get economic jobs done without using markets. Markets' ina-

efficient markets price the services beyond the reach of many. Market failure and merit goods are the most demanding problem areas of our economy. They have so far defeated all attempts to remove poverty. They include basic social services like health, literacy, education, preservation of forests and environment and preventing pollution. Additionally, the Planning Commission should deal with the government's service delivery mechanism- I mean those services that are delivered without the use of markets. I have two types of services in mind. The first are those related to governance. The second are those related to the redistribution of income e.g. 100 days work, mid-day meals etc. Both of these service groups display spectacular corruption and unacceptable amount of inefficiency. These services are in crying need of

I propose that the Planning Commission be engaged in these two areas— of empowering markets where they work, and developing non-market mechanisms where they do not. For this, it has to act both as a think-tank and as an 'activist'. In the think-tank capacity, its task should be to design incentives, mechanisms, institutions and checks and balances. As 'activist', it has to supervise those mechanisms with the help of a network of institutions across the country. Obviously, the change over from the earlier role would require a radical change of mind-set and acculturation. In the sections below, I will elaborate on the two sets of tasks in sections 2 and 3. In the last section, I will briefly outline why it is preferred to get them done by the Planning Commission rather than different ministries.

Empowering Our Markets

In spite of the government's intention, autonomy of markets continues to be curbed by pre-reform institutions and practices. Some of these institutions were officially designed to oversee resource allocation and use. Others sprang up unnoticed to divert parts of that allocation into private use. Over the years, both types of institutions have established themselves along the supply chain in all significant markets or in their purchasing institutions. Piecemeal change of rules and institutions since the onset of reforms has failed to eliminate their influence. In many cases, the overt licence-permit system has given way to a complex of arrangements that upholds non-market decision-making only in less transparent manner. It is now clear that we cannot make the transition by announcement and legislation alone. To rid markets of con-



straining rules and institutions we need suitable mechanics of checks and balances, and of incentives and disincentives at the points where markets meet the institutions.

To empower markets, we have to grapple with a range of forces on the supply and demand sides. I give some examples to provide an idea of the challenge.

- Primary agricultural producers — of cereals, pulses, oilseeds, vegetables, fish, poultry, meat etc — face disproportionately large buyers, do not have access to information of other markets, lack transport, storage and finance. They are also harassed by local extortionists.
- Rent seeking at government offices and *panchayats* does not allow prices to reflect anything close to the cost of production. Further, the problem is caught in a vicious cycle, because rent seeking can abate only when markets take over in a true sense. The circularity does not have an easy solution as supervision at decentralised level is enormously costly and corruptible.
- Many industries are subject to extortion along the entire supply chain from raw material to the customer. Arbitrary extortion at different stages of value addition leads to distortion of relative prices at these stages. Extortion is a law and order problem only on the surface. A nexus between extortion and politics is clear in most cases.
- Many markets are subject to avoidable transaction costs. Some of them are visible like multiple tax jurisdictions and multiple and in-kind subsidies. But there are many items that are not as visible, e.g. costs incurred at the stages of inspection, audit, certification and clearances.
- In many cases markets are prevented from becoming contestable by cartel-type accommodation or political favouritism. Obstruction by incumbent groups usually takes the form of collusion on input, labour and product pricing. Political favouritism occurs through manipulation of tender practices, bid rigging, deliberate delays, influencing buyers and so on. Legal action is not easy because of lack of verifiable evidence and, often, official complicity.
- Subsidy on purchases is widespread. Some are provided on inputs, e.g. on power, diesel, petrol, loans etc for farm or industrial use. Others are plain consumption subsidy e.g. on travel, accommodation and other services for government and public sector employees and legislators. State governments provide many additional forms of consumption subsidies. Many are in kind and hence highly distortionary.



- Type and quality of consumer goods and services are dictated in many local markets by non-market forces through the guise of customs, culture and chauvinistic ideology.
- Producers are sometimes forced by local politicians and musclemen to differentiate between different parts of an otherwise undifferentiated market. Some parts of the markets get priority supply and servicing. In products where delivery or servicing takes time, it distorts the functioning of the market. A wide variety of markets face this sort of distortion.

Apart from these, we have to grapple with organised illegal transactions that feed into other markets and undermine efficiency and fairness. Many of the problems discussed here arise from unlawful behaviour. But we cannot eliminate them through the route of law enforcement alone because of political connection and corrupt enforcement machinery. To clean up, we have to develop economic incentives and employ technology and e-governance measures that could lock at least some illegitimate transactions.

Externalities, Public Goods and Merit Goods

Even as markets are strengthened, important markets will continue to fail because of externality. Secondly, markets are not able to supply the right amount of public goods. Third, they produce merit goods at prices unaffordable to many given today's income profile. But public production alone cannot settle these supply issues satisfactorily as it leads to poor quality, corruption, and indifferent or arrogant behaviour. Both private and public production have to be used in these areas in an astute mix, and a variety of issues

like funding, incentive, institution design and targeting need to be sorted out. For this, available models of management and organisation for using the private sector in a public non-market context need to be improvised for Indian conditions.

Quite apart from all these, we have to improve governance and redistributive services, which are produced and delivered through government agencies outside the network of markets. As is well-known, they are characterised by colossal inefficiency, insensitivity and corruption. We cannot claim a place in today's world until these deliveries are radically transformed. To resolve the issues of fairness and efficiency in all these areas — externalities, public goods, merit goods, governance and redistributive services — is a gigantic task. Here is an illustrative list of issues involved.

- The supply of merit goods, and those services that have both private and public goods character have a common set of concerns. For education, literacy, health etc we need to determine the appropriate domains of public and private operation. Next is to decide on the right amount of public provision – quantity-wise and cost-wise. We need to develop an acceptable norm for central and state governments' relative share of costs. Further, we need to cut through the *ad hoc* designs of existing programs and establish efficient designs of delivery. The designs must consider (i) incentive for public delivery workers- e.g. incentive for rural school teachers and health workers; (ii) incentive for the recipients to accept the service e.g. for households to send children to school and immunise children; (iii) effective targeting at least cost; and (iv) quality assurance.

- Environment, forests, wild life, river and marine resources; ecology in general: We have a set of regulations introduced by different authorities at different times without co-ordination. Little thought has been given to the question of incentive of economic agents to abide by the regulations. Multiplicity of authorities makes enforcement opaque and prone to corruption. Nor can responsibilities be fixed. The tasks here are to set up incentive-compatible regulations; establish mechanisms that might hold some corruption in check; and design e-governance that might lock some evasion and deals. There is also the need to simplify the regulations and in each case get a single authority to handle them.
- For redistributive services like 100 days' work, various *rojgar programs*, *mid-day meals* etc: We have to design methods that address delivery to the targeted beneficiaries, ensure that the allotted funds are spent, ensure that the beneficiaries are not cheated of their entitlements.

I do not claim that these issues are new. Economists, planners and the government have remained aware of them and have worked on them. The problem is that the methods used in the past are seriously wanting in the new milieu. They emerged in the context of central planning, import substitution and an environment of distrust of private business. They were influenced by the pulls and pressures of supply lobbies, state governments, local actors and central ministries. Further, activities in these areas being state subjects or joint subjects, they have been influenced by the politics of centre state relations. Arguably, regulations and institutions grew as response to the politics of

the day rather than economic and social problems. Needless to say, they would fail to serve in the new environment.

Why Planning Commission?

Just as we are seeking industrialisation and higher growth, we are also seeking to eliminate absolute poverty. Industrialisa-



tion and higher growth requires rapid reform of markets. At the same time action on poverty would require attention to market failure and merit goods. For both tasks we require radically new vision and models, not modification of existing formulas. We need visionary thinking and smart solutions not just expedient ones.



It can avoid the waste of duplication and produce system-wide mechanisms that avert loopholes

If we agree on this agenda, we need to settle the question of agency – to whom to assign the jobs. We have two alternatives. The first is to distribute the jobs among central ministries and pass those involving state subjects to state governments. The second alternative is to employ a single pan-Indian organisation with adequate reserve of talent and expertise. I favour the latter and suggest the Planning Commission. The Planning Commission is preferable to the decentralised approach for both reforming the markets as also organising non-market production.

To deal with the constraints on market operations, we require an organisation that has the full view of the economy and a system-wide vision and expertise. It is because of this that the Planning Commission has an edge. If called upon to strengthen markets in their jurisdictions, individual ministries will end up duplicating efforts in several places and yet leave gaps in the overall mechanism. Different rules for separate jurisdictions will leave loopholes that would undermine and corrupt the system. Planning Commission can avoid the waste of duplication and produce system-wide mechanisms that avert loopholes. Secondly, the Planning Commission can pool its expertise to bear on all the dimensions of a given issue—economic, legal, political, technical and so on. To develop a comparable amount of talent and intellect pool at all important ministries is simply wasteful.

In case of non-market production, too, the decentralised approach has serious drawbacks. Generally more than one

ministry has interest and jurisdiction over any given social issue. Their approaches and priorities are generally different and any given issue will result in a number of different responses from different ministries. The responses often lead to turf wars, delay and lack of transparency about who is responsible. On the other side, the fact that the problems fall under different jurisdictions means that we require an organisation that can see all aspects from a systemic and non-jurisdictional view point and have expertise in all the dimensions of the problems. Clearly the job suits an organisation like the Planning Commission better.

I should however point out that the Planning Commission would require some change in its mindset to spearhead the transition. The organisation was an instrument for centralised economic decisions, a culture that politicises economic decisions. This has politicised the Commission in the past. Its enviable core of technical and economic expertise has rarely been allowed to solve problems for the country on its own. They have been led and constrained by political people rather than experts. To make a transition, the government should realise that a liberal market economy has much less need of political personalities in its economic establishments, and enable the Commission to give its best by handing its leadership to experts. [IER](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Makeover of Planning and it's Commission

Whether the Planning Commission can be transformed into a Systems Reform Commission for resolving the extant systemic problems, as the Commission currently lacks statutory stature and doesn't carries a substantial credibility

V.K. Srinivasan

*Vice Chairman,
Indian Institute of
Economics, Hyderabad*

S. Chakravarthy

*International Consultant,
Competition Law,
India*

Reports emanating from Delhi suggest that a proposal for transforming the Planning Commission of India, set up in March 1950, into a Systems Reforms Commission has been initiated and the process of consultation with stake holders and others is under way. It has been indicated that the Planning Commission will restructure itself to serve three essential functions: build a larger network around its members with think tanks and opinion makers, produce thought papers at a faster pace and communicate more lucidly with polity. Now that the Planning Commission has completed six decades of formulation and implementation of eleven Five Year Plans and a few annual plans, it is perhaps time for a retrospective analysis of its performance and an analysis of the rehaul plan, which will facilitate the XII FYP to focus

on three Ps — Profits People and Planet.

Origins of Planning

While commencement of Planning in India is generally placed in 1950 when the Planning Commission was set up by a Government resolution of 15 March 1950, we should remember the earlier efforts like Sri. M. Visveswarayya's Ten Year Plan of 1934, the Bombay Plan by group of Industrialists, the People's Plan by Sri. MN Roy and the Gandhian Plan of Sriman Narayan. The Institutional structure can be traced to the recommendations of Conference of Provincial Ministers of Industries (1938) for the constitution of All India Planning Commission and the formation of a National Planning Commission with Sri. Jawahar Lal Nehru as Chairman and Prof. KT Shah as General Secretary.

More formally, Government of India

created in 1944, a Planning and Development Dept. to coordinate post war reconstruction work. In 1946 Govt. appointed an Advisory Planning Board with Sri. KC Neogy as Chairman and in December 1946 the APB recommended the appointment of a single compact authoritative planning organization, non-political and advisory character. This was followed in 1948 by the recommendation of the Economic Programmes Committee of the All India Congress Committee for setting up a Central Planning Commission and the resolution of Congress Working Committee in January 1950 recommending a statutory Planning Commission.

As a consequence of such recommendations, it was announced in the Central Budget of February 1950 that a new body will be set up "so that the best use can be made of such resources as we possess for the development of the nation". As a



It is clear from the GOI resolution that the Commission was conceived as an advisory body of experts

follow-up the Planning Commission was set-up by a resolution of Govt. of India dated March 15, 1950, indicating that “during the last three years the Centre as well as the provinces has initiated schemes of development but experiences show that progress has been hampered by the absence of adequate co-ordination and sufficiently precise information about the availability of resources”. As a result of problems faced, “the need for comprehensive planning based on a careful appraisal of resources and on an objective analysis of all relevant economic factors has become imperative. These purposes could be achieved through an organization free from the burdens of day to day administration but in constant touch with the Government at the highest policy levels”. The GOI resolution further stipulated that the Planning Commission will act “in close understanding and consultation with the Ministries of Central Government and Governments of various States”. It is clear from the GOI resolution that the Planning Commission was conceived as an advisory body of experts, non-political in character but in close touch with policy makers.

Organization and Process

The institutional Framework for carrying out planning activities consisted of a) Planning Commission, set up in March 1950 with Prime Minister as Chairman and Members Incharge of various subjects assisted by a Secretariat of officials with Administrative and Professional expertise and b) Planning Departments in the State



Governments. Since India is governed by a Federal Constitution and Planned Development can be meaningful only if it covered the efforts of the Centre and the States, it was decided to set up a National Development Council in August 1952 to consider and approve the plans formulated by the Planning Commission for implementation over a five year period.

The NDC has the Prime Minister as Chairman, Members of the Planning Commission and Chief Ministers of the various states as members. This lends the NDC some stature and the process of approval of five year plans a measure of authority and popular acceptability.

With a view to linking the five year plans to the budgetary processes of the centre and state Governments, preparation of annual plans with a shorter time duration of one year came into practice. The process of formulation of five year plan consisted of a) preparation of an Approach Paper as a consultative document circulated widely for eliciting comments and opinion from state governments and other stake holders, b) assessment of financial resources and assembling of

schemes and projects by different working groups, c) preparation of draft five year plan and d) approval of the five year plan by the National Development Council.

The process of formulating five year plans and annual plans, has acquired over the years a measure of acceptability, with some degree of clarity on programmes and projects, their objectives, physical targets and financial outlays, and the relative responsibilities of the Union and State Governments in mobilizing resources, and implementing the Plan. While the extant process, has considerable merits, and a few weaknesses, the proposal to substitute this with, ‘thought papers’ and presentation of options, may only serve to dilute the plan process and deprive it of what ever strength it has. If there is any noticeable weakness in the plan process, it is more in the process of implementation, with responsibility for resource mobilization and physical implementation shared by the Union and the State Governments. To push the plan process into the vague world of thought papers and options may only serve to distance the five year plans from the challenging tasks of grappling with the ground level realities of issues of poverty alleviation, and building, technical and socio economic infrastructure for rapid development of the economy.

Role of Planning and Finance Commission

The role and responsibilities assigned to the Planning Commission, significantly differed from those assigned to the Finance Commission, set up under Article 280 of the Indian Constitution to even out the issues arising from the mis-match of functions and legislative powers assigned to the Union and the States and their re-

Table 1: Plan Outlays and Expenditure –Share of Central and States

Plan Period	Centre	% Share of Plan	States	% Share of Plan*	Total
First Plan (1951-56 Actuals)	706.00	36.02	12145.00	63.52	1,960.00
Second Plan (1956-61 Actuals)	2,534.00	51.24	2,115.00	45.27	4,672.00
Third Plan (1961-66 Actuals)	4,212.00	49.11	4,227.00	49.28	8,577.00
Annual Plan (1966-69)	3,401.00	51.34	3,118.00	47.06	6,625.00
Fourth Plan (1969-74 Actuals)	7,826.00	49.60	7,675.00	48.64	15,779.00
Fifth Plan (1974-79 Actuals)	18,755.00	47.57	20,015.00	50.67	3,9426.00
Annual Plan (1979-80)	5,695.00	46.77	6,291.00	51.67	12,176.00
Sixth Plan (1980-85 Actuals)	57,825.00	52.91	49,458.00	45.25	1,09,292.00
Seventh Plan (1985-90 Actuals)	1,27,519.60	58.30	87,492.40	40.00	2,18,729.70
Eighth Plan (1992-97 Actuals)	2,88,930.10	-59.52	1,87,937.50	38.71	4,85,457.31
Ninth Plan* (1997-2002 Outlay)	4,89,361.00	56.93	3,69,839.00	43.07	8,59,500.00
Tenth Plan (2002-2007 Actuals)	8,93,183.00	58.5	6,32,456.00	41.5	1,525,639.00
Eleventh Plan (2009-12)	21,56,571.00	59.2	14,88,147.00	40.8	36,44,718.00

Source: Indian Planning Experience A Statistical Profile. Planning Commission, GOI, Jan, 2001 PP:30

source mobilization capacities. Article 246 and the seventh schedule distributed powers and allotted subjects to the union and the states with a three fold classification: List I, the Union list contains, 97 subjects, List II, the State list containing 66 subjects and List III, concurrent list with 47 subjects. As per Article 248, the Union has exclusive power on any matter not enumerated in the State or concurrent list and as per Article 254 in case of conflict between Union laws and State laws,

the Union law shall prevail. The Taxation powers of the Union and State have also been indicated. Experience has shown that there is asymmetry between the functional responsibilities and revenue raising powers assigned by the Constitution to the Union and State Governments. The Constitution makers has recognized that the division of resources and function between Union and States was such that there would be imbalance between them and provided in Article 280 for ap-

pointment of a Finance Commission even five years to correct the imbalance and bring about an alignment between resources and functions.

The Indian Federal fiscal system provided a workable mechanism, by which the statutory Finance Commission and the advisory Planning Commission can re-distribute the national resources between the Centre and the States and among the latter taking into account the ability and needs of the states. In 1984,

Table 2: Formulae for Plan Assistance

	Gadgil Formula	First Revision	Second Revision	Third Revision
	1969	1980	1990	1991
Special Category States	30	30	30	30
General Category				
1. Population	60	60	35	60
2. On going Irrigation Power Projects	10	0	0	0
3. Per capita Income	10	20	25*	25
4. Performance	10	10	5	7.5**
5. Special Problems	10	10	15	7.5***

*20% As per deviation method covering only states below national average and 5% as per distance method covering all the states.

** Further divided into 2.5% for tax effort, 2.5% for fiscal management and 2.5% for national objectives. (population control, Female literacy, on time completion of externally aided projects and successes in land reform)

*** Special problems of border, desert, flood prone, drought prone, and metropolitan areas, refugees settlements and high unemployment

Sanjivi Guhan an economist with experiences both in the centre and states observed that “the weakness has been that in the actual working of the two commissions, there has been a lack of both clarity and coordination in regard to ways in which each Commission could address itself to upgrading ability while responding to needs and concurrently and conversely compensate for backwardness while upgrading ability”

Needs of Mixed Economy

It must also be mentioned that apart from federal structure of the nation, the Planning Commission had to take into account the fact Indian Economy continued as a mixed economy with role for the public sector in retaining “commanding heights of the economy” with a significant role in the build up of economic infrastructure and planning for socio economic transformation and a less significant role for the private sector catering mainly to the consumer needs with profitability of operations as the main criteria with a functional framework established through Industrial Policy Resolutions of 1948 and 1956 and later modified in 1981 and 1991.

The economic scenario has changed, in the last few decades, with liberalization of Governmental regulations and assignment of an increasingly larger role for the private sector in not only production of goods but also provision of services which were hitherto mainly in the domain of governments, local authorities and public sector enterprises. The plan formulation and time phasing of investments have to be adjusted to the changed scenery.

Plan Objectives

Development Plans since the 50s, were initially guided by objectives of growth with social justice, self reliance and balanced regional development. These were later modified in the nineties to emphasize pursuit of rapid economic growth, balancing equity and efficiency. The national perspective and broad political vision that emerged in the initial decades of planning has somewhat been clouded by the recent upsurge of regional aspirations and narrower caste and community interest. The mutually influencing political activity and the implementation of economic programmes have significant impact on the pace and pattern of growth

and even more on spread of benefits across communities and states. The implications of the change in emphasis on policy goals and implementation process need to be studied in depth and findings published, as there is currently a revisit to the old questions of Role of State Vs. Market and Speed of growth vs. quality of growth. The current emphasis on inclusive growth is an offshoot of this debate.

Increases in Plan Investments

Plan outlays have increased from Rs. 1,960 crores in the First Five Year Plan (1951-56) to Rs. 15,25,639 crores in the Tenth Five Year Plan (2002-2007). The Eleventh Five Year Plan (2007-2012) has been approved with an outlay of Rs. 36,44,718 crores and is in the process of implementation (see Table 1). The Planning Commission is getting ready with an approach paper to the Twelfth FYP. As earlier mentioned the Federal Constitution of India required investment planning and implementation of schemes to be carried out by both the Union Government and various State Governments. It may therefore be appropriate to take a look at not only the total investments

The second revision lowered the weightage for population & increased the weightage of per capita income

under the various plans but also the relative shares of the Centre and the States in plan expenditure.

It is seen that the Centre's share in Plan Expenditure has increased from 36.02% in the First FYP to 58.5% in the Tenth Plan, while the share of the States has come down from 63.52% to 41.5% in the corresponding period. It must be remembered that the centre's expenditure will cover transfers to the States for implementation of central sector and centrally sponsored schemes, apart from central assistance for state plans.

Plan Assistance to States

While in the initial decades of planning central assistance for state plans was dictated by discretion of Planning Commission Members, resulting at times in avoidable controversies, a significant step towards formula based assistance common to all states was taken by Prof. DR Gadgil in 1969 and revised by the Planning Commission in 1980, 1990 and 1991 (See Table 2). The Gadgil formula made a distinction between special category states and other states and tried to evolve criteria for distribution of Central Plan Assistance on the basis of size of population, per capita income, outlays on irrigation and power projects and special problems of the state. The first revision made in 1980 eliminated the outlay on irrigation and power projects as a criteria for central assistance and increased allocation for per capita income as a criteria.

The second revision made in 1990 lowered the weightage for population and increased the weightage of per capita income. The third revision made in 1991 restored the weightage for population and modified the weightage for performance and special problems. The formulae for plan assistance from centre to the states has to be seen with the other stream of flow- devolution of taxes and grants in aid recommended by the statutory Finance Commission appointed every five years. It is clear that formulae for transfer of central resources to states with equal emphasis on equity and efficiency call for care in not only choice of criteria but also close consideration on the weights to be assigned to each criteria. The changes in the criteria and weightage made by the various Finance Commissions indicate a shift from population and per capita income as the dominant factors to consideration of performance of tax effort and fiscal discipline. The need to bring,

expenditure and debt management within this fold is evident. The formulae for central assistance for plans continue to give high weightage to population and per capita income even after revisions in 1980 and 1990 and there is also fine tuning of the criteria for judging performance. It must be, however, recognized that, the weightage assigned to performance has been relatively lower in comparison with the weightage given to population and poverty.

Performance as Criteria

Both Finance Commission and Planning Commission have tried to improve the manner of application of the income criteria, by considering different weightage to distance and deviation and alternative formulae. Similarly, criteria for performance have also been subjected to changes and refinement. The weightage of 10% each given to performance and special



Table 3: Growth Rate Performance in the Five Year Plans

SL	Plan	Target	Actual
1	First Plan (1951-56)	2.1	3.60
2	Second Plan (1956-61)	4.5	4.21
3	Third Plan (1961-69)	5.6	2.72
4	Fourth Plan (1969-74)	5.7	2.05
5	Fifth Plan (1974-79)	4.4	4.83
6	Sixth Plan (1980-85)	5.2	5.54
7	Seventh Plan (1985-89)	5.0	6.02
8	Eighth Plan (1992-97)	5.6	6.68
9	Ninth Plan (1997-2002)	6.5	5.5

Note: The growth targets for the first three plans were set with respect to National Income. In the Fourth Plan it was the Net Domestic Product. In all Plans thereafter it has been the Gross Product at factor cost.

problems by Gadgil Formula of 1969, was subsequently modified in 1991 with weightage of 7.5% each for performance and special problems, with the performance weightage objectives.

Similarly Finance Commission have also been changing the criteria of fixed transfers to the states. While the Tenth Finance Commission give a weightage of 10% to tax effort calculated as per formula evolved by it, the Eleventh Finance Commission not only reduced the weightage to five percent but also changed the manner of computing the states share on the basis of tax effort and further introduced fiscal discipline as criteria with 7.5% weightage. There is some degree of confusion in the State Governments resulting from these frequent changes in the choice of criteria, assignment of weightage and method of computation of share of individual states. There is a felt

need for not only care in the choice of criteria and for balance in the assignment of weights, but also a measure of stability and continuity regarding this.

The role that the Planning Commission plays in the examination and approval of state plans will call for close consideration as, on the political firmament there have been significant changes with different political parties and their combinations coming to power at the Centre and in the States. Demurring voices about non clearance of schemes and projects by the centre are now more common and strident than they were in early decades of planning. Unless the Planning Commission is so re-constituted as to bring in expertise and local knowledge regarding the various regions and states, the planning process may continue to suffer from the unwillingness of states to accept the Yojana Bhavan dictates and advices.

What is urgently needed is a substitution of the well meant but rarified academic wisdom of of Yojana Bhavan by states-specific development strategies with adequate appreciation of the local needs and persisting differences in the resource endowments and levels of development of the various States.

Change in Structure

An important aspect of the economy in the first three decades of plan development was the change in its structure, slow in the fifties and quite noticeable in the sixties and seventies. Between 1950-51 and 1980-81 the share of Agriculture went down from 59.2% to 41.8% while that of Industry increased from 13.3% to 21.5% even as the share of Services rose from 27.5% to 36.9%. The next 25 years between 1980-81 and 2005-06 saw sharp decline in the share of agriculture in GDP from 41.8% to 21.7%, slow rise in share of Industry from 21.5% to 24.1% and significant increase in the share of services from 36.7% to 54.2%. The structural change needs to be more clearly considered in setting priorities for plan investments.

Growth Performances of the Past

The FYP set out growth targets for achievements and indicated plan outlays with investment quantum, budgetary support and extra budgetary resources. The growth targets for the first three FYP were set out with respect to national income. The fourth FYP set out growth with target interest of net domestic product and all subsequent FYPs have set targets for growth of GDP at factor cost. Looking back, we notice that while the plan outlays increased from Rs. 1960 crores in I FYP to Rs. 1,525,639 crores in X FYP the average growth rate of Gross

Between 1950-51 & 1980-81 the share of Agriculture went down to 41.8%, while that of Industry increased to 21.5%

Domestic Product not only fluctuated from Five Year Plan to Five Year Plan but was also below the target set in the plan documents (*see Table 3*). If one took the average of the first twenty five years of planning 1950-1975, the annual growth rate was about 3.5%. While the economy trudged along there was a considerable slack in the system and more than a measure of indiscipline in the economy the controversial imposition of emergency hurt the civil society but considerably improved the implementation of economic and other programme. The average growth rate of GDP moved up to 5.5% during the VI FYP and 5.8% during the VII FYP. In the following decades thanks to important policy changes, most notably liberalization of controls and regulations since 1984, and moves for integration with global economy since the early nineties, the Indian economy moved into a higher trajectory of growth with a average annual rate of growth moving up from 5.6% during VI and VII FYP to 6.7% during VIII FYP, reverting to 5.5% during IX FYP before rising to 7.6% during X FYP. The XI FYP projected an higher growth rate, but the implementation at face the challenges of global recession. The gradual revival of the Indian economy has once again revived prospects for higher growth rates.

Assessing Growth Performance

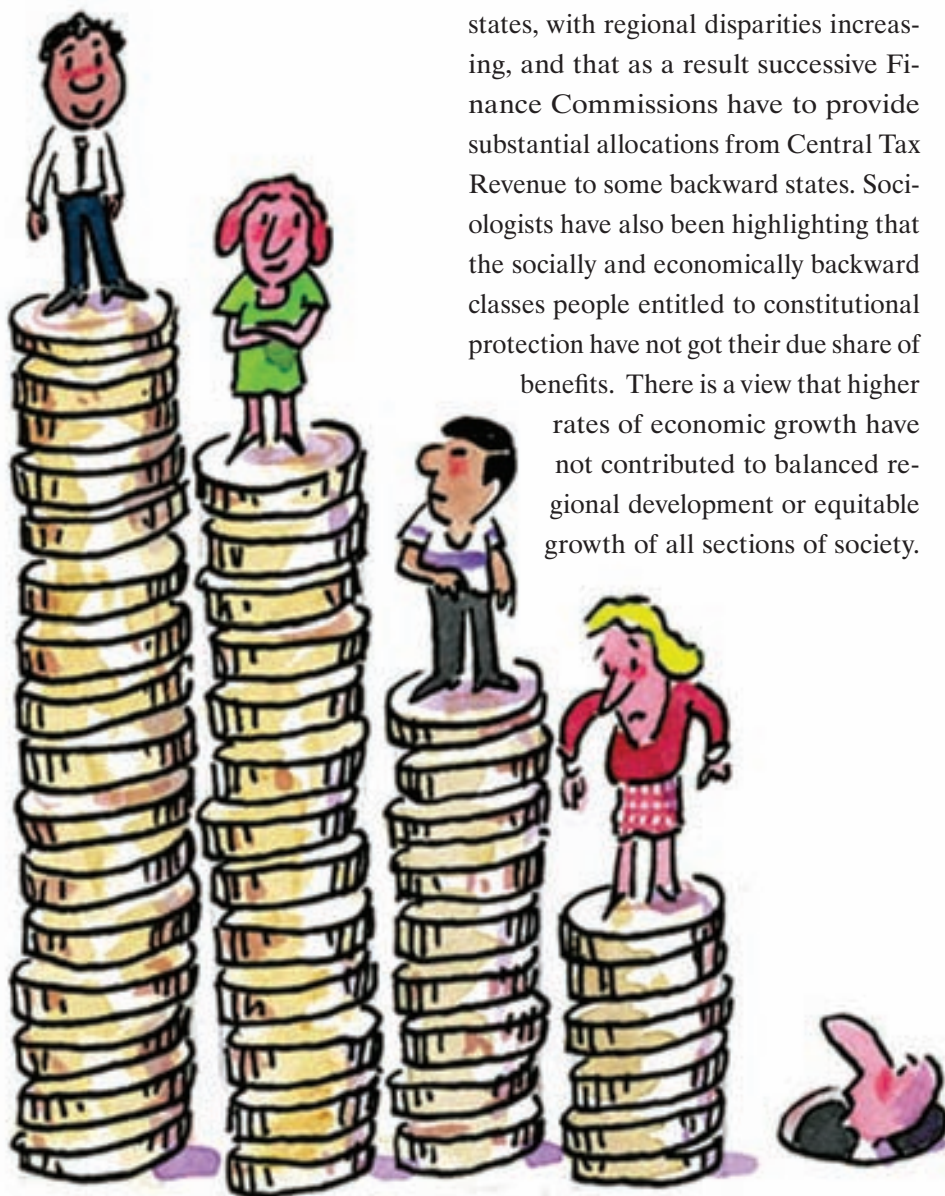
There have however been questions on the quality and sectoral distribution of growth. While scholars and others have applauded the higher growth rate of GDP achieved in the 25 years, and have attributed this to the policies of liberalization and globalization one should take note of doubts expressed in some circles whether this is a statistical phenomenon as most of

the increases is accounted by the Service Sector in which measurement of value can be fluctuating and error prone. Analyzing the growth from the point of view of employment generation, scholars have pointed out that the recent years witnessed “jobless growth”. Employment growth fell sharply from the post reform years from 2.6% p.a between 1983 to 1993 to 1.2% between 1993-2000, with a noticeable fall in agricultural and organization sector. During the 55th meeting of the National Development Council held recently, the Chief Ministers of various

states pointed out the link between employment for younger generations and growing extremism and some argued that it will be better if the economy grew at seven percent and created more employment opportunities than growing at 10% without increasing job opportunities. Obsession with higher rates of macro economic growth has to be tempered with meaningful spread of opportunities for jobs and income across sectors of the economy and various states.

Analysts have pointed out that economic growth, noticeable at the macro level has not spread evenly across the states, with regional disparities increasing, and that as a result successive Finance Commissions have to provide substantial allocations from Central Tax Revenue to some backward states. Sociologists have also been highlighting that the socially and economically backward classes people entitled to constitutional protection have not got their due share of

benefits. There is a view that higher rates of economic growth have not contributed to balanced regional development or equitable growth of all sections of society.



It is a moot question whether the Commission can be transformed into a Systems Reform Commission

This has long term implications for India's teaming millions and brings into focus the issue of "measurable growth and meaningful growth".

The Indian economy whose production base was broadened and increased by rise in demand from domestic consumers, during the first four decades of planned development has certainly received increased trade benefits from the external orientation of policy and programmes in the recent years. Along with these benefits came the unavoidable impact of global financial meltdown in 2008-09. While the nation benefited from the circumspect policies pursued in capital account and current account convertibility in moderating the impact of financial melt down, the downturn in major economies has certainly affected trade and is now having a lagged effect on domestic employment and income growth. This should be kept in view while we discuss measures to sustain high growth rate in the economy and consider steps to protect different sections of society.

Conclusions

While the sharp increase in the plan outlays at the centre and the states have become noticeable, there is continuing concern over the issues of equity in redistribution of resources and efficiency in utilization of resources, particularly, in determining the respective shares of various states in federal transfers. Public Finance analysts have pointed out that resolving tension between equity and efficiency is a fundamental challenge in



public policy. In the federal context, this creates a dilemma for those interested in the task of adjudicating the transfer of federal funds to the states.

What is significant and should not be missed by any one is that in India, the pressures of economic growth and financial management are inextricably intertwined with social and political objectives of governance. Rate of growth is to be assessed along with its quality, and distribution equity. That has been the sheet anchor of our development planning. Reiterating this, in his address to the nation on June 25th 2004, the Prime Minister Dr. Manmohan Singh had observed that "Equity and efficiency are complementary, not contradictory, and we must move forward on both these, while maintaining a high degree of fiscal and financial discipline and a robust external, economic profile". The Prime Minister also observed that "at a regional level the disparities are high and while some regions of the country seem to be on an accelerating growth path, there is a concern that other regions are not only lacking but are also falling behind" and

that "as a nation we cannot accept such disparities".

Makeover of Planning Commission?

Given the benefit of experience of formulation and implementation of development plans of over six decades, we should be ready to consider various suggestions for a makeover of the Planning Commission, in so far as its contribution to the sustained and inclusive growth of the economy. It is however a moot question whether the Planning Commission can be transformed into a Systems Reform Commission for resolving the extant systemic problems as proposed by some. For one thing the Planning Commission as it is constituted now, lacks statutory stature and its present composition with a dominance of Delhi based and Union centric economists and bureaucrats does not lend it much credibility. On the other hand there are genuine apprehensions among States regarding the content and quality of its prescriptions. This in itself may be a good ground for the makeover of the Planning Commission. However timing acquires significance. At a time when questions are raised about the domains of the Constitutionally empowered Judiciary the Legislature and Executive and there is an overhang of uncertainty, the scope for Planning Commission to metamorphose itself into a Systems Reform Commission must be considered limited, unless the nation is got prepared and ready to effect Constitutional amendments. That does not appear to be visible on the horizon. [\[ER\]](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)



Decommissioning the Planning Commission

Basic Structure theory and directive principles of state policy to a Public-Private-Partnership (PPP) model through the Public Accountability Information System (PAIS) or Right To Information (RTI) route

Rabin Majumder

*Advocate & Attorney,
Nu.Delhi.Law.Foru,
New Delhi*

British Raj sponsored program called Planning Commission ever since its inception in 1930s has been fairly doing well until 1991. However, under compulsion of BoP crisis, subsequently, India had to adopt economic reforms in 1991 which, in effect, embarked upon a program of short term stabilization combined with a longer term program of comprehensive structural reforms responding to the need for a system change, involving liberalization of government controls, a larger role for the private sectors and greater integration and synchronization with the world economy. And the obvious natural corollary is that, as some experts put it, Planning Commission changed its naming characteristic into “Reforms Commission”. In the recent past ever since reforms, Indian polity and policy have

witnessed a major shift from long patronized mixed economy to open-market survival kit thereby changing Planning Commission perspectives from a symbol of power to what it is often referred to as ‘Reforms Commission’ that it acts more as an internal consultant to most central and state ministries and thus hosts a number of seniors bureaucrats, cabinet ministers, chief ministers, industrialists etc on a regular basis.

As Shri Montack Singh Ahluwalia puts it “the compulsions of democratic politics in a pluralist society made it necessary to evolve a sufficient consensus across disparate (*and often very vocal*) interests before policy changes could be

implemented and this meant that the pace of reforms was often frustratingly slow... .” It is often opined that economic policy issues by its nature are controversial since it is the common knowledge that it is not a zero-sum game and hence, differences do exist, qualitatively and quantum-wise across the political spectrum. That is probably democracy which India witnesses.

From the beginning of end of British Raj until 1991, the economy was characterized by extensive regulation, protectionism, public ownership, pervasive corruption and slow growth. A revival of economic reforms and better economic policy in 2000s accelerated India's eco-

Revival of economic reforms & better economic policy in 2000s accelerated India's economic growth rate

conomic growth rate. According to a source, by 2008, India had established itself as the world's second-fastest growing major economy. However, the year 2009 saw a significant slowdown in India's Gross Domestic Product (GDP) growth rate to 6.8% which was largely because of world economic slowdown.

Planning Commission where the majority of experts are economists, since its inception has undergone sea changes. It has present-continuous aim and humble functions, broadly, to assessment of resources of the country; formulation of five-year plans for effective use of these resources; determination of priorities, and allocation of resources for the Plans; determination of requisite machinery for successful implementation of the Plans; periodical appraisal of the progress of the Plan; to formulate plans for the most effective and balanced utilization of country's resources, to name a few.

Proximate Cause to Nosedive and Characteristic Shifts

The low productivity in India is a result of many instances, viz. agricultural subsidies, overregulation of agriculture, inadequate infrastructure and services and lastly but not the least, over-enthusiasm of politics sans polity.

The above blackheads in functioning of the Planning Commission are because, in practice, it takes a forced backseat while welcoming always politics minus welfare-state policy. More so, the government's thirst for intervention in all spheres of economic and social activity has far exceeded its ability to achieve positive outcomes in any of them. The government sought to eat more than it could swallow. It is often felt that there has been a large gap between the theory



of Government intervention and the practice of governance in India. The experts put it “theoretical accountability of politicians to voters is often thwarted in practice by sharing misappropriated public resources with special interest groups whose vote is critical to re-election”. All interventions are justified by the ministers and bureaucrats as in the public interest or in the name of the *Aam Aadmi* or both. The long-term natural victim is Planning Commission.

Lesson From the Past

As the economists put it, a prima facie lesson of Indian experience is that government monopoly is, in a low income

democracy, more inimical to efficiency and growth than a private monopoly because regulatory capture is much easier in the former. This is because either policy, regulation and ownership functions are vested in the same government department (*monolith*) or regulation and ownership functions are overseen/ controlled by the same department. In contrast, in the case of private monopoly, regulatory capture can be impeded by two layers of accountability; First an independent professional regulator and then the government department (*to appoint & oversee the regulator*). So, deregulation/decontrol is often cried for in a right perspective.



Assembly as an inalienable human right which recognizes that ‘human being is the central subject of the development process and that the development policy shall make the human being the main participant and beneficiary of development’. “Development” is defined as a ‘comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well being of the entire population in development and in the fair distribution of benefits there from.

The Supreme Court has, in a number of judgments, referred to the importance of the Directive Principles. It has called these principles the “conscience” of the Constitution and also as the core of the Constitution. These principles are the “goals” to be achieved by Part III of the Constitution. They are intended to ensure “distributive justice” for removal of inequalities and disabilities and to achieve a fair division of wealth amongst the members of the society. The Supreme Court held that the courts can look at the Directive Principles for the purpose of interpretation of the fundamental rights. The Courts will adopt that interpretation which makes the fundamental rights meaningful and efficacious. The Courts have to make every attempt to reconcile the fundamental rights with the Directive Principles remembering that the reason why the Directive Principles were left by the founding fathers as non-enforceable was to give the Government sufficient latitude to implement them.

It may be particularly opined by almost all those who are concerned that the Directive Principles cannot be confined to mere rhetoric or to ad hoc policies of electoral appeasement or handouts.

Constitution of India and Plan Process

The Constitution lays down the basic structure of a nation's polity which is built on the foundations of certain fundamental values. The vision of the founding fathers and the aims and objectives which they sought to achieve through the Constitution are contained in the Preamble, the Fundamental Rights and the Directive Principles. These three may be described as the

nerve-centre of the Constitution and lately contended, Fundamental Duties has been given a thumbs up by adopting the principle of ‘basic structure’ theory of the Constitution enunciated by the Supreme Court in 1973 in *Kesavananda Bharati vs. State of Kerala* as reported in 1973 (4) SCC 228. As to what are these basic features, the debate still continues.

The right to sustainable development has been declared by the UN General

Supreme Court has, in a number of judgments, referred to the importance of the Directive Principles

Commission plays an integrative role in the development of a holistic approach to policy formulation

Any One-shot Solution?

That it is often opined that crisis prevention measures not only reduce the probability of crises occurring, they also reduce their severity if and when they do occur, which makes crisis resolution much easier. Hence, in the wake of economic liberalization and the world's economic downturn and as per past experiences, a characteristic overhaul of Planning Commission from a highly centralized planning system of the Indian economy is suggested to gradually moving towards indicative planning where Planning Commission would concern itself with the building of a long term strategic vision of the future and decides on national priorities. Since, it is matter of common awareness that Planning Commission of India plays an integrative role in the development of a holistic approach to policy formulation in critical areas of human and economic development leading to multiplicity of agencies.

It is also felt that the effort of the Planning Commission, instead of looking for mere increase in the plan outlays, should be to look for increases in the efficiency of utilisation of the allocations being made making itself to play a mediatory and facilitating role, keeping in view the best interests of all concerned, ensuring a smooth management of the change and help in creating a culture of high productivity and efficiency in the Government. It is in this backdrop, it may also be submitted that under new technology regimes, government management information systems and public

accountability information system, with inevitable modifications and adaptations arising out of implementation experience, may considerably improve the efficiency and effectiveness of governance over the years through the Planning Commission.

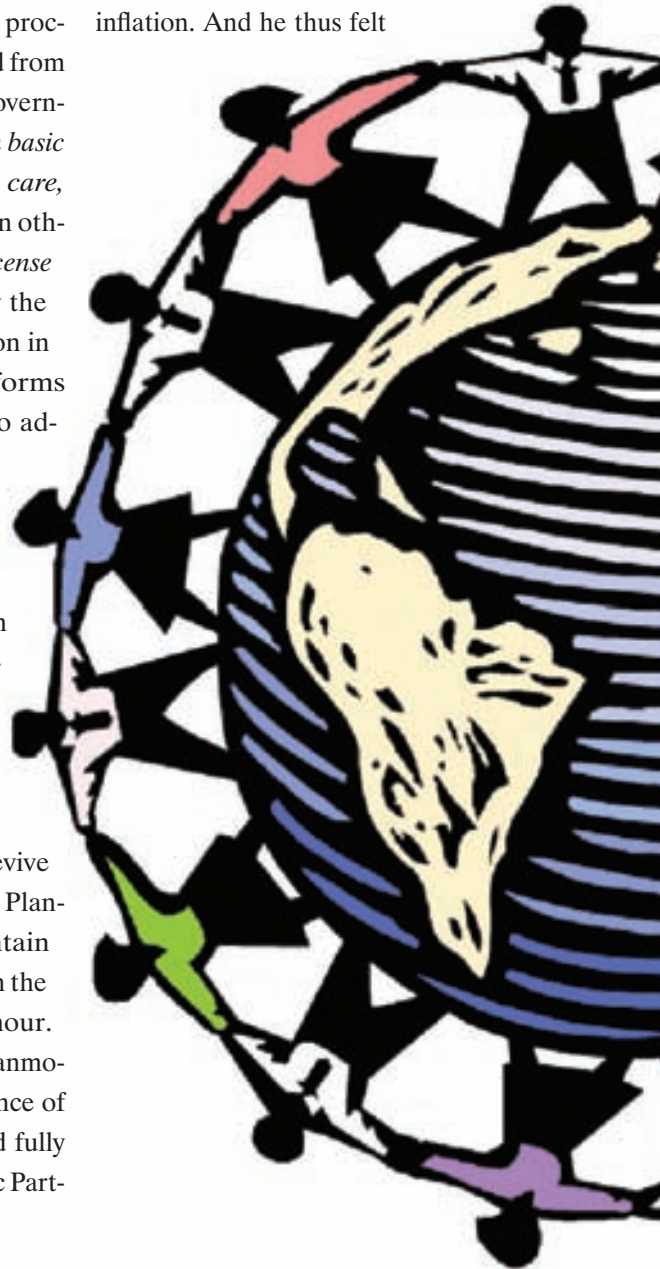
Discussion

As has been often viewed, the plan process in Indian economy has suffered from a "chronic under-activity" of the government in some fields (*particularly in basic education and elementary health care, food, etc.*) while being overactive in others (*in the form in the so-called "license Raj" in particular*). That probably the first time the Planning Commission in 1992 changed itself to as "Reforms Commission" which attempted to address the latter problem in a visionary way but it did not reach the goal. There is considerable evidence that the present Indian government, led by Sh. Manmohan Singh himself, is much more committed to removing that imbalance. The underinvestment in the social sector is now more fully recognized.

As has been felt, in order to revive investment and the confidence in Planning Commission aiming to contain fiscal deficit, achieving efficiency in the use of resources is need of the hour. And as Hon'ble Prime Minister Manmohan Singh opined "One consequence of scarce resources is that we should fully explore the scope for Private Public Part-

nership (PPP). This has been attempted in the infrastructure sectors where we have had some success, although progress has been less than what we would have wanted. We are taking steps to streamline the process so that PPP projects can move faster".

Hon'ble Prime Minister further emphasized the present economic picture as a combination of strengths built up over several years, the lingering effect of the global slowdown and the temporary effect of the drought in the current year, particularly on agricultural output and food inflation. And he thus felt



to build on the strengths and tackle the new challenges paying careful attention to the management of the food economy and the overall macro economy.

The *Aam Aadmi* are often pushed to appreciate certain disappointment in terms of the actual impact that Planning Commission policies has at the ground level. Most times, the outlays do not translate into actual outcomes. Lots of rational and well-intentioned policies are proposed by the Planning Commission, but the corresponding impact is not felt because of a myriad of implementation problems and mismatch of incen-

PAIS should emerge as a next step after the RTI as a vital first step toward improvement of public accountability

tives that become apparent as one spends more time in the Planning Commission.

It is often viewed that not only is public reasoning, including open public arguments, central to the emergence and practice of democracy, the history of public reasoning is spread right widely across the world. While democracy is not without success in India, its achievements are still far short of what public reasoning can do in a democratic society, if it addresses less conspicuous deprivations such as endemic hunger. This is what Shri Amartya Sen has to say.

As India's topmost internationally acclaimed economists opine that in the confrontation between a large and a small India, the broader understanding can certainly win. But the victory for the broad idea of India cannot be stable unless those fighting for the larger conception know what they are fighting for. The reach of Indian traditions, including heterodoxy and the celebration of plurality and scepticism, requires a comprehensive recognition. Cognizance of India's dialogic traditions is important for an adequate understanding of the capacious idea of India. Prof. Amartya Sen has gone on record to say that primary education alone can save a country in the long run.

Conclusion

Success of Planning Commission which has been systematically given a characteristic shift to be a "Reforms Commission" would largely depend making a policy framework that would facilitate

efficient production & regulation; secondly, an independent professional regulatory system that promotes competition & minimizes regulatory costs, thirdly, institutional innovation that breaks/reverses the deteriorating trend in efficiency & governance and lastly, government investment focused on public & quasi-public goods with the highest social return. And that can effectively be achieved if we should fully explore the scope for Private Public Partnership (PPP) benefiting the *Aam Aadmi*.

It is also suggested that Public Accountability Information System (PAIS) should emerge as a next step after the Right to Information Act which is a vital first step toward improvement of public accountability aiming to provide information to the targeted population about all major program and to empower the target beneficiaries to put up their own evaluation of the program alongside the government provided data & information which may be patterned on Amazon Books strategy, geographically multi-level, multi-layered system.

And it is graciously felt, if followed diligently, "decommissioning" the Planning Commission by way of PPP model as suggested and felt as above, would ensure long term successful implementation of Constitutional goals containing in its Preamble, the Fundamental Rights and the Directive Principles. [IER](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)



Whither Economi

Only a new role for the commission along with a structure to facilitate the same, will allow the commission to get rid of its armchair commission tag

MK Datar

*General Manager,
IDBI Bank Ltd.,
Mumbai*



c Planning?

Immediately after gaining political independence in 1947, India adopted a path of planned economic development. Though different opinions were expressed on several occasions about the need and desirability of planning itself or some aspect of it later, there were no two opinions about need for National Economic Planning at the time of independence. Even Indian industrialists accorded an important role to public sector investment as reflected in Bombay Plan prepared even before independence. Lack of development under the foreign rule meant paramount need for becoming self reliant. Further if foreign capital was excluded, in absence of a significant presence of domestic private capital the state needed to assume an active role in the development process. Hence the need to develop Indian industries with a strong support from state through public sector enterprises be it steel mills, power plants, petrochemical complexes; in effect all sectors which needed large investments but private enterprise was unable to undertake. This explains the observed unanimity for National Economic Plan with an important role for public sector investments. Planning Commission (PC) was set up through a cabinet resolution in 1950. Government controls on imports and domestic capacity creation in order to create a protective and conducive environment for Indian industries to flourish were other tools to supplement the planning process.

Planning Commission

Importance of planning and PC was highlighted by the fact that it was chaired by the Prime Minister himself. PC had a mix of members with technical background and politicians. Jawaharlal Nehru's commitment to the idea of planned development guided the evolution of planning in the initial years. The success of Soviet Union, so obvious in 1940s and 1950s, too had influenced contemporary thinking about Indian Planning.

The mandate given to the PC was quite wide. It was charged with the responsibility

It was also to offer its advice on any specific issue if referred to it by the central or state Governments

of making assessment of all resources in the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities. It was expected to appraise from time to time progress achieved in each stage of the plan and to recommend the adjustment of policy. It was also to offer its advice on any specific issue if referred to it by the central or state Governments. Also no role was envisaged for PC in implementation which was the responsibility of various ministries in central government and / or state governments. The initial mandate given to the PC did not quite reflect the role of private sector participants. Even though Public sector investment was

to have a key role in maintaining overall plan outlays, private investment was rarely lower than 35 / 40% of total investment. The mandate appeared not recognizing the market system that co-ordinates the activities of such participants nor did it reflected the need for a decentralised planning process in a federal entity. But activities of the PC in subsequent period were impacted by operation of both these factors. This paper represents an attempt to present a broad stroke picture of the evolution of planning in India and it also dares to predict the fu-

ture course of direction.

Plan Strategy and Performance

The First Five year plan has very succinctly put what the planning should aspire to achieve. "The central objective of planning in India at the present stage is to initiate a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life" (*Introduction to First Five Year Plan*). In subsequent plans, the objectives became more comprehensive and perhaps also ambitious, to include creation of "socialistic pattern of society, gaining "commanding heights of the economy", and achieving "reduction of inequalities in income and wealth and

achieving “more even distribution of power”. These, without doubt, were desirable goals but these depended very heavily on role and efficiency of public sector enterprises. (PSEs) which were expected to generate adequate surpluses consistently and plough it back through fresh investments in desired sectors. The system of industrial licenses was to be a means to prevent concentration of income and wealth. Subsequent studies, however, revealed that the very system helped large industrial houses to corner licenses and help retain their monopoly status.

After successful First Five Year Plan, the Second Five Year Plan unveiled a strategy of accelerated development through development of heavy & capital intensive industries. This disturbed the initial consensus about the planning process. Brahmananda & Vakil, inter alia, argued the need to accord priority for agriculture, instead of heavy & capital goods industries, so that supply of wage goods could be enlarged. The underachievement of the planning process was reflected in slower than targeted growth during the third five year plan period (Table 1). This coupled with two wars and a severe draught necessitated a plan holiday for three years. Planning resumed in 1969 when Fourth Five Year Plan was launched. But there were two other occasions (in 1979-80 and 1990-91) when Five Year Plans were replaced by Annual Plans. (Table 1).

Centralized planning process in a diverse country like India with a federal constitution should be considered little bit anachronistic. In 1972 Planning Commission advised state governments to set up state planning boards as apex planning bodies with chief Minister as the chairmen and the finance minister, Planning

Table 1 : Indian Economy Planned vs. Actual Growth

	Target (% p. a.)	Actual (% p. a.)
First (1951-56)	2.1	3.5
Second (1956-61)	4.5	4.2
Third (1961-66)	5.6	2.8
Annual Plans (66-69)	-	3.9
Fourth (1969-74)	5.7	3.2
Fifth (74-79)	4.4	4.7
Annual Plan (1979-80)	-	-5.2
Sixth (1980-85)	5.2	5.5
Seventh (1985-90)	5	5.6
Annual Plan (90-91)	-	3.4
Eighth (1992-97)	5.6	6.5
Ninth	6.5	5.5
Tenth (2002-07)	7.9	7.7
Eleventh Plan (2007-12)	9	?

Source: Eleventh Five Year Plan Vol. 1

Minister and technical experts representing various departments and disciplines as members. This scheme envisaged decentralization of planning process to the district and ultimately block level. While decentralization has taken some roots at the state level, further decentralization to lower levels of governments, notwithstanding constitutional amendments to strengthen *Panchayat Raj institutions*, remains an unachieved goal.

Persistent lackluster growth performance of the Indian Economy during 1960s and 1970s drew critical attention to shortfalls in planning process & development policies pursued by Government of India. Spectacular growth performance by other countries, the so called Asian tigers in particular, led to demands for shift from closed economy approach and its substitution by an export oriented outward looking approach giving more leeway to private initiatives and competitive markets. A variety of critiques of planning experiences in India, in particular, and prescriptions for future improvements in it are reflected in Ahluwalia, Bardhan, Chakravarty and Patnaik.

Over the years, economic policies have become more open, market oriented and private sector friendly particularly since mid 1980s. There have been significant shifts in the thinking about the role of public sector. The actual performance of PSEs has not been as expected. As a result, desired higher share of public sector investment was not achieved. Moreover, the need to maintain the fiscal balance has reduced the ability of the government to commit additional resources at the disposal of PSEs. This became another reason to encourage private and foreign investments in several sectors hitherto reserved for PSEs.

As reflected in Table 2 relative contribution of Public sector investment has reduced significantly over the years. This has eroded numerical primacy of public sector investment. Plan exercises were primarily for public sector component of plan investment. Less than satisfactory performance of Public sector units has not only adversely affected target growth rate and investment pattern but also dented the Planning Commission's ability to prepare an effective plan. Notwith-

standing the technical sophistication (*for example input out tables*) introduced over the years, poor performance by PSEs has remained the weakest link in the planning mechanism.

Failure of PSEs also explains the need to encourage private investment in several areas including several infrastructure segments. In several segments private sector units have lost their monopoly status are required to compete with newly entered private players. Reduced public sector investment was however, compensated by higher private, including foreign, investment. This has resulted in total investment to GDP ratio increasing to over 30% which has partly contributed to recently witnessed acceleration in the rate of GDP growth.

Though relative role of public sector investment has come down, its crucial role in supply of public and merit goods remains crucial. The responsibility to provide infrastructure services in urban & rural areas would remain the primary responsibility of government. In the wake of the 2008 Great Recession the focus of public attention is turning back to role of government. Eleventh Five Year Plan has emphasized the inclusiveness of growth as an important dimension equally important as pace of growth itself. In this scenario, the efficiency of public sector undertaking and the role of PC in design & execution of Public sector investment proposals would continue to remain crucial (*Table 2*).

A panoramic view of the impact of Five Year plans may be gleaned from the changes in the investment pattern envisaged under different Five Year Plans (*FYP*). Such a comparison is necessarily very broad as the classification scheme has changed during the last sixty years. As

Reduced public sector investment was however, compensated by higher private, including foreign, investment

may be seen from the data presented in Table 3 public sector had a crucial role in creation of fresh production capacities in irrigation, power, Transport, communication and different heavy and capital goods industries till 1990s. Thereafter, as private and foreign investment started flowing in, the public investment shifted to social services with a clear focus of rural

areas, weaker sections. Reflecting this introduced Rural development head has received consistently growing share from the SFYP (*Table-3*).

Presently, the Planning Commission itself sees its role as building a long term strategic vision and playing an integrative role to achieve coordinated policy formulation. Over time the planning process need to become more decentralized as role of local governments become importance in provision of basic services like sanitation, primary health, drinking water or all weather roads. Planning Commission's role in distribution of plan resources across different states has gained importance. Approval of Annual Plans for different state governments is one of the visible activities of the Planning Commission. However further decentralisation to local governments is desirable but the development is quite tardy.



Table 2 : Public Investment in Five Year Plans

	Share of Public sector Investment (per cent)
First FYP(1951-56)	53
Second FYP (1956-61)	61
Third FYP (1961-66)	65
Fourth FYP (1969-74)	64
Fifth FYP (74-79)	69
Sixth FYP (1980-85)	61
Seventh FYP (1985-90)	47.8
Eighth FYP (1992-97)	45.2
Ninth FYP (1997-2002)	29.0
Tenth FYP (2002-07)	22.0
Eleventh FYP (2007-12)	21.9

Source : Datt Ruddar, *Indian Economy 1998 and Eleventh Five Year Plan Vol. 1*

Planning in an Open Economy

Over the years the importance of public sector in terms of its share of planned investments has declined. Moreover, the ability of state to directly intervene through licenses, permits and quotas has diminished with the process of Liberalisation, Privatisation and Globalisation. India's growth strategy has changed from import substituting industrialization pursued during the initial plan periods in favour of export promotion & external competitiveness. The ongoing economic reforms program initiated since July 1991 has resulted in reduction of direct controls viz. trade restrictions ban on foreign

Table 3 . Investment Pattern in Five Year Plans

	Agri. & Allied	Irrigation	Power	Industries	Transport & Commun.	Rural Development	Social Services	Total
First FYP	15	16	13	6	27		23	100
Second FYP	11	9	10	24	28		18	100
Third FYP	14	9	13	24	20		20	100
Fourth FYP	17.4	4.4	10.1	24.8	16.8		26.5	100
Fifth FYP	11.8	8.8	18.6	26	17.5		17.3	100
Sixth FYP	5.8	12.5	27.2	15.4	15.9	7.2	16	100
Seventh FYP	14.27	*	30.48	12.48	16.36	6.76	19.65	100
Eighth FYP	12.7	*	26.6	10.8	18.7	9.4	21.8	100
Ninth FYP	10.9	*	25.1	8.1	19.6	8.9	27.4	100
Tenth FYP	10.63	*	26.48	3.86	21.3	9.36	28.37	100
Eleventh FYP	8.55	*	4.04	@	9.01	13.39	65.01	100

Note: Due to presentational changes, the data may not be strictly comparable. The above table, constructed from plan documents, is believed to present broad shifts.

* included in Agri & allied sectors. Included in Social services

Source : Plan documents

technology and foreign investments.

Domestic price controls which were quite widespread till 1980s have been reduced considerably. Further, government has moved away from the objective to controlling the commanding heights of the economy to a more limited role to provide public goods particularly to weaker sections of the society. Rather than substituting the market processes through government ownership and state controls, the government seeks to follow market friendly policies to attract private, including foreign investment in a wide array of industries. In sectors where private operators are not only permitted but encouraged, the existing public sector entities face competitive business environment and are required to improve their performance. The positive effects of competitive environment are most notably visible in telecom, financial services, and air lines as also several segments of manufacturing industry in terms of range of products, lower prices and resulting higher penetration.

Though the importance of public sector has apparently declined, its role remains crucial in the delivery of different social and economic services particular to the weaker sections of the society. Therefore performance of PSEs would continue to be crucial in achievement of planned objectives. PC can play a crucial role in plan implementation if it can facilitate the process of toning up the performance of PSEs. Though several features of Indian economic structure & policy have changed significantly over the years the structure and role of PC has remained broadly unchanged. It has been recently reported that the government intends to take a relook at the role and structure of the PC in the changed context of economic planning and recommend appropriate changes in the. Some have seen future role of Planning Commission as a think tank which would generate innovative and useful ideas. Unless a new role is envisaged for PC and a structure to facilitate effective discharge of it PC would remain essentially as described by Dr.

Ashok Mitra an “essay writer”. [IER](#)

References and Additional Thinking

- Ahluwalia I (1985) **Industrial growth in India**; Stagnation since the mid Sixties Oxford University Press, New Delhi .
- Bardhan P.K> (1984) **The Political Economy of Development in India** Oxford University Press, New Delhi
- Brahmananda P. R. and C. N. Vakil (1956) **Planning For an Expanding Economy**, Bombay.
- Chakravarty S (1987) **Development Planning; The Indian Experience** Oxford University Press, New Delhi
- Patnaik Prabhat “Some Indian Debates on Planning” in Byres T.J (ed) (1998) **The Indian Economy Major Debates since Independence** Oxford University Press, New Delhi.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

CALL FOR PAPERS

IER is a quarterly journal featuring contents of academic and professional interest that are of utility to managers, policy makers, politicians, consultants, teachers and students in the areas of Economics and Management. It is a multidisciplinary platform for sharing and disseminating knowledge in the issues of education, health, poverty, unemployment, agriculture, industry, service, FDI, international trade, infrastructure and environment, pertaining to Indian economy. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, we strive to achieve greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, academicians, socially responsible firms, civil society organizations and citizens) in questions of policy and the ideation. In order to further augment value and provision a broad perspective to Indian economic problems, your knowledge and expertise in the above mentioned fields would be highly valuable to IER. We would like the possibility of receiving a write-up from you, on a topic of your expertise and interest as per the under-mentioned guidelines.

Guidelines For Contributors

Content: Articles should be in the areas of education, health, poverty, unemployment, agriculture, industry, service, FDI, international trade, infrastructure and environment, pertaining to Indian economy, which are of contemporary interest and value to the esteemed and intellectual readers. The journal seeks to present an eclectic approach supported by empirical research or practical applications as necessary. Contents that demonstrate clear and bold thinking, fresh and useful ideas and solutions, accessible and jargon-free expression, and unmistakable authority and proficiency are those most likely to meet our reader's needs.

Reviewing Process: Each article is reviewed by the Economics Research Group (ERG). If found suitable, the same may be sent for another round of review before final acceptance. With prior information and consent, the editors reserve the right to modify and improve the manuscripts to meet IER's standards of presentation and style. The editors also have full right to accept or reject an article for publication. Editorial decisions will be communicated within a period of two weeks of the receipt of the article submission.

Word Length: Articles should be of 2,500 to 3,000 words including abstract and references.

Headings And Sub-Headings: Headings should be typed in capital and underlined; sub-headings should be typed in upper and lower case and underlined.

References: References to other publications should follow the Harvard style.

Figures, Charts And Diagrams: Use of figures, charts and diagrams should be kept to the minimum and text should indicate where the same will appear. All tables, charts, graphs should be typed on separate sheets. They should be numbered as Table-1, Table 2, etc. The graphs must have the minimum amount of descriptive text and the axes should be labeled with variable written out in full, along the length of axes.

Abstract And Key Words: An abstract within 100 words and three key words should be submitted.

Author's Bio-data And Photograph: A brief bio-data with full postal and e-mail addresses and a coloured photograph should be sent along with the articles.

Copyright: Authors should warrant that their work is not an infringement of any existing copyright and will indemnify the publisher against any breach of warranty. The articles published in IER will become the legal copyright of the publisher. The articles appearing in IER are the personal responsibility of the authors themselves and do not reflect the views of the editor, principal or the Economics Research Group (ERG) or the sponsoring organization. The author(s) will receive a complementary copy of IER in which their articles are published and this does not include postal/courier charges.

Submission: The submission should be sent to Sray Agarwal at sray.agarwal@iipm.edu



Legitimatization of Planning Bodies for Development

Planning body is just the division in State and Union Government as an advisory body having the authority to allocate funds but not having any authority over the departmental line in State or Union Level which diminishes its effectiveness

Gouri Pada Dutta

*Member, State Planning Board
Central Council of Health &
Family Welfare, Govt. of India*

In pre-independent India, a National Planning Committee was instituted by the then Congress President Subhas Chandra Bose which was headed by Pandit Jawaharlal Nehru. This was initiated by poet Rabindra Nath Tagore who wrote to Pandit Jawaharlal Nehru and Subhas Chandra Bose to situate such body for India's prospective development and planning¹.

Debate about the mode of governance in any country is assuming a new dimension in recent times. Ancient method of monarchical rule was radically changed after Industrial Revolution in Western Europe. These countries needed colonies for cheap labour, raw materials for production and market for their finished goods. Old system of barter was replaced by finance capital to promote market economy. The colonies were ruled, not governed, by a steel-framed administration to serve the interest of the rulers.

Twentieth century witnessed two world

wars. Both were fought to grab colonies. After the First World War a socialist State was established and exhibited remarkable progress in the field of economy and human development. This system promoted development, both socially and economically, by proper planning, initiated and regulated by the State.

The Second World War was also for colony but its hidden objective was to destroy the socialist system. Post Second World War period was the era of liberation of colonial countries. The seeds for destructions of socialist system were sown during the terminal phase of the war, through implementation of Marshal Plan in Europe and Dulles Plan for newly liberated colonial countries. The new rulers of the liberated countries were the product of colonial system and suffered from conceptual dilemma. Patriotism in one hand and aping the systems of the past foreign rulers on the other. These systems are intrinsically champions of capitalism

through market economy. These rulers are opposed to State's dominance for development. The market capital got upper hand after the fall of USSR in 1991 AD.

Indian Situation

After Independence new rulers of India were in a dilemma. The pro-people policy of the socialist system was suitable for them. But they could not free their mind-set from the glamour of their previous rulers, specially the material benefits of industrial revolution and phenomenal progress of science and technology later on. Indian politicians decided to adopt a mixed economy for its development which was conceptually translucent. Their ancient heritage promoted by the illustrious sons like Rabindra Nath, Vivekananda, Shri Arabinada and Mahatma Gandhi was conceptually different from the ideas of Bengal/Indian renaissance. Raja Ram Mohan Roy who himself was an enig-

matic character amorously favoured the English Rule. This was supported by the new beneficiaries of permanent settlement and by the persons educated through British System.

Amidst this ambivalent position Indian political echelons adopted planned economy for its development. This exercise failed to recognise the multi-cultural ethnic and geographical variants of this country.

Now Planning Commission of India is an institution of Government of India. Its responsibility is to make assessment of all resources of the country, to augment deficient resources, to formulate plans for the most effective and balanced utilisation of country's resources, to determine priorities etc. Pandit Jawaharlal Nehru was its first Chairman as the Prime Minister of India. Since then the Prime Minister of India is the Chairman of the Planning Commission. The Planning Commission works under the overall guidance of National Development Council. The Deputy Chairman and the full time Members of the Commission as a composite body provide advice and guidance to Government for the formulation of Five Year Plans, Annual Plans, State Plans, Monitoring Plans Programmes, Projects and Schemes. The Planning Commission has its own in-house Resource Division and a dedicated structured set-up of qualified professionals for each of the subject-specific divisions².

The Planning Commission was formed by an administrative order of Union Government in 1950 A.D. without any constitutional status³. The responsibilities &

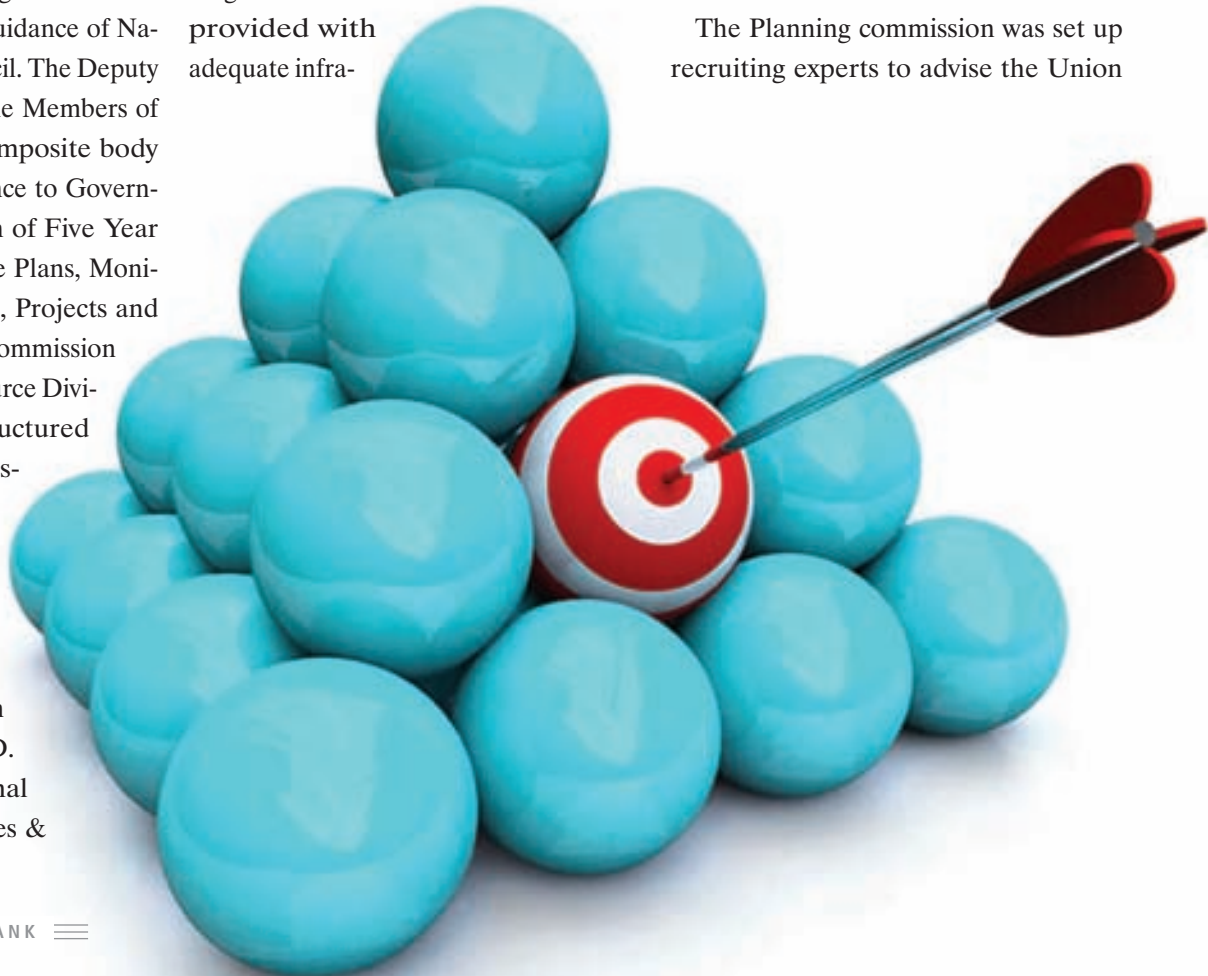
terms of reference of Planning Commission at the centre are as follows: One, to make an assessment of the country's productive resources. Two, to formulate a plan for the most effective and balanced utilisation of these resources. Three, to determine national priorities of development and define the stages of growth and suggest allocation of resources. Four, to indicate factors tending to retard economic development and determine the conditions necessary for the successful execution of the plan. Five, to determine the nature of machinery required for implementation of each stage of the plan. Six, to appraise periodically the progress achieved in plan implementation; and, seven, to make recommendations for its own effective working.

The operative procedure is ill-defined in the implementation of these objectives. The Planning Commission and the Planning Boards have not been provided with adequate infra-

structure to work of its own. The Union Government and State Government was administering the country in the manner of British rulers by the traditional administrators of line departments. In 1956, *Panchayati Bill* was passed in the Parliament. During Freedom movement a nebulous idea of *Panchayati Raj* was one of the foremost demands to establish people's prerogative in the administration. Ironically *Panchayat* from its inception was deprived of any regulatory power over the traditional administration. Its relation with Planning Commission was ill-defined and ineffectively operative.

To evaluate the effectivity of *Panchayat System*, Ashok Mehta Committee was set up in 1977⁴. It also failed to recommend regulatory power to *Panchayat* and *Panchayat* lost its prerogative to become an instrument of self-governance by the people. It became only another department of the Union and State Governments.

The Planning commission was set up recruiting experts to advise the Union



Government. It had little power to dictate line departments and had no infrastructure for independent assessment of resources although it was empowered to allocate funds for line departments of the Centre and also of the States. In pre-independent period the freedom fighters demanded that the Union Government would receive one-fourth of the revenue collected by the States and the States would utilize the rest of the funds. Unfortunately, the ratio was reversed and the States were receiving only 25-30 % of the revenue. For the assessment of resources for human and material development, the Commission could utilize *Panchayat* and *Nagar Palika* for planning. This could only be done through participatory neighbourhood survey by the people. Instead Planning Commission and Planning Boards, across the nation, had to depend upon the secondary data provided by the line department which was collected by employees and not by the people⁵.

The developmental plans and projects thus bound to be formulated from top-down manner and were implemented as directives. The recipient and the grass root implementers were seldom taken into confidence. So, their participation became mechanical and casual.

West Bengal Scenario

The State Planning Board in West Bengal was formed in 1972⁶. The first Planning Board undertook various activities in the field of agriculture, irrigation, animal husbandry, forestry, industry, power, transport, science & technology, education, planning and miscellaneous. These endeavours were not sustainable for the causes mentioned above. Planning from grass root was initiated in January 2002 on the basis of procedure prepared in 1985⁷.

The modality is presented in modified form which is as follows:

1. Collection of data through participatory neighbourhood survey on :
 - a. Human resources based on stratified socio-economic status and gender Profile.
 - Education, Employment & Health
 - Special participation of marginalised people (*Scheduled Tribes, Scheduled Castes & Minorities*) was solicited.
 - b. Natural resource.
 - Land (*along with its character*) i.e. cultivable, fallow, marshy & rocky etc.
 - Water resources of different types.
 - Forest – character with assessment of forest products.
 - Shrubs – its scope of utilisation.
 - Agricultural diversification.
 - c. Animal resources including situation & scope of improvement.
 - d. Any other relevant information obtained during neighbourhood survey.
2. Identification of capabilities & efficiency of the local people to evaluate the available resources and their optimum utilisation. They can prioritise for implementation from these informations. People in the country were entrusted to work out the following aspects of development.
3. Maximum utilisation & prioritisation of the resources through their own planning process.
4. Assessment and optimisation of their own resources.

5. Financial supports through *Gram Sam-sads, Gram Panchayats, Zilla Parishads*, State and National Schemes and other financial agencies.

The State Planning Board organised several meetings in twelve districts and discussed the principle and modality of planning from the grass root with three-tier *Panchayat system*. A lot of enthusiasm was created but unfortunately this exercise could not be operationalised because Planning Board was only an advisory body and had little control over the line departments. Moreover, State Planning Board of India had no infrastructure of its own to conduct even a pilot study to collect primary data of resources and plan from the bottom.

Department of Development and Plan-

Planning Board had no infrastructure of its own to conduct even a pilot study to collect primary data

ning undertook the task of preparing Human Development Report of the State involving State Planning Board. The project was supported by UNDP. This exercise was done by collecting secondary data from different level of the administration. The informations were back dated. So, their effectivity for correction of the deficiencies was limited.

District Planning Committees (D.P.C.s) have constitutional authority. Here also planning virtually becomes disbursement of funds coming from State and Union government. The resource mapping at various levels was not done. Thus the exercise becomes mechanical and mostly beaurocratic. The elected members of D.P.C. are not trained for this exercise. The data is collected through National

Resource Data Management System (NRDMS). The informations are collected as the investigators desire and not in a participatory manner.

In the first Planning Board of the State the Chief Minister was the Chairman. The Vice-President was a non-official person, who enjoyed the rank of a Cabinet Minister. The full time Members enjoyed the rank of Ministers-of-State. Vice-Chairman was the Minister-in-Charge of Development & Planning. The rank of honorary Members was ill-defined.

The Members of the State Planning Board were assigned to look after the planning process of different districts as well as the functioning of different departments. This became infructuous because there was no administrative order to link up the respective Members with the DPC in the process of planning. Departments were directed to take approval of the State Planning Board for any project costing more than 20 crores. This has become a

post-facto approval because Departments seldom consult State Planning Board when the project is proposed. But when it comes to State Planning Board for approval, the project gets progressed to a considerable extent. It has become a ritual practice.

Many other instances may be cited which will explain the futility of this very important apparatus. If the Planning Commission and the Planning Board are to be of any relevance, the following measures should be adopted properly by the State Government as well as by the Union Government.

1. The Vice-president should be a non-official person with the rank of a Cabinet Minister as it is now at the Centre and the Members should enjoy the rank

of Minister-of-State.

2. Members should be officially linked up with the respective DPC during the process of formulating District Plans.
3. Connected line departments should involve the responsible Members during the preparation of projects costing more than 20 crores.
4. State Planning Boards should renew the process of planning from grass root which was undertaken in 2006.
5. State Planning Board should be provided with adequate infrastructure & funds to undertake Pilot projects for planning & development.
6. The Planning Commission and the State Planning Boards are not comparable in respect of organizational structure, role and functions. As a matter of

There was no administrative order to link up the respective Members with the DPC in the process of planning



fact, an in-house meeting of the State Planning Board may be organized for the kind of role performed by the State Planning Board vis-a vis those of the Planning Commission before any reforms in this area is contemplated.

7. The plurality in the understanding of the planning process of District plan is an area where State Planning Board could take a meeting of its own, firm-up its common understanding and then sensitize the others.

The planning formulated from *Gram Samsad* at the rural area & *booth committees* of *Nagar Palikas* at urban situation should ensure the resource mapping by participatory neighbourhood survey as stated before. This should be transmitted to Block Planning Committees who will refer it to D.P.C. The State Planning Board being involved at every step would be able to prepare an optimum planning for the State which will be presented to the Planning Commission at the Centre. This proposal if accepted will legitimise the existence of Planning Commission and also the State Planning Boards.

Conclusion

India, like all developing countries, is in a cross-road for its developmental process. Planned development instituted by Socialist Russia had initial success particularly benefiting the erstwhile marginalised people. Subsequently this failed to deliver ultimate solution for human emancipation. The reasons of this failure have not yet been properly analysed.

Imperialism in the pretext of globalisation, Neo Liberalisation and imposition of market economy is bound to impose further misery over the poor countries. The poor people in every country, even in the developed ones, will also be severely af-

ected. A rational solution may be found through a synthesis of both the systems e.g. planned and market economy. This will facilitate the proper function of the planning institution. The developed countries should abandon their aggressive greed for profit through commercialisation of basic human services like health, education & adequate amenities of life. In ancient period countries who achieved acme of glory learnt that material benefit alone fails to provide peace and perfection to the human beings. They taught people to sacrifice so that ultimate emancipation is achieved.

The planning procedure in India should welcome the phenomenal advancement of techno science but it should also pay equal importance on the social aspect of science. The planners at all levels should understand that complete eco-friendly development is impossible but the best planning should attempt to minimise the onslaught on Nature.

A synthesis between the knowledge of the experts and wisdom of a wise common man should provide the solution. [IER](#)

Endnotes

- ¹ Personal communication from Prof. Nipen Bandyopadhyay (*Former Researcher, Shantiniketan*), Member, State Planning Board, Govt. of West Bengal
- ² http://www.idianetzone.com/45/planning_commission_india.htm
- ³ Planning Commission (India), Wikipedia, the free encyclopedia.
- ⁴ Ashok Mehta Committee - Wikipedia, the free encyclopedia.
- ⁵ Formation of State Planning Board, West Bengal – The Calcutta Gazette Extraordinary dt. 13th May 1972.
- ⁶ wbplan.gov.in/docs/AnnualReport200809/Planning%20Sector.pdf

- ⁷ Planning from below by the villagers themselves in Bengali Language: Published by *Panchayat and Rural Development Department*, Government of India.

References and Additional Thinking

- ‘Studies in Bengal Renaissance’, published by National Council of Education, Bengal, Kolkata – 32, 3rd Edition, March 2002.
- State Planning Board, West Bengal (1972-75) Published by State Planning Board, 6, Camac Street, Kolkata.
- ‘Being Indian’ by Pravin Kumar. World Bank Report on Health (1992).
- ‘Promised but not Implemented (Treatise of Health Policy)’ by Dr. Gouri Pada Dutta. Published by Asok Kumar Pal, 53, Creek Row, Kolkata-700014; April 2003.
- ‘People & Power’ (*Devolution of power to people through Panchayat in West Bengal*) by Dr. Gouri Pada Dutta. Published by West Bengal Voluntary Health Association, 19A, Dr. Sundari Mohan Avenue, Kolkata – 700014; Web:- www.wbvha.org
- ‘Social Issues of Health’ by Dr. Gouri Pada Dutta. Published by Suresh Bhadra, Pratyaya, 24/1B, Creek Row, Kolkata – 700014; April
- *Jiboner Aaina (in Bengali) (i.e. Through the Mirror of Life) (collection of essays)* by Dr. Gouri Pada Dutta. Published by Kanika Chakraborty, Effect Publication, DC – 116, Narayantala (West) Desh Bandhu Nagar, VIP Road, Kolkata – 700059; 2009 AD

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Don't **Throw** the Baby with the Bath Water

Planning Commission of India needs to adopt more transparent and vibrant mechanism in order to gratify the needs of an economy in transition which faces challenges unique to its own

Manoj Kumar

Managing Partner, India Strategy Group, Hammurabi & Solomon Consulting, New Delhi

The Planning Commission is chaired by the Prime Minister of India and has a Deputy Chairman and other members. The Planning Commission is answerable to the Parliament of India through the Hon'ble Prime Minister as its Chairman. Would it make a difference to identify planning as just another ministry having a dedicated Minister of the rank of a Cabinet Minister? Would this increase the level of accountability of the Planning Commission or would it act as an oversight mechanism over the conduct of the Planning Commission?

The answers appear to be in negative

since the inherent role of planning cuts across and impacts practically all other departments of the Government of India. One argument could be that if the US doesn't have a body like this, why are we stuck with something that seems to jar of the old Soviet-style of functioning. It is invariably overlooked that the role of planning in the US, as is evident from the massive package for shoring up US infrastructure, is played by the US Treasury. Conceptually, in India too it can be undertaken by the Finance Ministry; but the first government of the Republic, in its wisdom, didn't burden the Finance Ministry with yet another responsibility.

Having the activity of Planning alongside the other Ministries would not address the issue of accountability and oversight of the Planning Commission. In fact as an autonomous body under the Chairmanship of the PM, the Planning Commission enjoys the requisite autonomy from interference of other Ministry or departments and is able to prioritize planning in accordance with the constitutional mandate and common minimum programme under the mentorship of the Prime Minister.

What else therefore can be done to ensure that the Planning Commission of India does not exceed its brief by over —



stepping into the domain of other Ministry or department in relation to various development projects of the Government of India or the recommendations of the Planning Commission?

Clearly, there is continuous need to make the functioning of the Planning Commission more transparent and accountable. A transparent and vibrant oversight mechanism is essential to address the above issues and concerns. Additionally, the role of the Planning Commission to assist and guide on issues of planning and wherever the Planning Commission wishes to give any specific recommendation, advise, remark, observation or view pertains to any other department or the Ministry of Government the same should be made through the office of Chairman of the Planning Commission. This is essential to ensure that the planning is kept distinct from implementation both in practice and in perception.

The other solution lies in more questions relating to the Planning Commission in Parliament and more queries under the Right to Information.

‘Planning’ it is said as a program for action, for a particular period to achieve certain specific progressive developmental goals. Socio-economic planning has been one of the most noteworthy invention of the 20th century.

In most developed countries the role of economic thinking and Planning have been discharged by their respective treasury teams/department. As a contrast, in the case of emerging economies where resources are scarce and the demand for meeting multiple social economic needs are much higher, the need for social and economic Planning have become very

dynamic and therefore require a very focused approach. In emerging economies the role has often been discharged by a dedicated team assisting the finance and the treasury. In India this need was felt way back at the time of independence of the Country and the then Prime Minister Shri Jawahar Lal Nehru set up the Planning Commission as a dedicated resource to assist in the socio economic Planning to meet the development challenges before India at that time.

Much has changed in the last 53 years and as India has emerged from being identified as a poor/third world economies to being presently identified along with China and Brazil as an emerging economy and being looked upon amongst the league of developed nations in time to come. Therefore India is very uniquely placed where its Planning and development needs are neither the same as those of the poor/third world economies nor same as those of the developed economies, instead it has its own challenges faced by economy in transition.

In India the significance of planning was recognized even before independence. Varying ideological perspective were brought to bear on the efforts made at plan formulation by few eminent individuals and institutions. Important plans which were discussed in politico-economic circles were The Bombay plans, The People's Plan and the Gandhian plan. The Congress had taken initiative by appointing a high level committee to give blue print for National Planning and even at the governmental level a Planning and Development Department was created in the Government of India in 1944.

But it was only after attainment of Independence, The Planning Commission of India was set up on 15th March 1950 by

The Constitution seeks to constitute India into a Sovereign, Socialist, Secular and Democratic Republic

a resolution of Government of India to carry out the objectives set out by the Government towards achieving economic growth. It is an extra constitutional and a non-statutory body set up by an executive order. A commission delegated to propose plans for future activities and developments which formulates India's five – year plans, along with other functions to be aimed at. More than making plans and allocating resources, the Planning Commission seeks to transform itself into System Reform Commission, a strategic group which will look ahead and think ahead to cope up with the ever changing needs and demands for the uplift of the country as a whole.

The Government and the State

The Constitution seeks to constitute India into a Sovereign, Socialist, Secular and Democratic Republic. The mandate of the Constitution of India includes a socialist agenda for development and therefore a need to allocate due priority to the social development of its citizens and their health needs, education needs and financial independence to be assured by the Union of India.

Para IV of the Constitution of India further set outs the Directive Principal of State Policy which inter alia seeks to guide the state towards insuring the attention of the Constitutional mandates of socialist republic amongst others. The Planning Commission therefore has to take into account this Constitutional mandate while advising in relation to socio and economic Planning.

Part V of the Constitution further provides for Union, the Executive, the Parliament and the Judiciary. The executive power of the Union are vested in President of the country and are to be exercised under the aid and advise of the Council of Ministers by the President of India. The Council of Ministers are accountable to the Parliament of India which is the house of People and the Judiciary mandated with the responsibility to ensure that the basic structure of the Constitution of the country including provisions thereof are observed by the Executive.

The Market

On one hand we have seen global economies halted and shaken by issues like market manipulation as in the case of Enron and Subprime crisis, on other hand we are faced with debate between inter department independence and extent and role of planners.

At present when the most perceptible accent is on market forces and liberalization, the talk of economic planning might appear to be anachronistic but considering the state of economic development in most developing countries, the co-existence of liberalization and planning is most likely to continue for a long time. Beside the nature of economic planning, the Commission is likely to experience modifications from time to time as the economies of the developing countries undergo structural changes. In such a vast and diverse Country like India the only way one can get a sensible plan is when people make local plans. Moreover planning does

not mean everything automatically in an execution form but first devising a scheme, selling the scheme then allocating money for the plan and so it goes on for its coming into an existing/implementing mode. There should be 'Indicative Planning' and the role of government becomes that of 'persuader' using the moderate strategy of 'moral persuasion' and not any strong regulatory and controlling measures. Since the major chunk of the economy in a developed country is owned and managed by the private sector, the government is expected to act as a facilitator and not

as a regulator or director. Restructuring of the Planning Commission and planning process has been the constant refrain of economists since the initiations of the big bang market reforms in the early 1990's. The issue has resurfaced as the government has to start work on the twelfth plan with reports of new efforts being made to transform the Planning Commission into System Reform Commission such that good things and right things happen at the right time. Another important change that has to happen is much more local empowerment and then creation of conditions around the local bodies so that they function effectively.

The Planning Commission has played a critical role in the past 60 Years, striking a balance between limited resources and unlimited objectives. The growth in the Indian economy is increasing demand for infrastructural needs. However, the resources to finance remains limited. Despite this perpetual gap, the Planning Commission has played a role in allocation of resources to fulfill its mandated objective of 'balanced utilization' of resources. The Indian economy has grown at a growth rate of 2.4% in 1950-1980 to 7.8% now. The growth rate going toward, is expected to touch 10% as per projections. In agriculture sector food production has increased to 237 million tones.

The Gross Domestic Product (GDP) which was at 3.5% during the year 1960 – 1980 and is at 6.4% in the year 2000-2009. Further there has been positive growth in various sectors of the Indian economy.

The model Public Private Participation (PPP) documents prepared by the planning commission to provide a uniform policy in PPP to the various departments of the Government of India helped to ac-

celerate project development in various areas including roads, railways, ports, logistics, heavy engineering, manufacturing, aviation etc.

Concerns :

Is there a Need For a Relook

In the year 1966 the most comprehensive administrative reform was appointing the Administrative Reforms Commission (ARC) under the Chairmanship of Morarji Desai. The Commission during the 4 ½ years of existence, presented 20 main reports.

One of the main reports of the commission was relating to the Machinery of Planning (1967). It highlighted that the Planning Commission should restrict itself to the formulation of perspective five years and annual plans, resource assessment and evaluation and should not interfere in the implementation of the plans which should be the exclusive responsibility of executive agencies. The ARC argued that in order to make the Planning Commission a professional body, its control by the political leadership should be reduced. It recommended that the Prime Minister who has headed the Planning Commission ever since its inception, should cease to be its chairman, though the Prime Minister and the Finance Minister should be closely associated with its working. The ARC was against the PM's chairmanship, as the Planning Commission has "steadily added to its functions and personnel and has stepped into the area of the executive authority of the Centre and the state governments. It was viewed by the people as a parallel cabinet or a super cabinet. ARC favored the Prime Minister's association with the Planning Commission in the following manner:

- It is necessary to prevent the Planning



Commission from developing into a sort of parallel or super cabinet. It should not be deprived of its vital link with the Prime Minister.

- Intimate association should be secured without formally making the PM the Chairman of the Commission
- The PM should be kept informed from time to time of the important decisions taken by the commission.

The ARC also pointed out that the Prime Minister of the country and the minister-members have not been able to contribute significantly to the deliberations of the country's Planning Commission. It showed that if the ministers were the members of the commission, the commission was likely to be committed to the minister's stand with regard to the executive matters related to the implementation of the plan. This affected the capacity of the Commission to make critical appraisal and evaluation of the implementation of the plan by the executive.

The Government of India did not fully accept the ARC's view. It decided that:

- The Prime Minister and the Finance Minister would continue to be the chairman and members respectively of the Planning Commission.
- Rest of the members may not be appointed as members.

However this decision has been violated most of the time and three or four ministers continue to be the members of the Planning Commission, the Finance Minister being invariably one of them.

- The chairmanship of the Prime Minister bestows on the Commission the legitimacy and authority that would be respected by all the Union Ministers and the state governments.
- The PM's and the union minister's presence on the Commission facilitates close relationship between the Government and the Commission.
- The presence of the PM and ministers makes the Commission's decisions

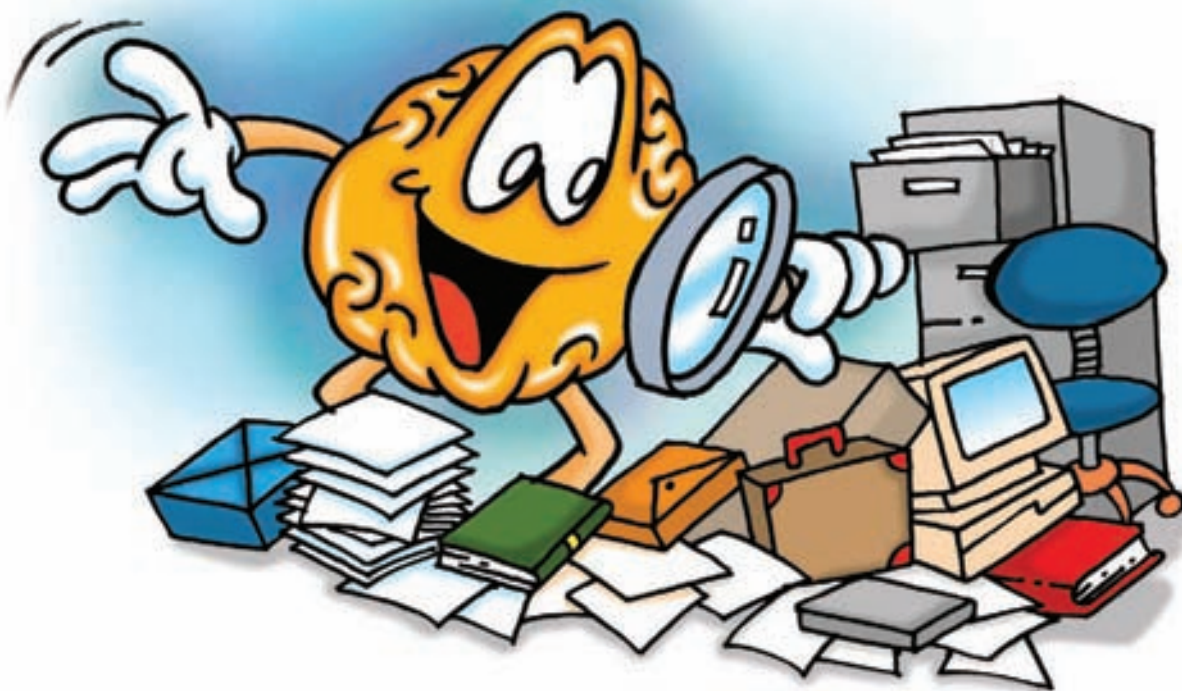
more pragmatic and practical.

- Since Planning is a political activity, in an environment of scarce resources, the broader issues of governance cannot be divorced from the authoritative allocation of values. In fact allocation of resources is the most important political activity in a developing country.

The Government of India agreed with the view of the ARC that the Planning Commission should be a compact body.

Much water has flown ever since, and a series of concerns have been expressed regarding the role, need, continuity and reforms pertaining to the Planning Commission including:

- The Planning Commission has generally perceived to have overstepped its role or its expected jurisdiction and allocated to itself certain executive function. It may be recalled that the Administrative Reforms Commission (ARC) in its report on the machinery of planning had underscored that the



Planning Commission should restrict itself to the formulation of perspective five years and annual plans, resource assessment and evaluation and should not interfere in the implementation of the plans which should be the exclusive responsibility of executive agencies. It has also been argued since long that the Planning Commission has encroached upon the autonomy of the states under the federal system. This encroachment is seen in terms of the Planning Commission's acceptance, modification or rejection of the states proposal for development programme for which central financial assistance is sought and which can be granted only on the recommendation of Planning Commission.

- ii. The Planning Commission is not a statutory body and it does not find any place in the Constitution. But that's the case with all ministries. Over the years with the expansion in the scope of planning, its function have extended substantially and have enveloped almost the entire sphere of administration excluding only defense and foreign affairs. It has been alleged that because of its powerful position by virtue of the chairmanship of Prime Minister it has even encroached upon the functions of constitutional bodies such as finance commission and yet not accountable to parliament. Even the National Development Council (NDC) which is a body responsible for the approval of plans envisaged by Planning commission approved it without any critical analysis of the same.
- iii. The Planning Commission is built upon a heavy bureaucratic organiza-

The Govt agreed with the view of the ARC that the Planning Commission should be a compact body

tion. The Commission which was initially a small body of serious thinkers had turned into government department with a crowd of secretaries, directors and big buildings. Neither the Planning Commission has been able to apply an integrated approach and actions nor coordination has been emphasized, which results in the overlapping among and duplication of efforts of various organizations, resulting in wastage of resources. There are overlapping responsibilities between the Planning Commission and Finance Commission. Perhaps, the constitution maker could not anticipate the setting up of an extra constitutional authority in less than a couple of months after the promulgation of the constitution. Since there can be no neat distinction between plan expenditure and non-plan expenditure, so unambiguous distinction between the role of two bodies cannot be made.

- iv. The votaries of liberalization and free market have been more critical to the whole concept of Planning Commission. According to them the Planning Commission should be shut down as the Finance Ministry already has a pool of talented experts. The Planning Commission only creates duplicity and lengthy procedures. Instead of Planning Commission there should be Implementation Commission which should be created under some act of Parliament. The Planning Commission has only multiplied the

schemes but has completely failed to monitor those schemes. The Planning Commission is an unnecessary burden on line ministry. It has outlived its utility. The finance ministry and its various offices and Independent regulators like Reserve Bank of India (RBI) have enough talent to suggest and formulate policies.

- v. The Planning Commission was initially set up under an executive order, probably with the aid of Article 73, which envisages that the executive powers of the union shall extend to the matters with respect to which Parliament has power to make laws. Thus Planning Commission has legal status though the constitutional status was never given.
- vi. Contrary to the provisions of Constitution, Planning Commission has started dealing with devolution of huge funds for investment of a capital nature while Finance Commission concentrated in the fields of revenue expenditure with of course some over-lappings. The new terms of 'plan grants' and 'non-plan grants' were then got introduced with no provisions and much less indication in the Constitution of India.
- vii. If we assume the whole scenario as contemplated therein, the only thing that comes to mind is that the economy of the Nation must be looked as a whole. Following the example of human eyes, one can deduce a principle that there must be convergence of vision in an unified manner to have a

Commission has to act as mutually complimentary forces in ensuring rapid economic development

clear and complete picture of a sight to be seen. One need not hypothetically attempt that left eye may be directed to see the left landscape only and the right eye the right one. One can safely say that any such attempt will give distorted vision. So for all this reason, its better either to shut down the whole machinery of Planning Commission, or Finance Commission and Planning Commission shall work together as one Commission under Article 280 by making necessary constitutional amendments to have a full view of both plan and non-plan sided of the economy.

- viii. The Planning Commission needs to be in the process of reinvention of itself. More than making five year plans and allocating resources, it seeks to transform itself into what has been described above as System Reform Commission, a strategic group of intellects who can look ahead and think ahead sensing the emerging concepts of development, liberalization, opportunities and challenges in this era of globalization. It needs to formulate appropriate response for the government evaluating the present and future scenario.

The Way Forward

As discussed above ,the Planning Commission does not form part either of the Executive, the Parliament or the Judiciary and as such therefore there role should be limited no more than advisory rest the basic structure of the Constitution would

get disturbed if Planning Commission has to go beyond.

Further, the institutional resistance from within the commission which is motivated by fear of further shrinkage has already downsized its role. In the new economic environment, economic planning continues to be an important and determining strategy for public investment beside providing guidelines for channelising private sector investment in desired direction. The Planning Commission has to act as mutually complimentary forces in ensuring rapid economic development of the nation. Sixty years ago the story was different, the Country was more centrally managed but now there is devolution of power to the states and other corporation. Private sector plays a vital role in making economies of the county and the world has become much more dynamic because of interconnection, mobility, globalization and speed. So in the changing circumstances the Planning Commission needs to refurbish its tools, make themselves foresee the real and dynamic world and enhance its ability to communicate with the people.

With the emergence of revenue constraints on available budgetary resources, the resource allocation system between the states and the ministries of the central government is under strain. This requires Planning Commission to play a mediatory and facilitating role, keeping in view the best interest of all concerned. It has to ensure smooth management of the change and help in creating a culture of high productivity and efficiency in the government.

The key to efficiency and optimum utilization of resources lies in the creation of appropriate self-managed organizations of all level. In this area Planning Commission shall attempt to play a system change role to provide consultancy within the government for developing better system. In order to spread the gains of experience more widely, the Planning Commission is suppose to play an information dissemination role.

Much of the criticism and concerns relating to the Planning Commission, emanate from the myopic view taken by critics. Issues of planning require a comprehensive all round approach to ensure development carries with it , the constitutional mandate set out in the Constitution of India naming a few, health care, education, water supply, sanitation, poverty alleviation etc. With a three sixty degree approach to achieve our constitutional



mandate alongside development through planning, the following lessons seem to have emerged from our past experiences:

1. Markets, left to themselves, do not care about development or inclusive growth, both of which are necessary to meet the Constitutional mandates set out in the Indian Constitution.
2. Markets are amenable to manipulation or distortions in practice which has often led economies to near collapse situations i.e. the impacts of Enron and Subprime crisis to United States and the European economies are the classic case to point.
3. The myopic vision of each Ministry or departments to its own segment of its overall constitutional mandate or the common minimum programme has often led to difficulties in balancing the priorities amongst the most important

social issues like health care, water, and education vis-a- vise other objectives like better urban planning in infrastructure — although both impact the other in more than one way.

4. Planning in itself is a distinct and independent area of governance necessary to attain the constitutional mandate as discussed above and the challenges of the developed economies and as such can not be merged into implementation and left to respective departments or local bodies.
5. Formation of Planning policies for achieving the growth and the constitutional mandate is a very specialized responsibility and therefore needs a dedicated and wholesome approach.

It was planning that rescued America from the Great Depression. It was the Marshall Plan that rebuilt the completely devastated economies of Western Europe after Second World War. Similarly, it was the Ministry of International Trade and Industry, the Japanese version of the Planning Commission that ‘planned’ and scripted the spectacular resurgence of Japan as a global economic power from the debris of Second World War. South Korea was a harshly exploited colony of Japan for the first-half of the 20th century. Since late 1950s, it was the ‘planned’ encouragement and incentives given to chaebols like Samsung and LG that made South Korea a developed nation and join the fabled G-8 club as a paid-up member. And, it is systematic and effective ‘planning’ that has transformed country like China from a pathetically poor agrarian economy during the 1970s to a global economic powerhouse that now boldly challenges the formidable might and clout of the United States.

With all the above lessons, some very

old, some from recent past the Planning Commission which was set up in 1950 has been discharging the functions of planning the various Five year plans of the Government of India, the various issues concerning budget allocation of scarce resources of amongst the growth and development needs and has been assisting in setting out the road map and structure of the new emerging development opportunities particularly the Public Private Participation of development and growth.

The question isn’t whether the Planning Commission should be an advisory and a guiding light or even whether it should be allowed in the decision making rules in various departments to oversee and ensure compliance of either the various departmental projects of India or even the recommendations of the Planning Commission of India. The question is whether our MPs, our television anchors and our RTI activists are asking the commission enough questions! [IER](#)

References and Additional Thinking

- Public Administration Law, M.P. Jain, Universal Publication 1999, Vol.2. Edition-3;
- N.C. Jain Report on Restructuring of Planning Commission on 26.06.2000;
- www.financialexpress.com;
- Handbook of Public Administration- Jack Robin, Gerarld Miler;
- Montek Singh Ahluwalia, Deputy Chairman of Planning Commission Interview with India Knowledge@Wharton, Published November 1, 2007;

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)



A Tale of Two Countries: India and Malaysia

Asymmetry in the approaches in planning the economic policies and their consequences — a comparative study

Amir Ullah Khan

*Economist,
The India Development Foundation
and Edith Cowan University*

Tunku Abdur Rehman was born three years after Jawaharlal Nehru, in a rich family, and in 1925 went to Cambridge to study law. Racial discrimination there made him resolve to fight for independence. Tunku headed the Alliance party, won elections in 1955 and in 1957 persuaded the British to give up and make Malaysia a free country. Ten years after Jawaharlal Nehru did the same in India, Tunku became the first Prime Minister of free Malaysia. And remained Prime Minister till 1970 having won three straight elections. While Nehru gave to his country a Tryst with destiny, Tunku declared "Merdeka" (*independence*).

Both countries initiated a planning process, and Malaysia's Economic Planning Unit became powerful and influential. The New Economic Policy was launched in 1969, with the state announcing large scale reservations for the local Malay Muslim population referred to as the Bhumiputras. The Malays were agriculturists, the Chinese dominated industry



and the Indians were employed in the service sector. Reservations for Bhumiputras were given in housing, scholarships and ownership of public listed companies. In India, reservations gave to the poor access to poorly paid jobs and to the illiterate, a right to seats in educational institutions. And now as Malaysia starts dismantling reservations, it can show how its policy actually helped bringing down poverty and increasing representation.

Everywhere you see are captions celebrating Ramzan in Malaysia. The country is fasting, Malaysians use the Sanskrit work upvas, hari raya means the day of celebration referring to Eid ul Fitir and the air is filled with excitement and celebra-

tion. There is one hoarding that catches your attention as soon as you land. "There are only 500 tigers left" says the hoarding. In Kuala Lumpur, the conservationists are talking of the falling number of Malayan tigers. With 1411 tigers left, we were ahead of the Malaysians by far. Alas, for the next few days, as I watched TV and read Malaysian papers, I realised there was nothing else we were better at.

Malaysia is indeed a fascinating country. Its per capita income at more than 8000 USD a year is ten times that of India's per capita income.

Illiteracy is low (*about 95% are literate*) and life expectancy high. Nearly half of India's population remain illiterate and

the average Indian expects to live for 64 years, a full ten years lesser than the average Malaysian.

Malaysia was a poor country not very long ago. It is a heterogeneous country with Malays, Chinese and Indians scattered all over. The Dutch ruled for around two hundred years and then gave much of Malaysia to the British.

Colonial rule everywhere went along similar lines. Exports were encouraged, Malaysia discovered tin way back in the 17th century, and the European market demanded large amounts of tin. The British, having come in attracted by this metal, also used the climatic zone there to grow rubber and palm.





After the elections in 2008, the new Democratic Party in Penang announced it would do away with all reservations. Last year, the Prime Minister of the country announced several steps towards abolishing the reservation for the sons of the soil in the services sector. The equity quotas and the compulsory local shareholding for foreign companies too is on its way out. The purpose of ensuring ownership of equity for the local Malay achieved, it is time for investment to be freed up so foreign funds could be attracted. In India, this seemed to have escaped the policy maker. The under privileged were given reservations and they occupied lowly jobs, never in ownership of wealth. Even in

Malaysia, reservations must have bred inefficiency and nepotism, but in India they did not even seem to have empowered the beneficiary.

Malaysia embarked on reforms early. By the early seventies, most inefficient public sector was privatised. While India was going full steam ahead with a spree of nationalisation, Malaysia was inviting private domestic and foreign investment. Agriculture that was the main occupation in Malaysia, accounted for over 42 percent of the GDP in 1970 and ten years later was down to nine percent. Manufacturing rapidly grew and in 1980, more than 30 percent of the GDP would come from industry and manufacturing. In contrast,

Indian manufacturing has contributed less than 25 percent to the economy for more than 40 years now and agriculture continues to employ more than half the working population even today.

As the demand for tin fell, rubber plantations grew. And then the country made a switch to palm oil. Today exports of palm oil contribute substantially to forex earnings. Forests were sources of much of the timber trade that Malaysia depended on in the first half of the twentieth century.

However, responsible forest policy has ensured that even now more than 50 percent of Malaysia is covered with forests. In India, the figure is an exaggerated 18 percent today. Trade with Britain came



Trade with neighbours was encouraged; Malaysia keeps an open border with Thailand for trade

down but almost immediately the United States became a large partner. Relations with Japan were improved and Malaysian industry benefitted from Japan's technology and investment. While India was backing the USSR, Malaysia first cultivated the US, then Japan and now has flourishing trade ties with China.

The interest rates have always been low, inflation kept in check even when the economy was growing at above seven percent year after year for the two dec-

ades of the seventies and the eighties. Trade with neighbours was encouraged and Malaysia keeps an open border with Thailand for trade purposes. India tried this with Nepal and Bhutan but just could not sustain a cordial relationship. And less said about Bangladesh, Pakistan and Sri Lanka, the better. Singapore was proving to be difficult state in the federation, it was allowed to peacefully opt out and become a peaceful and cooperative neighbouring country. India meanwhile kept

dallying with a reluctant Kashmir and sixty years later wonders if the costs justify the benefits.

The Malaysian society is diverse and celebrates this heterogeneity. Muslims girls wear the hijab, the Chinese and the Indians wear modern dresses, and no one could be bothered. Halal restaurants abound. In many ways, a modern progressive country that believes in its democracy, its tradition and its economic strengths. Finally, the most telling example; 12 years ago, the 1998 Commonwealth games were hosted in Kuala Lumpur. With minimum fuss. The facilities were up and ready well on time. Malaysia, with its 25 million population, finished fourth overall behind Australia, England and Canada, winning 10 gold medals with an overall medal tally of 36, while India had seven and 25 respectively. In the next few days, we will know if we can do better.

It was not that the country did not face crises. Be it racial strife, political turmoil, xenophobia, Malaysia seems to have handled it all with equanimity. The mid nineties saw an enormous currency crisis, but handled well enough for the economy to bounce back quickly. The currency was devalued like never before, and exports quickly rose to fund deficits.

Corruption is regular news in the newspapers. Getting licenses to operate business or work in the country is still difficult. However, in disclosure norms and in investor protection Malaysia ranks among the best. This quarter the Malaysian economy grew at more than 10 percent, and much like India, surprised itself with this spectacular increase. [IER](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

The Road to Prosperity: Market vs State

Failures of development policy applied to less developed countries coupled with obstacles to economic development led to the economic stagnation of poor countries

Rok Spruk

*Economist,
Slovenia*

The relationship between the economic policy and economic growth is one of the most studied ones in the economic literature and, indeed, one of the most important questions considering the prospects of economic growth and development. In the course of economic history, the clash between political philosophies has resulted in a wide range of economic experiments that were ultimately divided between success and failure. The failure of the Soviet political and economic experiment largely resulted in the institutional transition of former communist states to the principles nested in the market economy. Despite the Common Law legal origins, India has pursued predominantly socialist economic policies since the country gained the independence from the British rule in 1947. The pursuit of economic policies based on protectionist trade policy, autarkic self-sufficiency and state interventionism did

little to prevent high rates of poverty and even less to promote economic development in a longer term. Despite significant economic growth dynamics in the past years, India's GDP per capita (*PPP-adjusted*) is ranked 163rd in the world together with Mongolia and Vietnam. It is nonetheless important to outline the premises of public policy that rely on free market, limited government and the rule of law as the guiding principles to which the policy of economic development in developing countries shall adhere.

The reliance on socialist economic policies which India pursued since gaining the independence from the United Kingdom has largely resulted in economic mismanagement and deteriorating in-

come mobility. The resulting outcome of the socialist political and economic idea contradicted the primary ideological goal of socialist political philosophy - the





eradication of poverty and the pursuit of economic equality for all. According to World Bank, in 2005, 41.6 percent of Indians lived in poverty with less than \$1.25 per day. In 2008, the mortality rate for children under the age of five stood at 69 per 1,000 which is a little less than in Haiti (72 per 1,000) and more than in China (21 per 1,000). Hardly any evidence could further dispute the self-destructive nature of socialist economic policies to deliver the promised goals.

The failure of socialism in development policy reflects its misunderstanding of the emergence of economic system as an order of spontaneous creation. Socialist political experiment rests mainly on the idea of guiding the development policy through economic dirigisme. In the course of political economic history,

socialist political leaders pledged on the promise of delivering social goals such as free education and health care and a better standard of living for all members of society. The socialist philosophy of economic policy is mainly derived from the philosophical thought of Marx, Hegel, Rousseau and Lenin. The epistemological nature of economic philosophy is subject to the perception of human nature of greed in relation to the concept of “homo economicus” firstly developed by Adam Smith in “The Wealth of Nations”. In its origins, the conceptual framework in development policy depends on which economic philosophy shall prevail as a set of guiding principles in the policy course.

The rise of the British empire in the 19th century of the Victorian age to the world political and economic giant was largely based on the legacy of the economic thought from enlightenment which stressed the importance of free market, sound money and limited government which focused on the enforcement of the rule of law. The intercourse of development policy in each country lies firmly on the grounds of formal and informal institutions. The interaction between formal and informal institutions is one of the most powerful determinants of a perspective of economic development in a long term.

Formal institutions such as the constitution and legislative laws are nonetheless a central element on which the creation of the fundamentals for the pursuit of economic development is based. However, formal institutional phenomena could not be explained without a proper understanding of informal institutions such as ethics, culture and habits. These institutions endogenously determine the very nature of formal institutions since the latter are not established mechanistically but

rather through human action and behaviour. Douglass C. North, a Nobel laureate in economics from 1993, captured the essence of the importance of well-functioning interaction of formal and informal institutions for economic development: “The inability of societies to develop effective low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment of the third world.” (*North 1990: 54*). The alleged failure of socialist economic policy is entirely reflected in its ignorance and pretense of understanding the evolution of the market system as a spontaneous order. The pretense of full understanding of the society without the awareness of the limits of knowledge in curing society’s ills is the most important source of predatory behaviour that is so detrimental to economic development. One of the most notable sources of stagnation of less developed countries has been the failure to protect property rights through a well-functioning and stable judicial system. It would be impossible to expect a well-functioning law enforcement in failed states since the political dictatorships and widespread rent-seeking behaviour emerging from

privileged interest groups are the main causes, not consequences, of predatory behaviour such as the insecurity of property rights and, hence, the lack of the rule of law. The inevitable consequence of predatory political behaviour emerged from a totalitarian development paradigm is a widespread prevalence of rent-seeking behaviour that ultimately results in a total inability of formally established institutions to enforce the rule of law as the guardian of the protection of private property rights. The experience of least-developed and developing countries in the course of development policy suggests that most of them have become failed states with the prevalence of widespread and cumbersome corruption even though these countries were forecast to encounter high economic growth and the resulting increase in the standard of living alongside the official developmental assistance from creditor countries and interna-

tional institutions.

Nevertheless, the belief in the power of political elites to boost the economic development by the means of their supposed knowledge of the economic behaviour is a fatal conceit. The experience of less and least developed countries suggests that political elitism complements predatory political behaviour focused on the extraction of political rents rather than on the implementation of an effective set of policies aimed at boosting the economic development. Therefore, the only plausible question in this regard is what kind of development policies to pursue to prevent




least developed and developing countries from the capture of political elitism, corruption and rent-seeking that has led to a constant underdevelopment and economic stagnation compared to the advanced countries?

Establishing the Rule of Law

The lack of a well-defined and well-functioning legal order has been the main cause of the corrupt political elitism that led to civil wars, stagnating per capita incomes and politico-economic instability.

Countries that have moved up the economic ladder and maintained high levels of prosperity, such as Singapore and Hong Kong, have first established a framework of the legal order based on the rule of law - a framework that was able to protect private property rights against expropriation and political abuse. Without a coherent and robust system of law, it is impossible to establish an independent judicial system. The empirical evidence from the economic consequences of the legal origin suggests that English-based Common law is by far the most efficient legal framework regarding the confluence of legal system on economic growth and development.

Protecting Private Property Rights



Historically, less developed countries have suffered heavily from the lack of independent judicial system that imposed high cost on the protection of private property rights. The insecurity of private property rights is a significant drawback on economic development not only from the perspective of foreign and domestic investors but also from the individual point of view. Insecure and improperly defined private property rights incur significant cost on the defense of private property which is, from an economic point of view, counterproductive. The lack of effective protection of private property rights largely resulted in undeveloped or practically non-existent capital and financial markets. By most measures and empirical judgments, there is a close and re-

markably high correlation between the level of financial market development and income per capita. The foremost task of less developed countries, including India, is to establish a set of political institutions that instill an effective system of checks and balances on the rule of law as a mechanism curtailing the coercive power of policymakers and interest groups.

Abolishing Price Controls

The system of price controls is a heavy impediment on economic growth and, therefore, a major drawback on the productive behaviour such as entrepreneurship, savings, investment and education. The majority of price control schemes is intended to bequest a particular group of the society. Traditionally, price controls have been imposed on goods such as food, drugs and commodities. But when the laws of supply and demand prevail, the effect of price controls immediately translates into the parallel informal economy where prices are determined according the shifts of supply and demand. Price ceilings cause shortages. The mechanism of free price system is one of the most important fundamentals of a free-market economy. There is, in fact, no better alternative approach to start alleviating poverty than setting a system of free prices and abolishing all price controls that sooner or later result in shortages of basic good if prices are not allowed to adjust freely.

Abandoning Special Privileges and Caste System

Perhaps the most fundamental question of development economics and policy is what accounts, over time, for a growing gap between the wealthy and poor countries and, hence, how poor countries can

sustain high economic growth and the consequent growth of the standard of living. The main failure of development economics in the past century is the unrecognized and rather powerful role of social rigidities and special interest groups in imposing policies that nevertheless hurt the prospects of economic development. Interest groups tend to act like small distributive and elitist coalitions that seize the capture of the state. By exerting an enormous influence on policymakers and political leaders, these groups hinder the implementation of public policies that would nonetheless boost civil and economic liberties and, hence, economic development. In the widest possible sense, economic and civil liberties would empower millions of individuals to spur the potential of human knowledge that is the ultimate source of progress. Although the ancient caste system in India was abolished in 1960s, as an informal institution, its social entrenchment has not fully disappeared. The existence of caste system significantly reduces the scope of economic and social mobility. The influence of the institution of caste system is, by no further clarification, an ultimate source of widespread poverty and the lack of mobility. As Mancur Olson (1982) contemplated, the benefits of policies in favour of particular interest groups are selective incentives concentrated among the members of privileged groups while the costs are diffused among the entire population. As little public resistance to such groups is arisen, these groups tend to exert stronger influence and capture the state into the status quo which is, by no dispute whatsoever, the main obstacle to greater economic liberty and, hence, greater economic development. The in-

The road to higher levels of economic development requires a far greater strengthening of human liberty

ability of societies to enforce the rule of law and institutions of economic and civil liberties against the coercive power of rigid political and social elites is perhaps the only plausible explanation of economic stagnation marked by high poverty rates, and rachitic progress in terms of education and poverty reduction. It is nevertheless important to stress that it is a fatal illusion to believe in the power and ability of political elites to cure the ills of poverty by the implementation of socialist public policies aimed at the premise of the big role of government and bureaucracy in achieving the economic and social progress. The road to higher levels of economic development requires greater strengthening of human liberty. The disappearance of social rigidities such as caste system is a necessary condition and the ultimate opportunity to tackle the endogenous patterns of corruption and other predatory political behaviour. The task of economic development is not a self-sustaining quest. As Friedrich A. von Hayek (1978: 60) notes “Experience tells us much about the effectiveness of different social and economic systems as a whole. But an order of the complexity of modern society can be designed neither as a whole, nor by shaping each part separately without regard to the rest, but only by consistently adhering to certain principles throughout a process of evolution.” The only plausible alternative to boost the economic development is not by the greater strength of the state, caste system and interest groups of special privilege but by the greater spread of

economic and civil liberties such as free price system, deregulated markets and individual liberties

Limited Government and Safeguarding the Individual Liberty

The belief in the power and ability of the state to enhance the policy framework of economic development by facilitating particular measures while the patterns of informal institutions remain unchanged is the main remnant of the failed epistemic assumptions of development economics. Development, defined in the widest possible sense of economic and social progress, does not depend on the effectiveness of particular policy design but rather on the tacit acknowledgement of the importance of economic and civil liberties as the basis of economic development. The experience suggests that greater coercive power of the state is the ultimate source of economic decline and stagnation. The capture of the state, broadly defined as the inability to enact long-term policies aimed at promoting economic development, cannot be properly understood without the awareness of the power of interest groups of special privilege. The enactment of the rule of law as a system of

limiting the coercive power of the state and interest groups, is the main determinant of economic development. The enforcement of the rule of law requires a fundamental change in the nature of informal institutions. Unless the premises of civil and economic liberties and of highly limited power of the state are not adopted and recognized as the main precondition for economic development, the effort to establish the rule of law would fail. The failure of socialist economic policies largely resulted from the assumed belief in the power of the state to establish and design the economic order. Consequently, the failure to acknowledge the impossibility of the state to create and economic order resulted in decades of economic mismanagement that ultimately led to the economic stag-



nation and decline. Among the preconditions for a steady course of economic development is the security of private property rights. Having failed to recognize the importance of the judicial protection of private property rights, the less and least developed countries failed to capture the essential understanding of the economic development. Adhering to the certain principles of the rule of law and limited government is not merely an attempt to restore the foundations of development policy but an approach aimed at the very understanding of the evolu-

tion of economic development. Pretending to adhere to the scientific principles of economic development is nothing else but a mere failure to acknowledge the importance of the role of economic liberties on which the evolution of development is based. The adherence of principles of economic and civil liberties is built on the premise of limiting the coercive power of the state which may, if left unchecked, sooner or later result in the capture by interest groups and, hence, implementation of policies and laws that would nonetheless hinder the prospects of economic development in the name of social justice. As James Madison noted in 1788 in *The Federalist Papers* "It will be of little avail to the people that the laws are made by men of their own choice, if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood." It is

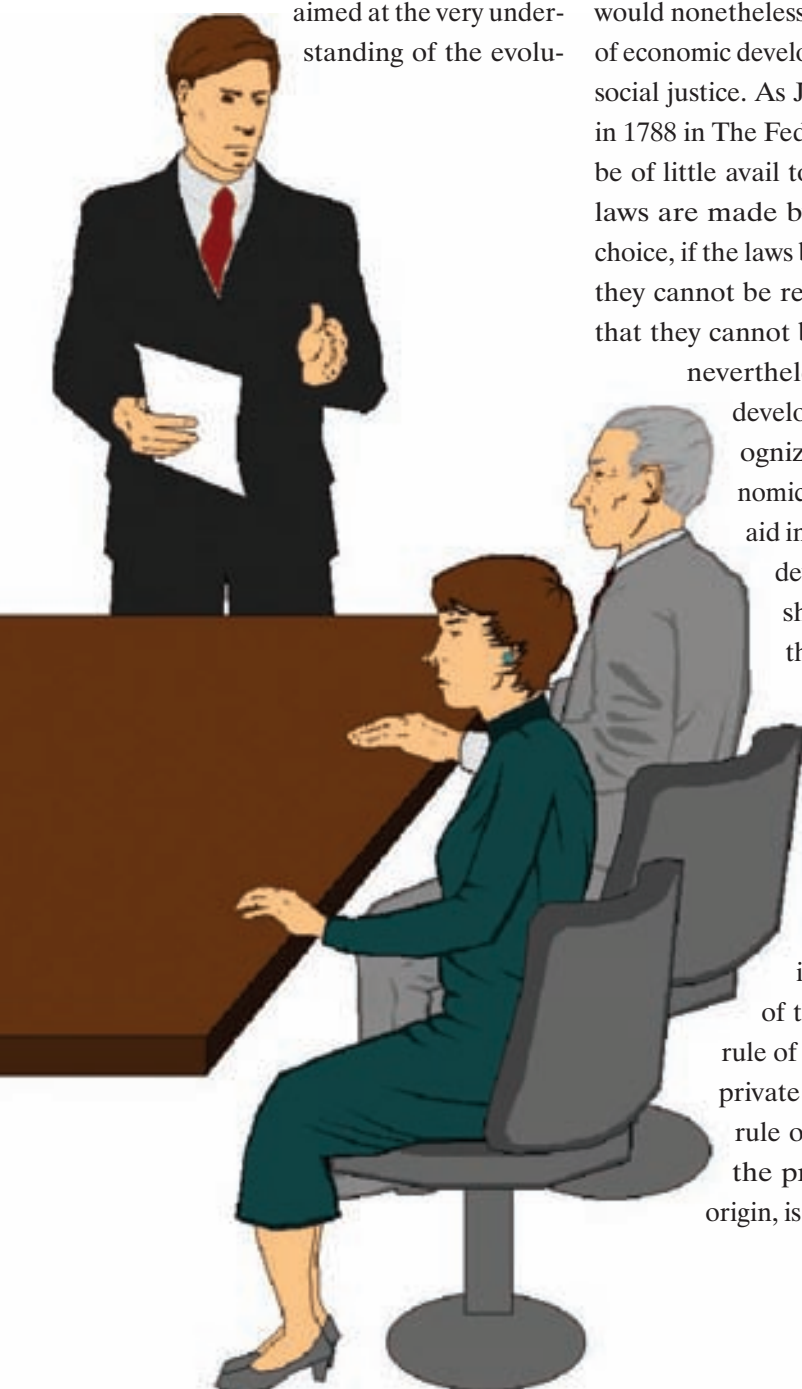
nevertheless essential for less developed countries to recognize the failure of economic dirigisme and foreign aid in promoting economic development. Instead, it should be well-known that the approach that boosts development and progress is not the implementation of certain policies that temporarily alleviate issues of particular concern. It is rather the awareness of the importance of the rule of law and protection of private property rights. The rule of law, ascertained on the principles of its legal origin, is not an end itself but a

precondition for instituting the principles of economic and civil liberties and limits on the redistributive and coercive power of the state and interest groups, which is so essential to the course of economic development. Civil and economic liberties may encounter a heavy resistance from small and powerful interest groups that enjoy vast privileges from social rigidities. But it should not be forgotten that the existence of specially treated interest groups with yields substantial amounts of privilege for its members and cost for other members of the society. It is the strong influence and power of these groups that forestalled the status quo and detracted poor countries from the steady road to prosperity embodied in sound property rights, the rule of law, free markets and limited government. [IER](#)

References and Additional Thinking

- Hayek, F. A. (1978). *Law, Legislation and Liberty*, Vol. 1: Rules and Order. Chicago, IL: University of Chicago Press
- Olson, M. (1982). *The Rise and Decline of Nations: Economic Growth, Stagnation and Social Rigidities*. New Haven, CT: Yale University Press
- Madison, J. (1788). *Federalist No. 62*, in Hamilton A., Madison J. & Jay J. (2003) *The Federalist Papers*, New York, NY: Penguin Classics
- North, D. (1990). *Institutions, Institutional Change and Economic Performance*. New York, NY: Cambridge University Press

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)



From State to Democracy: Two **Views** of Capitalism

In State Capitalism, the state controls everything for political rather than economic gain, ignoring the central reason for the success of a company — profit, as opposed to Democratic Capitalism which makes Democratic Capitalism more attractive

David A. Andelman

*Editor, World Policy Journal
President, Overseas Press Club of
America*

In the late 1970s, shortly after The New York Times replaced typewriters with computers in its newsroom in New York, the editors decided to ship an early workstation to its news bureau in New Delhi. A month later, the newspaper's bureau chief in the Indian capital received word from customs that the computer had arrived, but had been impounded. It would not be allowed into the country, the bureau chief was told, because there was an Indian version that could provide comparable services. My colleague (*I was then based in Bangkok covering Southeast Asia for the newspaper*) asked to see the Indian version that was being forced on him. He was told to drive to a location in central Delhi and was taken into a room. There, filling the entire room, virtually the size of the entire bureau, was a monster computer with flashing lights and lots of whirring sounds.

"This can provide all the services of your American machine," he was told. "But it's larger than our entire office, and

it uses vacuum tubes," the reporter replied, once he managed to recover his composure. The salesman shrugged. It was the finest India had to offer.

This was deep in the days of state capitalism in India. No longer. Today, India is a modern nation with among the most advanced, and freest economies in the world — having undergone a growth spurt that is among the fastest in the history of our planet. But it could never have been done under the constraints of the state model pursued in the years until 1991 and the end of the *Licence Raj*.

This was by no means my last brush with state capitalism. From France under Socialist President François Mitterrand to Eastern and Central Europe when

COMECON held sway under the influence of Soviet Communism, I experienced first-hand the often grotesque inefficiencies that were

paramount and often quite appalling.

In 1981, when I arrived in Paris as a correspondent for the American television network CBS News, François Mitterrand had just arrived in power with an overwhelming mandate as the first Socialist President of France in a generation. Welcoming Communist Party members to his cabinet, he also embarked on a broad campaign of nationalizations. The first, and most visible, was a vast swath of the French banking sector.

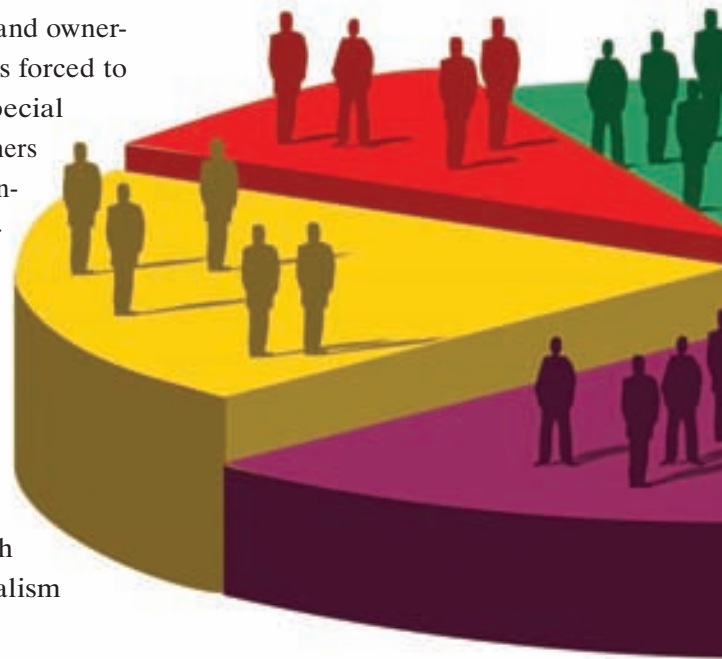
At 12 noon on November 12, 1981, the Baron Guy de Rothschild invited me to his inner sanctum in the Banque Rothschild at its headquarters at 21 rue Lafitte in the 9th arrondissement, the heart of the French banking quarter, barely a five minute walk from the Bourse. He



began by taking me on a tour of his establishment that he was about to turn over to the French government — an end to 10 generations of Rothschild banking dating to King Louis-Philippe for whom his forebears had acted as financiers. It was after the name of this street that the Rothschilds named their great Bordeaux estate and its wine label, Chateau Lafitte. “What a pity,” he said, pausing in his bank’s wood-paneled boardroom, sweeping his hand across the dozens of portraits of his ancestors looking down from the walls at the large red-leather chairs, all now empty, that surrounded what

under government control and ownership. Eventually France was forced to issue vast quantities of special bonds to compensate the owners and shareholders of the nationalized firms — interest payments alone running 50 billion French francs a year (*between \$5 billion and \$10 billion depending on the rate of exchange which fluctuated wildly during the 1980s*).

France’s experiment with overwhelming state capitalism



36 banks and 2 finance companies were taken over by the state, as bureaucrats moved in and took over

seemed like an acre of polished mahogany. “They will be staring down on communists, now sitting around this table.”

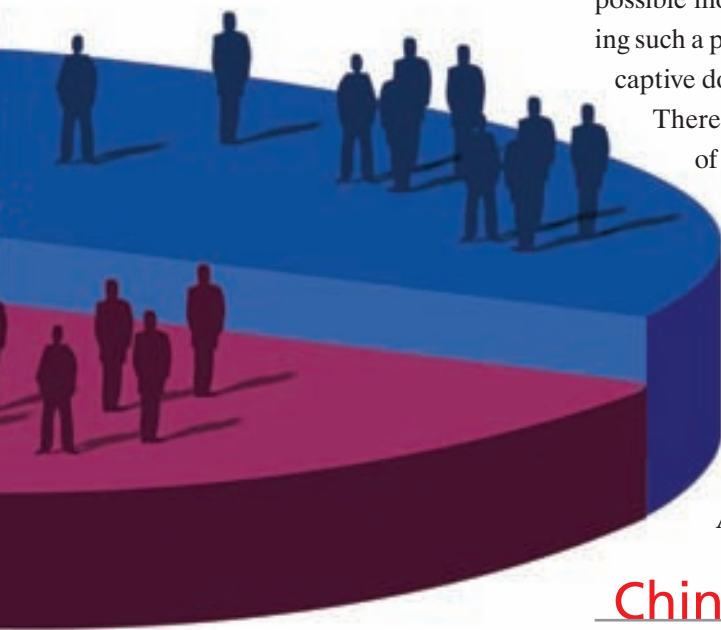
In all, thirty-six banks and two finance companies were taken over by the state, an army of talent turned out, as bureaucrats moved in and took over. But banking was only the first industry targeted by the Socialists. Within a matter of months, the government had seized control of seven of the twenty largest industrial conglomerates in France plus five other major industrial companies whose workers numbered some 800,000 individuals.

Every morning, it seemed, the French awoke to news of another private company or industry brought under state control. The railroads (*SNCF*), natural gas and coal, Paris subways, the two French airlines (*Air France* for international flights, and *Air Inter* for domestic travel), the auto company Renault, the state tobacco company SEITA were all

didn’t last long, however. The nationalizations proved all but catastrophic to the French economy, society and the entire way of life. Moreover, support for the process all but collapsed. While overwhelmingly positive through March 1983, by October of that year public opinion had turned overwhelmingly negative. The Franc had been devalued for the third time in two years, public spending was squeezed, and the right wing, led by the man who would succeed Mitterrand as President, Jacques Chirac, was presenting some very attractive alternatives. Within a matter of months, the nationalizations had begun to be reversed. The four Communist Party members had been chucked out of the cabinet. France was reverting to democratic capitalism. In 1987, having spent four years in self-imposed exile in New York, Baron Guy returned to Paris as his son David launched the new Rothschild

& Cie Banque in the rue Messine, barely a mile from the building seized from his father.

So what is it about democratic capitalism that makes it more successful — hence more appealing — than state capitalism? To a large extent, it’s actually the very fundamentals of the two systems that suggest the answer. In state capitalism, the state dominates the markets for one particular reason — political, rather than economic, gain. To accomplish this, it must necessarily ignore the central reason for the success of a company: profit. When politics becomes the ultimate corporate driver, the state must take several measures that so often is likely to run counter to the success of a private enterprise. The principal motive for a state-controlled company must be preservation of jobs, since an employed worker and his or her family is far more likely to vote for the incumbent government in the next election. Corporate losses mean little when the public treasury is behind the corporation and can continue to pump in funds — which



possible motive can there be for inventing such a product when there is a totally captive domestic market?

There is, of course, one final model of capitalist system that is being practiced, admittedly with some considerable success — what I would call hybrid capitalism. This is the system in China, with variants as far afield as Cuba and Russia in the post-Soviet era, Saudi Arabia and the UAE, Malay-

China has none of the motivations that pushed India in that direction back in 1991. Its economic foundations are strong and stable. It has vast foreign currency reserves that it can use to subsidize state-controlled companies wherever and whenever necessary, and vast resources to buy new foreign markets or sources for raw materials — as both Australia and the United States have discovered, much to their respective chagrin.

China has managed to achieve at least a meta-stable form of a hybrid state- and democratic-capitalism by its extraordi-

China has vast foreign currency reserves that it can easily use to subsidize state-controlled companies

can, and often does, lead to a vicious spiral of state deficits, more bond issues, higher interest rates, inflation and a currency plunging in value. But political success trumps all of this — at least in the short run. Eventually, as happened in India in 1991 when the IMF and World Bank effectively turned off the financial spigot, forcing India to abandon the inefficient and wasteful state capitalism, the government exhausts the means of maintaining the inefficient, often corrupt and exploitive, and rarely innovative model of corporate governance.

Innovation, indeed, is the hallmark of democratic capitalism and anathema to state capitalism. Innovation involves risk, and risks imply the potential for failure, which in turn can have dire political consequences. However, since the ultimate motivation of a state-controlled enterprise is survival and jobs, rather than profit — what possible excuse could there be for remarkable innovation? When the state can simply block a smaller, faster, more user-friendly computer from entering the country, what

sia and Brazil. In such a model, the state owns or controls vast portions of the infrastructure or natural resources economy, but allows a fully functioning, innovative private sector to co-exist beside it. Indeed, the state may even welcome well-heeled private investors to feed at the state-owned hog trough, while maintaining full, and unchallenged, control over what enters and leaves the trough and how it's employed in between.

The central question is whether such systems can exist for the long term, or whether each is from the onset effectively meta-stable, meaning that it must at some point either revert to a full state-controlled system or move onwards to a system of full democratic capitalism? Some have suggested that the movement of China to full democratic capitalism is a move that must be taken in tandem with a move toward full democratic pluralism in a political sense — hence, hardly likely within the foreseeable future.

nary benevolence that is both a legacy of Maoist communism and self-preservation by the nation's current most opportunistic leadership. So the nation has opened up to foreign interests, expertise and especially investment capital while at the same time keeping most closely held its principal sources of wealth — natural resources, banking, any form of manufacturing with military implications. At the same time, it has been squirreling away vast quantities of foreign reserves that serve as a significant cushion for hard times. Finally, it is most methodically opening its vast interior — still mired deep in the 19th century, often outside even a monetized economy — bringing gradually into the 21st century peasants and other villagers who would ultimately seek the wealth and power they are dimly beginning to perceive on the horizon. Such social consciousness combined with economic and fiscal savvy may indeed guarantee the communist

leadership in Beijing the ability to keep full democratic capitalism, and the political democracy that inevitably accompanies it, at bay for at least another generation or two.

Brazil is another classic cautionary tale. Here is a nation that is the investment poster-child of the Western hemisphere. Its economy is surging, its stock market up some 150 percent in the past five years, having shrugged off the recessionary meltdown of its more northerly neighbors with barely a look backwards. Now, however, its state oil company Petrobras (*Petroleo Brasileiro S.A.*) is considering a major recapitalization, dithering to the point where major investors, like the American private equity investor George Soros, simply bailed out of its stock altogether.

Finally, of course, there's Russia — a nation, like India, of vastly disparate societies of haves and have-nots. With the end of communism came the official end, at least, of state capitalism. Suddenly, all bars were removed and those with contacts, friends in high places or simply enormous energy, drive or ruthlessness (*often all four combined*) became enormously, unfathomably wealthy. But while the old class of wealth and power — the apparatchiki—disappeared in a flash, they were replaced in a heartbeat by the new class of oligarchs. Russia never has

A thriving middle class has begun to develop, something that didn't exist in the clearly two-class communist era

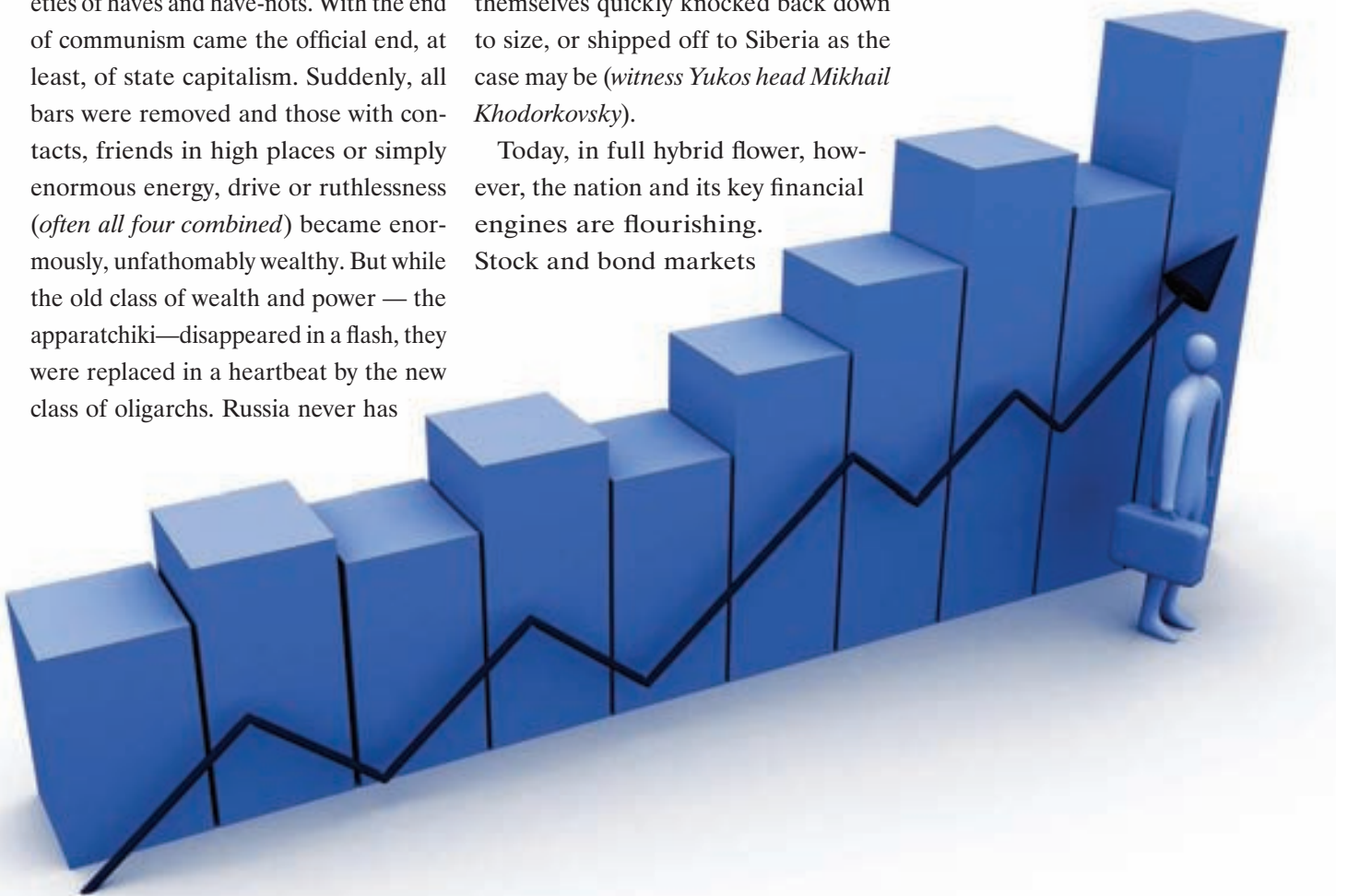
been in any shape a classless society—even under the religion called Marxism-Leninism, which in theory eschews all classes. It is, perhaps, a tribute to the human condition, and particularly the Russian soul, that some will succeed wonderfully and many will fail miserably.

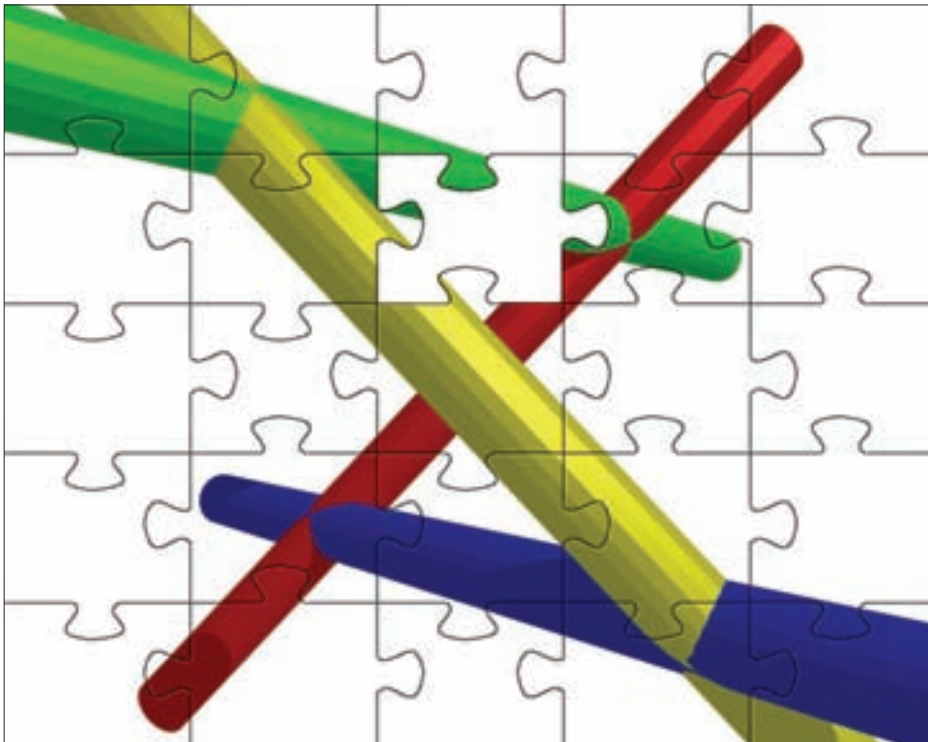
Throughout Russia's transitional period of true oligarchy and into the present proto-capitalist era, however, the state maintained its grip on at least some portions of the central sources of wealth. Oil, of course, remains paramount in this respect and when private oil companies—or their oligarchs—overstepped their political bounds, or failed to pay proper obeisance to the ruling elite, they found themselves quickly knocked back down to size, or shipped off to Siberia as the case may be (*witness Yukos head Mikhail Khodorkovsky*).

Today, in full hybrid flower, however, the nation and its key financial engines are flourishing. Stock and bond markets

are strong. Foreign companies still clamor to invest or, having invested do their utmost to maintain their small slices that are never a controlling stake, in major Russian conglomerates where the state still maintains its majority control. A thriving middle class has begun to develop—a phenomenon that never existed in the clearly two-class communist era. In short, this system is working, quite admirably, at least for the moment.

None of this is to suggest, however, that such a hybrid of state- and democratic-capitalism can't exist all but indefinitely. Clearly for the Russian people it works. Since the time of Ivan the Ter-





stance, differs from the system in England, France, Germany, even Canada where parliaments rule. At the same time, there is a difference between a large and vigorous public sector and full-blown state capitalism. Indeed, in a democratic system there is certainly a role for a state sector that may take on such essential, potentially only marginally profitable, services as public transport, water supply, electricity, and the post (*though in each of these cases there are certainly instances where the private sector has assumed such functions to a more or less profitable or efficient degree instead of or alongside the public sector*).

In most nations, and particularly India, it has become impossible to retrace the steps of a system that once set on a

rible, and before, Russians have sought a strong leader. Western style political democracy has never taken root and may never. An oligarchy, whether aristocratic, political or economic, has always ruled. Yet elsewhere, the likelihood of a successful hybrid maintaining more than a meta-stability is far slimmer.

Certainly, there was every motive for Dubai to turn its back on the flagrant, bordering on vulgar, expansion and excesses of the early 2000s when the capital (*and debt*) base on which its system of democratic capitalism was being constructed simply imploded after the global recession. Yet, with the help of neighboring big brother Abu Dhabi, it managed to avoid full nationalization of its faltering enterprises. Admittedly, most were majority-owned anyway by the government. But a full seizure of some of these corporations risked leaving this vibrant nation with the international and credit rating of the most abject bankrupt when

With the help of Abu Dhabi, Dubai managed to avoid full nationalization of its faltering enterprises

(*not if, mind you*) the global system has returned to full recovery, hopefully in the not-too-distant future. There were other motivations here as well, of course—largely the deep stakes that real Dubai “citizens” retain in virtually every enterprise of the emirate. But Dubai’s development is ultimately founded on the profit motive and that is the heart of democratic capitalism, even in a nation that is ruled by an aristocracy.

It is equally imperative that India resists the siren call of a return to state capitalism. The form this must take, of course, will be different from any other, as indeed any nation’s form of political and economic system and how they interact is different from any other. American capitalism and democracy, for in-

new direction assumes a momentum of its own. France tried to do so, all but catastrophically, in the 1980s. Many communist states, from Cuba to Central Europe, did so in the early to mid-twentieth century. It is unlikely that any nation will try such sweeping repositioning in the future. And with the increasingly tight interlinkage of the global economy in these days of instant communications, that is a very good thing indeed. [IER](#)

(*Author's last book was "A Shattered Peace: Versailles 1919 and the Price We Pay Today" and he encourages readers to follow him on Twitter @DavidAndelman. The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.*)

Unhealthy Planning

The causes behind dismal condition of the health sector in India and what can be done — the case of improper and partial implementation of Bhore Committee Recommendation — failure of planning or planning for failure

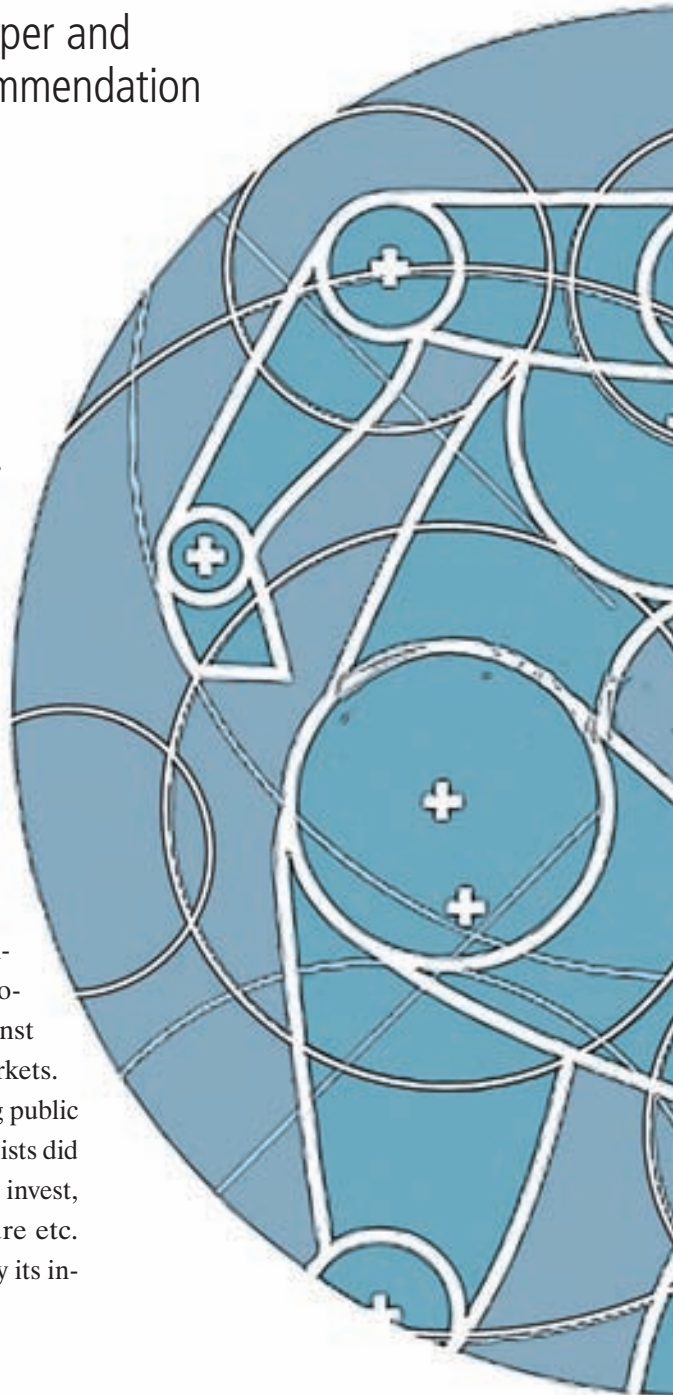
Ravi Duggal

Senior Trainer and
Analyst, International
Budget Partnership

Planned development in India has had its pros and cons. If it was not for planning, India's agricultural and industrial economy would not have been what it is today. Planning was a necessity of the era in which it began. India's economy and wealth had been drained substantially under colonial rule and the Indian bourgeoisie was quite weak and did not have the confidence and wherewithal for India's development. Then there was the socialist influence under Nehru and Mahalanobis which are very evident in the first two 5-Year Plans.

While the Indian bourgeoisie was financially weak it was not so intellectually and the real driver of the planning model in India was the Bombay Plan also known as the Tata-Birla Plan (titled *A Brief Memorandum Outlining a Plan of Eco-*

nomic Development for India, the signatories of the Plan were JRD Tata, GD Birla, Ardeshir Dalal, Sri Ram, Kasturbhai Lalbhai, AD Shroff and John Mathai, under the editorship of Purushottamdas Thakurdas). A key principle of the Bombay Plan was that the economy required concerted government intervention and regulation because the Indian Capitalist class was unable to compete in a free-market economy, and that the government protects indigenous industries against foreign competition in local markets. They even recommended a strong public sector in arenas where the Capitalists did not have the financial strength to invest, like capital goods, infrastructure etc. While the political class may deny its in-



fluence and give larger credit to the Nehru authored National Planning Committee of the Congress Party, history tells us a different story.

So planned development indeed helped build India's basic economic infrastructure and provided the crutches for accumulation of private capital through protectionist policies and various subsidies, it failed miserably with social sector development, primarily health and education. For example in the

health sector the pharmaceutical

cal industry and medical education benefited from the planned development. The pharma industry had protection through the patents policy with India rejecting product patents as well as massive subsidies through cheap basic chemicals being sold by public sector giants like Hindustan

Indian doctors rule the roost globally and within the country too are predominantly serving private capital

Antibiotics, Bengal Chemicals, IDPL etc. who perpetually were in the red not because of their inefficiency but because of the subsidies via pricing of bulk drugs for formulation units which were predominantly private sector. And medical education received huge subsidies through almost free education and the outturns mainly went to the private sector or worse still migrated abroad. The consequence of this was that the public health sector became the victim and private healthcare grew from strength to strength using the crutches provided by planned development. Today the public sector pharma industry has virtually disappeared and India's private pharma capitalists have become multi-nationals and global players. Similarly Indian doctors rule the roost globally and within the country too are predominantly serving private capital, and worse still medical education is also increasingly becoming privatised and for the future this means even less human resources for

the public sector. So this was not the failure of India's planned development of the health sector but it was planning for failure of the public health sector!

Review of Health Planning in India

India's tryst with planning seriously for health began with the Bhore Committee Report. Prior to that under colonial rule the planning and provisioning was largely restricted for the civil lines of the British India territories and military enclaves. The four-volume Bhore Committee Report was submitted to the Government of India in 1946. It defined the following objectives for its plan for a National Health Service:

1. The services should make adequate provision for the medical care of the individual in the curative and preventive fields and for the active promotion of positive health;
2. These services should be placed as close to the people as possible, in order to ensure their maximum use by the community, which they are meant to serve;
3. The health organization should provide for the widest possible basis of cooperation between the health personnel and the people;
4. In order to promote the development of the health programme on sound lines the support of the medical and auxiliary professions, such as those of dentists, pharmacists and nurses, is essential; provisions should, therefore, be



made for enabling the representatives of these professions to influence the health policy of the country;

5. In view of the complexity of modern medical practice, from the standpoint of diagnosis and treatment, consultant, laboratory and institutional facilities of a varied character, which together constitute "group" practice, should be made available;
6. Special provision will be required for certain sections of the population, e.g.

that existed in India at the time of the Bhore Committee were embarrassingly inadequate. In fact, most of these were in urban areas and largely in enclaves of the British Civil administration and Cantonments.²

The Committee categorically states, "we are satisfied that our requirements can only be met satisfactorily by the development and maintenance of a state Health Service."³ It recommended that all services provided by the health organiza-

of public health in the country is so unsatisfactory that any attempt to improve the present position must necessarily involve administrative measures of such magnitude as may well seem to be out of all proportion to what has been conceived and accomplished in the past. This seems to us inevitable, especially because health administration has so far received from governments but a fraction of the attention that it deserves in comparison with other branches of governmental activity. We believe that we have only been fulfilling the duty imposed on us by the Government of India in putting forward this health programme, which can in no way be considered as extravagant either in relation to the standards of health administration already reached in many other countries or in relation to the minimum requirements of any scheme which is intended to demonstrate an appreciable improvement in the health of the community. For reasons already set out, we also believe that the execution of the scheme should not be beyond the financial capacity of governments.

We desire to stress the organic unity of the component parts of the programme we have put forward. Large-scale pro-

vision for the training of health personnel forms an essential part of the scheme, because the organization of a trained army of fighters is the first requisite for the successful prosecution of the campaign against diseases. Side by side with such training of personnel, we have provided for the establishment of a health organization which will bring

No individual should fail to secure adequate medical care, curative and preventive, because of inability to pay

mothers, children, the mentally deficient etc.,

7. No individual should fail to secure adequate medical care, curative and preventive, because of inability to pay for it and
8. The creation and maintenance of as healthy an environment as possible in the homes of the people as well as in all places where they congregate for work, amusement recreation, are essential.¹

It further emphasized a need for a comprehensive and universal health care system, and it made recommendations concerning the district health scheme and health organization to provide integrated health services — curative, preventive and promotive — to the entire population. If implemented, these measures would have been India's first steps to realize universal access.

The health care facilities

tion should be free to the population without distinction and it should be financed through tax revenues.⁴ It further recommended that the health service should be a salaried service with whole-time doctors who should be prohibited from private practice.⁵

The Bhore Committee ends its report on a clear note of urgency for implementation of the plan in its full form:

The existing state

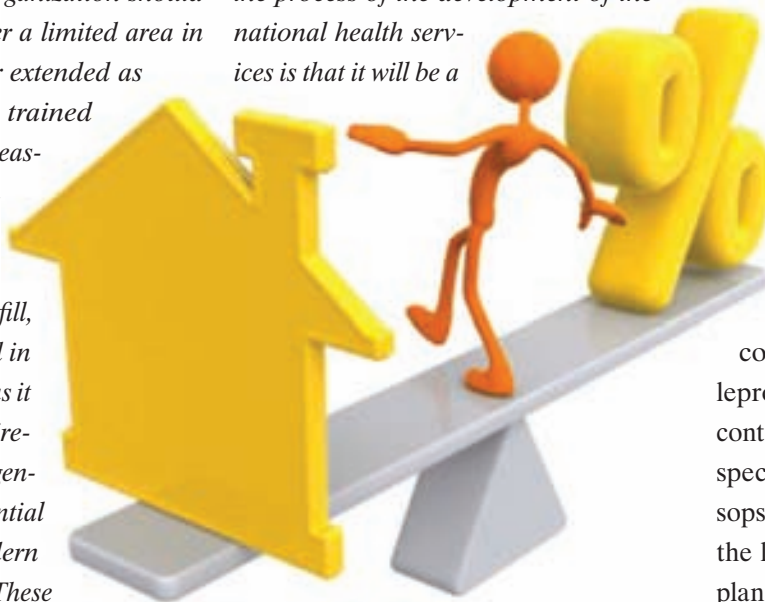


remedial and preventive services within the reach of the people, particularly of that vast sections of the community which lies scattered over the rural areas and which has, in the past, been largely neglected from the point of view of health protection on modern lines. Considerations based on inadequacy of funds and insufficiency of trained workers have naturally necessitated the suggestion that the new organization should first be established over a limited area in each district and later extended as and when funds and trained personnel become increasingly available. Even with such limitations the proposed health service is intended to fulfill, from the beginning and in an increasing measure as it expands, certain requirements, which are now generally accepted as essential characteristics of modern health administration. These are that curative and preventive work should dovetail into each other and that, in the provision of such a combined service to the people, institutional and domiciliary treatment facilities should be so integrated as to provide the maximum benefit to the community. There should also be provision in the health organization for such consultant and laboratory services as are necessary to facilitate correct diagnosis and treatment. Our proposals incorporate these requirements of a satisfactory health service.

We have drawn attention to these aspects of the health programme because we feel that it is highly desirable that the plan should be accepted and executed in its entirety. We would strongly deprecate any attempt, on the plea of lack of funds, to isolate

Planned failure gave ascendancy to the private health sector to emerge and conquer and exploit

specific parts of the scheme and to give effect to them without taking into consideration the interrelationships of the component parts of the programme. Our conception of the process of the development of the national health services is that it will be a



cooperative effort in which the Centre, acting with imagination and sympathy, will assist and guide a coordinated advance in the provinces. We therefore look forward to a pooling of resources and personnel, as far as circumstances permit, in the joint task that lies before the governments.⁶

The above was a good head start in planning India's health care system which our first Independent government inherited but the tragedy is that the warning in the preceding paragraph was ignored as the 5-Year Plans only picked up small pieces from the Bhore Committee Report, diluted its recommendations and implemented a plan which was doomed to fail from the start. Each 5-Year Plan had its own priority schemes — disease specific programs, family planning, MCH,

training paramedics, setting up PHCs and subcentres in rural areas, universal immunization, community health volunteers, RCH and the latest being NRHM.

The schemes not only segmented the public healthcare system and developed parallel structures which could not work in unison but actually led to scheming towards continued failure of the public health system. This is not to deny limited successes of the public health system — small pox eradication, malaria control in the sixties, PHC network, leprosy control, immunization, fertility control, medical education — but in retrospect these small successes appear like sops when we look at what happened to the larger health system. Infact it is this planned failure which gave ascendancy to the private health sector in India to emerge and conquer and exploit.

Apart from the 5-Year Plans there were also various committees over the years like the Mudaliar Committee, Jain Committee, Mukherjee Committee, Shrivastava Committee, Kartar Singh Committee, Chadha Committee, Chopra Committee, Shah Committee, Simon Committee, Hathi Committee etc and each made its own specific and narrow recommendations which only added to the problem of segmentation and moving further away from the comprehensive approach of the Bhore Committee. And then we had the two National Health Policies of 1982 and 2003 which should have been an opportunity to put a check on the planned failure processes but they

too failed. The 1982 policy did talk about a comprehensive approach and universal access but it failed to spell out how structural changes would be made and how increased resources would be garnered to provide the budgetary support to achieve that. The 2003 health policy in contrast did not even talk about comprehensive healthcare. It called for strengthening the private health sector and ended up being a document to abdicate state responsibility in healthcare. The NRHM has attempted to salvage that to some extent by investing efforts at strengthening at least the rural public health system and building some responsibility within the system but so far it has failed to deliver the architectural corrections it talks about.

So this is the story of health planning in India; it is not that what they planned failed. There were small successes and perhaps the planning initiatives could take the credit for that but when we look at the larger developments of the health sector in India we clearly see that we were planning for failure because health and healthcare were never considered in the same class for instance as rural development and agricultural subsidies. The latter was about politics, specifically electoral politics, and health did not measure up to that. For example NRHM does not have the same political clout today that NREGA has. Thus, NREGA is relatively a far better success story than NRHM.

Epilogue

Now we are on the eve of the 12th 5-Year Plan and there is a call for helping to define the 12th Plan Approach Paper by the Planning Commission. So looks like planned development would continue. And for the health sector then what can we do to assure that planning for failure



NRHM does not have the same political clout today that NREGA has. NREGA is relatively a far better success

stops. The Plan must be about achieving universal access to healthcare with equity and for that the plan must work out the strategy to make the structural changes, including reining in the private health sector, as well as work out the complete budgetary requirements and not just the plan budget.

Universal access to healthcare implies that everyone gets equitable access to healthcare and there is no discrimination whatsoever, especially discrimination based on the capacity to pay. Worldwide countries which have established universal or near universal access have clearly demonstrated that public financing of healthcare is critical to realize this. However delivery of health services need not be only in public domain.

For instance Canada, which has the best and most equitable healthcare system in the world assures full access to everyone without the need to make any pay-

ment at the point of care. Health Canada, a public Corporation pools all resources and is a single payer for all healthcare services. While most hospitals are run by governments in Canada, private hospitals are also given access to these resources when citizens access them. And for outpatient care most providers in Canada are private providers who are contracted in by Health Canada on pre-agreed fee for services. The NHS in UK is very similar and Brazil, Venezuela, Mexico close to emulating these models. On the other hand there are examples like Sweden, Sri Lanka and Cuba which are completely state run systems which provide universal access to healthcare. Thailand is the most recent entrant into this club and I think we have a lot to learn from the Thai experience because the structure of the healthcare system in India and Thailand historically has been very similar.

In India the NRHM affords us a great

opportunity to change the way the health-care system works in India. NRHM talks about architectural corrections, public-private partnerships and the UPA backs this with a (theoretical) political commitment of providing upto three percent of GDP to realize universal access to health-care. But so far the UPA and NRHM have failed because the required political backing to make radical changes and shake up the healthcare system has not been forthcoming. So what needs to be done to realize universal access to health-care and end the planning of failures? To begin with:

- equating directive principles with fundamental rights through a constitutional amendment
- incorporating a National Health Act (*similar to Canada Health Act*) which will organize the present healthcare system under a common umbrella organization as a public-private mix governed by an autonomous national health authority which will also be responsible for bringing together all resources under a single-payer mechanism
- generating a political commitment through consensus building on right to healthcare in civil society
- development of a strategy for pooling all financial resources deployed in the health sector
- redistribution of existing health resources, public and private, on the basis of standard norms (*these would have to be specified*) to assure physical (*location*) equity

As an immediate step, within its own domain, the State should undertake to accomplish the following:

- Allocation of health budgets as block

funding, that is on a per capita basis for each population unit of entitlement as per existing norms. This will create redistribution of current expenditures and reduce substantially inequities based on residence. Local governments should be given the autonomy to use these resources as per local needs but within a broadly defined policy framework of public health goals

- Strictly implementing the policy of compulsory public service by medical graduates from public medical schools, as also make public service of a limited duration mandatory before seeking admission for post-graduate education. This will increase human resources with the public health system substantially and will have a dramatic impact on the improvement of the credibility of public health services
- Essential drugs as per the WHO list should be brought back under price control (*90% of them are off-patent*) and/or volumes needed for domestic consumption must be compulsorily produced so that availability of such drugs is assured at affordable prices and within the public health system
- Local governments must adopt

location policies for setting up of hospitals and clinics as per standard acceptable ratios, for instance one hospital bed per 500 population and one general practitioner per 1000 persons. To restrict unnecessary concentration of such resources in areas fiscal measures to discourage such concentration should be instituted.

- The medical councils must be made accountable to assure that only licensed doctors are practicing what they are trained for. Such monitoring is the core responsibility of the council by law which they are not fulfilling, and as a consequence failing to protect the patients who seek care from unqualified and untrained doctors. Further continuing medical education must be implemented strictly by the various medical councils and licenses should not be renewed (*as per existing law*) if the required hours and certification is not accomplished
- Integrate ESIS, CGHS and other such employee based health schemes with the general public health system so that discrimination based on employment status is removed and such integration will help more efficient use of resources. For instance, ESIS is a cash rich organization sitting on funds collected from employees (*which are parked in debentures and shares of companies!*), and their hospitals and dispensaries are grossly under-utilised. The latter could be made open to the general public
- Strictly regulate the private health sector as per existing laws, but also an effort to make changes in these laws to make them more effective. This will contribute towards improvement of



quality of care in the private sector as well as create some accountability

- Strengthen the health information system and database to facilitate better planning as well as audit and accountability.

Infact the NRHM clearly articulates the need for architectural correction. Such restructuring will be possible only if:

- The healthcare system, both public and private, is organized under a common umbrella/framework as discussed above
- The financing mechanism of healthcare is pooled and coordinated by a single-payer system
- Access to healthcare is organized under a common system which all persons are able to access without any barriers
- Public finance of healthcare is the predominant source of financing
- The providers of healthcare services have reasonable autonomy in managing the provision of services
- The decision-making and planning of health services is decentralized within a local governance framework
- The healthcare system is subject to continuous public/community monitoring and social audit under a regulated mechanism which leads to accountability across all stakeholders involved

The NRHM Framework
one way or another

tries to address the above issues but has failed to come up with a strategy which could accomplish such an architectural correction. The framework only facilitates a smoother flow of resources to the lower levels and calls for involvement of local governance structures like *panchayat raj institutions* in planning and decision making. But the modalities of this interface have not been worked out and hence the local government involvement is only peripheral. In order to accomplish the restructuring that we are talking about the following modalities among others need to be in place:

- All resources, financial and human, should be transferred to the local authority of the Health District (say *Block panchayats*)
- The health district will work out a detailed plan which is based on local needs and aspirations and is evidence based within the framework already worked out under NRHM with appropriate modifications
- The private health sector of the district will have to be brought on board as they will form an integral part of restructuring of the healthcare system
 - An appropriate regulatory and

accreditation mechanism which will facilitate the inclusion of the private health sector under the universal access healthcare mechanism will have to be worked out

- Private health services, wherever needed, both ambulatory (*FMP*) and hospital, will have to be contracted in and appropriate norms and modalities, including payment mechanisms and protocols for practice, will have to be worked out
- Undertaking detailed bottom-up planning and budgeting and allocating resources appropriately to different institutions/providers (*current budget levels being inadequate new resources will also have to be raised*)
- Training of all stakeholders to understand and become part of the restructuring process
- Developing a monitoring and audit mechanism and training key players to do it

Further the most important challenge would be reining in the completely as yet unregulated private health sector. Where the private health sector is concerned it functions completely on supply-induced demand which fuels unnecessary procedures, prescriptions, surgeries, referrals etc.. leading to its characterization as an unethical and mal-practice oriented provisioning of healthcare. This has huge financial implications on households, inflating costs of healthcare, spiraling indebtedness and pauperization and being responsible for the largest OOPS anywhere in the world.

The challenges across the country differ due to different levels of development of the public and private health sectors in the states. For in-



stance a state like Mizoram, a small and hilly state, already has an excellent primary healthcare system functioning with one PHC per 7000 population and one CHC per 50000 population and since it has virtually no private health sector the demand side pressures are huge and hence the public health system delivers. Each PHC has two to three doctors on campus available round the clock with 15 – 20 beds which are more or less fully occupied and 95% of deliveries happen in public institutions. So Mizoram has indeed realized the Bhore dream. The problem in Mizoram is that there are very few specialists available and hence higher levels of care become problematic – the CHCs are however run by MBBS doctors who have received some additional trainings. Mizoram does not have a medical college but it does have reservations in other state medical colleges. While the state cannot provide tertiary care it has a budget to send people elsewhere to seek such care. And Mizoram does this with 2.7% of its NSDP and has the best health outcomes in India. In some sense Mizoram is like Sri Lanka — a statist model. There are few other states in India which can do a Mizoram because they too do not have a significant private health sector but to do that they have to demonstrate the political will of Mizoram.

Even though extremely successful Mizoram cannot be the national model because the reality across most other states is very different, the reality of an entrenched private health sector which is unethical and unregulated. The private health sector has to be reined in and this can only happen with a strong political will which declares healthcare to be a public good and which takes on the private sector to get organized under public



mandate. Under NRHM sporadic efforts towards this end are being undertaken in the name of public-private-partnerships like Chiranjeevi in Gujarat, Yeshasvani in Karnataka, Arogya Rakshak in AP, Rajiv Gandhi Hospital in Raichur (*Karnataka Government and Apollo Hospitals*) etc. They may have achieved limited success but then healthcare systems cannot be built by segmenting it into programs and one-off initiatives like PPPs. There have to be serious efforts at building a comprehensive healthcare system and it goes without saying that given India's political economy of healthcare the private sector will have to be a significant partner in this process. So states have to think beyond the Chiranjeevis and Yeshasvanis and learn from the recent experiences of Thailand, Mexico and Brazil to invest in an organized healthcare system and with a booming economy resources will not be a constraint.

So the challenge is enormous demanding huge restructuring of the healthcare system in the country through strong regulatory mechanisms both for the public and private sectors, education of professionals in ethics of practice, pushing

the politicians for creating a strong political will to make healthcare a public good as well as generate and commit adequate resources to realize universal access. The restructuring of the healthcare system and its financing strategy, given the price advantage of India and economies of scale it offers, will actually reduce nearly by half the healthcare spending in the country and reduce substantially the household burden to access healthcare. Calculations I have done show that for universal access to healthcare across India we need less than three of GDP provided we show the political will to shift healthcare from the domain of the market to the category of a public good. This will indeed do a lot of public good. But we have to plan for all this as a comprehensive strategy and not pick out specific issues and create schemes. We have to stop scheming and get back to comprehensive strategizing as was done by the Bhore Committee in order to put an end to planning for failures. [IER](#)

Endnotes and Additional Thinking

- ¹ Report of the Health Survey and Development Committee, Vol. I to IV, Sir. Joseph Bhore (Chairman), Delhi: Government of India, 1946 (“**Bhore Committee Report**”), vol. II, p. 17.
- ² Roger Jeffery, **The Politics of Health in India**, Berkeley: University of California Press, 1988, p. 98.
- ³ **Bhore Committee Report**, vol. II, p.13.
- ⁴ **Ibid.**, vol. II, p.14.
- ⁵ **Ibid.**, vol. II, p.15.
- ⁶ **Ibid.**, vol. II, pp. 516-517.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)



Inclusive & Integrated District Planning

District Planning under the stewardship of Panchayati Raj Institutions and Urban Local Bodies, in line with guidelines of Planning Commission — the case of Vaishali district of Bihar

Anindo Banerjee

*Head, Programme Initiatives,
Praxis - Institute for Participatory
Practices, Patna, India*

The constitution of India was amended in 1993 to pave the way for decentralized governance in the stewardship of people's representatives elected to *Panchayati Raj Institutions (PRIs, henceforth)*. The amendment expected state governments to initiate several important steps¹ towards empowerment of the local bodies, including devolution of adequate functions and finances; deployment of competent functionaries and creation of suitable spaces for representatives of local governments to participate in vital processes of development planning and administration. However, the performance of several states of India in strengthening self-governance processes and institutions has been limited. Bihar is one such state that hasn't been able to devolve any meaningful roles, powers or finances for the agencies of local self-governance, even seventeen years after the historic amendment to the constitution came into effect.

It was against this backdrop that an effort was made by a collective of organizations, including PRAXIS, CENCORED and UNICEF, to enable

elected local governments in Vaishali district of Bihar to produce an integrated district plan, in partnership with multiple stakeholders. The process of District Planning, as envisaged by the Planning Commission of India, offers a significant window of opportunity to local governments to influence the entire range of government interventions in a district, though in reality, plans are often prepared and administered by various line departments of the state government, particularly in states like Bihar where devolution of powers to local bodies has been extremely limited. It was felt that even a limited success in tilting the balance of power towards local governments in formulation and administration of district level planning processes could lead to empowerment of the democratic institutions.

The contrast between Bihar and most other states of India in terms of the status of empowerment of local self-governance institutions is glaring. For instance, while Kerala provides for devolution of over 1,950 Crore rupees in favour of elected local governments in a year, Bihar hasn't committed any assured share for its PRIs

out of its revenue proceeds or plan outlay till date. The only sources of money for the local governments of Bihar are the grants received from the Central Finance Commission, besides a promissory share of three percent in the net tax realization at the local level (*though rules to govern taxation processes haven't yet been formulated*) and funds received under two flagship schemes of the government of India, i.e. MGNREGA and BRGF. Unfortunately, the method of execution of these schemes leaves little control in the hands of the elected representatives!

Bringing about a Collective Stake in the Planning Process

In view of the demands of the large scale district planning exercise, which called for creation of adequate local capacities for plans to emerge from as many as 290 *Gram Panchayats*, 79 *Urban Wards*, 16 *Panchayat Samitis* and the *Zilla Parishad*; involvement of key stakeholders from elected governments as well as various administrative offices was felt to be a crucial pre-requisite. An inception workshop was held in the beginning of the process, in recognition of the critical significance of the involvement of elected local governments in the planning process. The workshop brought together members of the *Zilla Parishad* and representatives of prominent urban local bodies of the district, who committed their support to the District Planning process, though marked with occasional expressions of skepticism stemming from past experiences, recalling how most district-level plans in the past used to be formulated by line departments or the officialdom, bypassing any involvement of elected representatives. They also nominated a steering body of people's representatives to oversee the process

under the Chairmanship of the District Magistrate.

Subsequently, the DM played an important role in convening a workshop of all the important district level officers, including heads of various line departments and all the Sub-Divisional Officers and Block Development Officers posted in the district, for a discussion on the significance of the planning process. The workshop brought about a rare opportunity for the district level officers to collectively analyze the strengths, weaknesses, opportunities and constraints faced by the district in various crucial sectors and to formulate a roadmap for undertaking the participatory planning exercise. It also brought about an air of sanctity regarding the planning process entrusted to elected local governments. Subsequently, when the planning process was rolled out across various local bodies of the district, it enjoyed the support of a good range of stakeholders. The support received from various local bodies was due also to an intensive round of orientation workshops involving key functionaries of *gram panchayats* and urban local bodies in Vaishali.

Institutional Arrangements for the Planning Process

One of the most crucial arrangements contributing to the planning process in Vaishali was the establishment of a District Planning and Monitoring Cell (*DPMC*), aimed at providing secretarial support to the District Planning Committee. The Cell played an important role in liaising with key stakeholders in the district, facilitating vital communications on time and in organizing important events. Endowed with a small team of professionals and a good balance of essential competencies, which included skills as diverse as conducting training, managing databases and maintaining close contact with key government officials, the team did well to keep the process on track.

At the local level, steering committees were formed at the level of each ward to support the elected representatives in the planning process. This was a pioneering arrangement, not envisaged even in the legislation on local self-governance in Bihar (*i.e. Bihar Panchayati Raj Act 2006*). Each set of plan suggestions emerging from the



level of wards was duly signed off by at least twenty local residents constituting the ward level steering committee. While this helped in making the process democratic at the local level, formal involvement of at least twenty people in each ward also made fulfillment of the quorum (*twentieth part of the total number of voters in a panchayat, amounting roughly to about 210 voters*) for a legally valid *gram sabha* much easier!

Capacity Building Processes

Before embarking upon the unprecedented planning exercise, a pool of 32 people was carefully selected and deployed across the district for extending support to the large scale planning process. They were provided an intensive orientation to the significance, objectives and design of the decentralized planning exercise in a residential workshop, which was followed by pilot fieldwork in one of the *panchayats*. In particular, they were expected to extend support to a few critical activities of the planning process, including a pre-planning meeting of key stakeholders of the village, a local level visioning exercise for articulating desired transformations over a five year period, a mapping exercise to identify key intervention opportunities in the village and a meeting of *panchayat* leaders to prepare for *gram sabhas*. They were also

expected to extend support, if required, towards conduct of *gram sabha* meetings in a democratic and inclusive manner.

Some of the trained facilitators were assigned the responsibility of conducting large-scale trainings for functionaries of *gram panchayats* and urban local bodies in a residential setting. Representatives of every single institution of local self-governance in the district were invited to these workshops, which ran for over two months across 32 batches. In addition to the *Mukhiyas* (*elected Heads of village panchayats*), the deputy *Mukhiyas* (*who, in many cases, represent the opposition at the panchayat level*), the *Panchayat Secretaries* (*government functionary deployed at panchayat level*) and the *Rozgar Sevaks* (*facilitators related to a flagship employment guarantee scheme*) of all the *panchayats* were also invited to the residential trainings, in order that sufficient capacities and interests are generated at the village level for decentralized planning to be a continuous process. The workshops brought about a relatively rare occasion for the local level leaders to come together, deliberate on burning issues related to local governance, narrate their experiences and enhance their capacities to undertake planning in an inclusive and participatory manner.

Envisioning Change

During the planning process, visioning sessions were facilitated at the level of district, blocks and *gram panchayats*, involving elected people's

representatives, key government functionaries and other important local stakeholders. The participants of these workshops were requested to articulate key transformations aspired by them, based on their analysis of local issues. The Block Development Officers of respective blocks organized the visioning workshops, which included leaders and members of *Panchayat Samitis*, *mukhiyas*, functionaries of *gram panchayats* or urban local bodies falling within a block and government functionaries deputed at the block level.

Planning processes were initiated in the local communities immediately after the visioning workshops. On an average, the process consumed about two weeks in each *panchayat*. Once the needs pertaining to different sectors were identified from various wards of a local body, the elected members of the *gram panchayats* came together to collate the same and prepare for presentation before a *gram sabha*. Barring occasional instances of conflict and resistance, which were due mostly to divergent political affiliations of the *panchayat* leaders and participants of the *gram sabhas*, the meetings went off peacefully in most places.

Salient Outcomes of the Decentralized Planning Process

The intensive processes of planning brought about several significant accomplishments. Most significantly, it gave the agencies of local self-governance a real opportunity of determining the most critical development needs of people for addressing through relevant interventions.

The workshops enhanced their capacities to undertake planning in an inclusive & participatory manner

Also, a good number of elected leaders from socially marginalized communities established themselves as capable leaders. Several elected representatives, who actively participated in the planning process, asserted their leadership during the process and took commendable initiatives to organize planning processes at the local level. Several *Mukhiyas*, after returning from training workshops themselves, took the initiative to organize orientation sessions for fellow members of their *panchayat* related to the processes of planning.

Involvement & capacity enhancement of multiple stakeholders helped in overcoming a number of barriers

Involvement and capacity enhancement of multiple stakeholders in the decentralized planning process helped in overcoming a number of barriers. In some *Panchayats*, the Secretary played a pro-active role in organizing village level processes, which was a significant support to the local *Mukhiyas*. Similarly, the simultaneous involvement of elected leaders of *Panchayat Samitis* and functionaries of Block Development Office ensured a good turnout in the visioning workshops held at the level of intermediate *panchayats*. At the district level, the active involvement of the District Magistrate and members of District Planning Committee ensured smooth communication of important directives, timely conduct of review meetings and maintenance of a sense of priority around the planning exercise, which was one of the most significant factors in successful completion of the village level planning processes. The District Magistrate even issued a circular to ensure that no parallel plans, regardless of sector, department or

scheme, should be allowed to escape the purview of the integrated district planning process, making it mandatory for all development plans within the district to be endorsed by *gram sabhas* during discussions on the integrated plan!

Critical Success Factors for Integrated District Planning

For district planning processes to be undertaken meaningfully and effectively, a number of enabling conditions need to be

created. These include, amongst others, completion of the critical act of 'Activity Mapping' across various departments and government interventions to clearly set up the domain of responsibilities of PRIs. States need to ensure adequate financial empowerment of local governments, to enable the latter to also administer and monitor the plans formulated by them. Timely preparation of 'resource envelops' indicating the permissible financial size of plans, disaggregated for various levels, sectors and schemes, should be an essential prerequisite for initiating integrated decentralized planning processes.

Agencies facilitating integrated district plans must necessarily have a capacity building perspective for strengthening institutions of local self-governance, and must invest greater efforts in bolstering democratic processes. Design of training modules must include inputs around issues of equity, accountability and democratic governance.

Also, any integrated district planning exercise must ensure prior concurrence

amongst key stakeholders, regarding the need to preempt any parallel planning processes. Convergence-facilitation units need to be set up within the structures of District Planning Committees, including representatives of various line departments, to extend help in finalization of interventions on the basis of integrated plans.

Every effort needs to be made to respect the sanctity of the micro-plans prepared by *Gram Panchayats* by ensuring timely release of funds for implementation and establishment of monitoring mechanisms at the level of standing committees of local governments and vigilance committees at the level of *Gram Sabhas*. Monitoring indicators should be spelt out at the stage of planning itself, with clear delineation of roles and accountabilities. At the district level, Monitoring Cells need to be set up within District Planning Committees to track the progress of district planning processes and to extend facilitation support to diffuse emerging problems, if any. Ensuring availability of competent technical support institutions at the district level for assisting District Planning Committees could substantially enhance the quality of large scale planning exercises.

Key Learnings

Experiences from Vaishali point at a number of essential arrangements and policy initiatives required for enhancement of the quality and relevance of district planning processes. Salient learnings from the process relate to the following:

a. Essential arrangements and reforms feasible within existing policy framework

- The need for activation of District Planning Committees as per its mandate –

through clearer operational guidelines, capacity building of members, provision of secretarial support (*including support in generation and processing of data*) and clearer directives enabling integration of plans at the level of DPCs;

- The need for enhancement of the capacity of District Planning Office to play the critical role of co-ordination and facilitation of convergence related to integrated district planning processes (*District Collectors may play this role in the interim*);
- The critical need for enhancement of the ownership, capacities and development perspectives of functionaries of local governments – through intense orientation related to inclusive planning and monitoring of delivery of essential services;
- Criticality of high level of awareness across multiple stakeholders about the scope and sanctity of integrated district plans;
- The need for ensuring clarity at the level of each planning body regarding resource envelopes surrounding different plan-sectors;
- The possibility of generating (*and updating*) District Human Development Reports through the outcomes of situation analyses forming part of decentralized planning processes;
- The high relevance of provisions like Backward Regions Grant Fund in facilitation of integrated district planning – particularly in capacity building of vital stakeholders;
- The relevance of the theory of optimal ignorance (*i.e. the need for processing only as much data as really necessary or relevant for planning purposes*);



- The need for timely initiation of planning processes and a reasonable time span (*so as to conclude in time, ideally by end of a calendar-year, to inform state plans*);
- The greater likelihood of inclusion of socially and economically disadvantaged communities, involvement of multiple stakeholders, emergence of stronger local leadership and identification of real development needs through decentralized planning approaches.

b. Essential policy reforms for effective institutionalization of district planning

- The need for clear mention of the critical requirement of Integrated District Plans in the Bihar Panchayat Raj Act 2006, necessitating allocation of resources on the basis of decentralized plans produced under the stewardship of District Planning Committees. This would uphold the sanctity of a democratic planning process;
- The criticality of spelling out the nature and role of ward level processes and

activation of standing committees – towards deepening of democratic processes and strengthening of *gram sabhas*;

- The need for establishment of *Panchayat* secretariats and strengthening of systems of accounting, documentation and monitoring of delivery of essential services;
- The needs for comprehensive ‘Activity Mapping’ (*to spell out the domain of responsibilities of Panchayati Raj institutions*) and devolution of adequate finances;
- The need for clearer provisions in the designs of national flagship programmes to ensure active involvement of Panchayati Raj institu-

tions and District Planning Committees in formulation of plans;

- The need for clear mention (*in the Bihar Panchayat Raj Act 2006*) of the role and accountabilities of line departments, key district level officials and technical functionaries in the planning processes anchored by *Panchayati Raj institutions*, particularly in determination of technical feasibility of plan proposals at various levels and in facilitation of convergence across key agencies;
- The need of clear directives necessitating de-segregation of gender sub-plan and SC sub-plan in the proposals of all planning bodies – for enabling allocation of dedicated resources favouring disadvantaged groups. [IER](#)

Endnotes and Additional Thinking

- Contained in Article 243 of the Constitution of India

(*The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.*)



Plan and Policies: Unsolved Riddle

Planning even in much smaller role today is important to address concerns of average Indian but it certainly calls for a reorientation and repositioning of the goals and objective and need to rethink the mode of devolution of funds

Ajitava Raychaudhuri

*Professor, Department of Economics,
Jadavpur University,
Kolkata*

Indian planning is an exercise which was known for its enormity and fanfare next only to planning in the erstwhile socialist countries. In its early days, Planning Commission invited noted scholars from around the world to streamline Indian planning exercise. They included such well known economists like Oscar Lange, Ragnar Frisch, Nicolas Kaldor, Alan Manne, to name a few. Perhaps this was due to the charisma of Prasanta Chandra Mahalanobis who directed planning in the early years and specially remembered for the second five year plan model. Nobody could deny the importance of planning in India's socio-economic development in the years following the independence in 1947. The economy, which was a mixture of public sector and private sector from

the very beginning, needed development in all spheres for economic growth. The tilt towards heavy industries, which started from the second five year plan, had mixed blessings for the economy. The infrastructure (or core) industries like steel, coal and power, all developed under almost absolute control of the state. This certainly provided a good basis in the sixties and seventies for the development of other sectors like Railways, Heavy Machinery, Machine tools etc. At the same time such a strategy appeared to be heading for a time inconsistency problem since the late seventies and early eighties, with the firm but unholy grip of license-permit Raj in the economy.

What exactly do we mean by the time inconsistency problem here? In the first few years after independence, rightly or

wrongly, the planners looked more towards the socialist patterns of comprehensive planning instead of indicative planning of French variety. The production of coal and steel under the state sector might have produced mafias who extracted rent out of the system, but this system coupled with the freight equalization policy provided the much needed core sector products at a distorted but cheap price even to the private sector. In fact, whatever major infrastructural development we had in the Railways, Roads, Ports and Major Irrigation in the last century, the lion's share belonged to the first thirty years of planning which started in 1951. From the mid-eighties, it was increasingly realized that the so-called vision of self-sufficiency created more dependence on foreigners in some crucial

sectors which are pillars of growth, namely the capital goods producing industries (Bhagwati and Desai, 1970). The policy of stressing more the capital goods and basic goods industries showed up in increased share of these sectors in the industrial structure during the twenty five years

the infrastructure in the economy got increasingly neglected. The public sector increasingly got overshadowed by the private sector in the gross capital formation of the nation. We will take up these issues in the next sections to highlight a desirable future road map for the plan-

private capital formation (*World Bank, 2003*).

One of the net results of this apathy towards agriculture is a fall in the total factor productivity (TFP) in agriculture in the last two decades. TFP measures the quality and efficiency of the inputs (including managerial efficiency) and not the quantity. Incidentally, TFP growth was around 1.39 percent in the 1970s and 1.99 percent in the 1980s compared to -0.59 percent per year in the first half of the 1990s (*Srinivasan, 2000*). The per capita per day cereal and pulse availability also do not show any promising trend in recent years although some claim the change in food habits might reduce the need of cereals and pulses over time. The overall scenario does not look promising as the agricultural growth has fallen significantly over the years and lately turned negative for some years.

Economy recovered from this, and in the long run proved the believers in the low level equilibrium trap wrong

from mid-fifties to eighties. But this period also witnessed one of the worst industrial recessions which is believed largely due to demand side constraints- a mismatch between the rapid growth of capital and basic goods whose market did not rise that fast due to slower growth in the sectors which used them. Indian economy recovered from this, and in the long run proved the believers in the low level equilibrium trap wrong. But the increasing transaction costs due to the rent seeking behaviour ingrained in the license permit raj made the whole policy of state controlled industrialisation inconsistent with the need of the hour.

The larger issue which bothered the average Indian was the slow rate of growth of the Indian economy during 1950-80, which averaged a paltry 3.5 percent per annum. The official statistics did show reduction of both urban and rural poverty, but a slowly growing economy could not expect a dramatic change in income distribution, especially when the trickle down strategies are always subject to heavy skepticism. Nonetheless, India succeeded in staving off a possible food crisis through the much acclaimed green revolution. However, over the years agriculture sector faced more misery, while

the planning process in India.

Policies to Resurrect a Crisis Prone Agriculture Sector

Speaking of agriculture, the first twenty years of planning in India was primarily geared towards ensuring food security among other goals. The per capita availability of cereals increased from 334.2 grams per capita per day in 1951 to 419.1 grams in 1972. One could not minimize the importance of green revolution in this regard. However, over the years public investment in agricultural gross capital formation has declined steadily over the years. The agriculture in India still depends heavily on good monsoon, but the allocation on irrigation and flood control in the government budget has steadily declined over the years and now hovers around 0.1 to 0.2 percent annually compared to around seven to eight percent in the 60s to 80s. This is the major area where the government involvement was perceptible in historical backdrop. The rest of the inputs were more or less privately provided except fertilizer. The paradox is that in India, as in elsewhere, public investment in rural infrastructure acts as a major complementary factor to



The planning process seems resigned to the fact that agriculture should be left largely to the private sector and market forces. No matter how much one emphasizes the Public Distribution System, a slow growth of agriculture puts the country at the mercy of global players. It is quoted in the media that India buys so much pulses from abroad that there is not much surplus left in the world market of pulses to meet unforeseen shocks. Given the vagaries of long term shifts in the climate patterns, such shocks are not always under human control.

So it is felt that India needs a second green revolution to overcome the maladies of agriculture. The question remains, if such a revolution brought relief to Indian economy in the sixties, then what prevents it from happening now. This is an issue which the planners need to an-

swer soon. The basic problem is twofold—one is the lack of an incentive scheme for the lab to land model to work again and the second is the problem of free flow of relevant information to the farmers from the government departments. Regarding the first problem, one finds a change in

The incentives for the faculty should be scrutinized and any lacunae in the lab to land model need to addressed

the incentive structure over the years for the agricultural universities and research institutions to search for a bio-friendly sustainable innovation in agriculture. Perhaps, it is now more important for the faculty to publish theoretical work in journals without putting these to empirical or practical tests. The incentives for the faculty in such institutions should be scrutinized and any lacunae in operation-

alising the lab to land model need to be properly addressed. Regarding the second issue, one finds the gradual disappearance of extension services which informed the farmers of latest perils and discoveries in the local agriculture (*including more traditional subjects like crop diversification*). This was the cornerstone of success of the green revolution in the sixties. The planners need to give serious thoughts to this. The last but not the least in the scheme of things is the need to reduce risk and uncertainty in tenancy relations which exist in different forms in India.

It is well known that reduction of production risk increases long term investment on the part of tenants, hence might lead to increase in productivity. One example is the 'operation barga' model of West Bengal, which gave heritable rights to sharecroppers reducing their risks. This

certainly had a positive impact on agricultural productivity (*Banerjee et al, 1998; Raychaudhuri, 2004*). One need not follow the same model in every situation, but one must remember that new technology can be spread more easily where risk is taken care of simultaneously through some form of reform in tenure system, product insurance or input supply mechanism.

Education and Employment

The importance of education in the creation of human capital can hardly be over-emphasized. It is well accepted now that human capital plays an equally significant, if not more, role along with physical capital in the growth process of a nation. India has made a long stride in educating its huge population, but it still lags behind its neighbours in south-east Asia and China. India recently enacted The Right of Children to Free and Compulsory Education Act in 2009. The Present Act wishes to increase the gross enrollment ratio to 100 up to secondary stage calculated on the basis of new entrants. The Act says every child of age 6-14 will have right to have free and compulsory education in a neighbourhood school till the completion of his/her elementary education. Further, the Act says Centre and State should have



concurrent responsibility of funding the cost of providing such education.

The effort is long overdue, but the major concerns to this are several. The first one is regarding the conditions laid down in the act and its implications in terms of funding. The expenditure on elementary education (*till class eight*) in India, combining both state and centre, is around a static 1.6 to 1.7 percent of GDP. The new effort might increase the need for combined investment to three times the present level. One is not sure how much is spent at present to fulfill the goal. The second major issue is its implication on higher education. The gross enrollment ratio (GER) in class XI-XII education in India was around 28 percent in 2006-07 (*Economic Survey, GOI, 2008-09*). The GER in higher education institutions (*College and universities*) was a mere 13 percent in 2003 which might have gone up insignificantly in recent years. Once the new act is properly implemented (*which again may be a debatable issue*), the need to provide higher education will go up tremendously. The response of government is still along the lines of creation of more colleges and universities to cater to this need. The emphasis is more on the provision of traditional subjects although the government documents do stress on the need to strengthen the urban and rural polytechniques. The existing Public Private Partnership (PPP) models are geared more towards either provision of land to private providers in lieu of government quotas in those institutions or trying to put a cap on the tuition fees and enforcing a standardized teaching module.

However, it is increasingly felt that providing general or traditional higher

education to all is a worse alternative than directing the students to their most deserving streams. This creates the need for more vocational and community colleges in the society. Vocational education is really in a mess for most states in India for the simple reason that the government

lacks an educational map of the neighbourhood where such a college is located. Thus supply and demand of the skills needed in the area is hardly known and the system might create oversupply in certain vocation while some other vocations may be starving for lack of proper skilled manpower. Such a planning is essential with the active help of neighbourhood industries (*probably small and tiny in nature*), so that continuous upgrading of

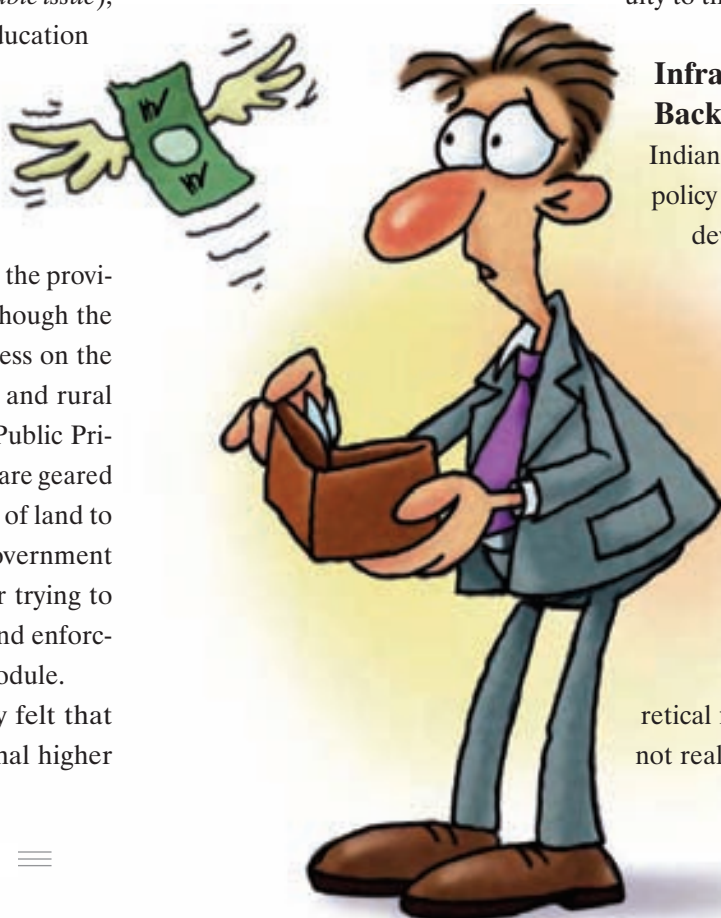
the syllabus and infrastructure could be made in the vocational colleges. Otherwise, the students coming out of these institutions will continuously search for an appropriate opening, leading to depression and despair in the minds of thousand of our young men and women.

The response of govt is still along the lines of creation of more colleges and universities to cater to this need

The community college model in US served this purpose exceedingly well. They provided an opportunity to the economically weak and school dropout section of the society to find a position in the changing landscape of the economy. So, the new Act should never be thought of as an end in itself. It should be put in the perspective of endowing the population and the society with more human capital which could bring more growth with equity to the nation.

Infrastructure and Backward Region Development

Indian Plan documents are replete with policy suggestions for backward region development in terms of accelerated infrastructure development. However, despite different policy directions, backwardness has remained a major issue in India today. The process and principles towards fund devolution face serious questions regarding its efficiency and underlying theoretical foundations. The major issue is not really how to identify the backward



regions, but how to allocate appropriate funds for their development. A related, but equally important question is proper implementation of projects contemplated with all the good intention by the planners.

In the existing paradigm, backwardness is measured from Human Deprivation Perspective, based on Capability Shortfalls in terms of different social and economic components. The approach takes the rule of uniformity by which the Backward Districts are identified as per the components mentioned earlier by attaching equal weights to each one of them. However, the actual data gathered from Blocks may call for a differential approach of funding on various components which go towards the creation of an Index of Backwardness. In other words, not all components may be contributing uniformly towards the existence of backwardness in a Block. If Block is taken to be the unit of disbursement, a methodology should be devised to suitably differentiate the importance of different social and economic components of backwardness region and location wise.

One such approach toward aggregating the components is Principal Component Analysis (PCA).

Broadly speaking, Public Infrastructure can be categorized as follows:

- A. Physical Infrastructure, like Roads, Electrification, Irrigation etc.
- B. Financial Infrastructure like Cooperatives, Banks etc.
- C. Health Infrastructure like PHC, SHC, Rural Hospitals etc.
- D. Education Infrastructure like number of schools, teacher student ratio etc.

An aggregate index of backwardness with variable weights attached to shortfall of each type of infrastructure from a socially

and economically desirable minimum could be calculated using PCA (Raychaudhuri and Haldar, 2009). The weights really reflect importance of capability shortfall in any particular dimension according to local needs and conditions.

The main problem with the existing planning process is to initiate well intended schemes based on certain uniform percentage based rules of allocation across all the backward regions in India. This approach is self-defeating from the very beginning because the uniform rule ignores the variation of locations and needs across different regions in India. It is about time more flexibility is allowed in all such devolution schemes. What about corruption and other money laundering activities? We would suggest that these are really problems of monitoring and enforcement in the implementation stage and are not part of planning. One must first try to achieve more perfection at the planning stage and then go for its perfect implementation. Thus, a proper mode of devolution of funds is the necessary condition of success to address backwardness and proper implementation is really a sufficient condition for its success.

Conclusions

The issues raised above are to highlight some of the deficiency in the planning process of India today. This is not to deny the historical importance of planning in India nor does it ignore its role at present. Planning, even in its much smaller role today, can be an important means of addressing concerns of average citizen in India. But what is required is a reorientation and repositioning of some of the goals and objectives pursued in our planning process for years. Also, equally important, is to rethink about modes of

devolution of funds to alleviate poverty and inequality in the society. We should not succumb to a sense of despair that nothing can be implemented in a society which has lost some of its moral and ethical values. We must not forget that implementation comes later than planning and we should never err too much in the stage that precedes implementation. [IER](#)

References and Additional Thinking

- Banerjee, A., P. Gertler and M. Ghatak. "Empowerment and Efficiency: The Economics of Agrarian Reform", Mimeo, 1998.
- Desai, Padma and J. Bhagwati. **Planning for Industrialization - A Study of Indian Industrialization and Trade Policies**, OECD Development Center, Oxford: Oxford University Press, 1970.
- Raychaudhuri, Ajitava and Sushil K. Haldar. "An Investigation into the Inter-District Disparity in West Bengal, 1991-2005", *Economic and Political Weekly*, XLIV, Nos. 26 and 27, June 27, 2009, pp.258-263.
- Raychaudhuri, Ajitava,. **Land Reforms in West Bengal, India**, Paper prepared for the World Bank sponsored Scaling-up Poverty Reduction Conference in Shanghai, 2004.
- Srinivasan, T.N. **Eight Lectures on India's Economic Reforms**, Delhi: OUP, 2000.
- World Bank- **Agriculture and Rural Development in India: Sustaining Reform, Reducing Poverty**, Delhi: OUP, 2003.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Is Big Dam a Planning Paradox?

Obstacles in the path of energy security — the case of Hydro-electricity — the case of inter-state conflicts — Arunachal Pradesh and Assam

Joyeeta Bhattacharjee

*Associate Fellow,
Observer Research Foundation,
New Delhi*

As India strives to become a global economic powerhouse there is growing pressure on the country to mobilize its resources to complement the growth of economy. Flawless energy supply is an important stimulus for attaining this goal. Hydroelectricity has been identified to be major source of India's energy needs. The economically exploitable power potential in India through medium and large projects has been estimated to around 84,044 MW of at 60 percent load factor—that is about 148,000 MW capacity of which Arunachal Pradesh alone has a potential of producing 50,000 MW.

Hence, the state wants to exploit its hydropower potential and planning to construct nearly 100 big and small dams. Dam building in Arunachal Pradesh also got encouragement due to launching of 50,000 Megawatt (MW) Hydroelectric Initiative by Prime Minister of India in 2003 to speed up development of the hydropower in the country. The initiative proposed to develop an installed capacity of about 50,000 MW through 162 projects in 16 states by 2017. Out of these 162 schemes 42 are in Arunachal Pradesh with 27,293 MW capacity. Hence, Arunachal Pradesh has emerged as a major centre of dam building in India. Like other dam projects,





dams in Arunachal Pradesh are not free of controversies. The major controversies are: the adverse ecological impact, displacement and migration challenges, and rights of the indigenous people. Besides, conflict between the upper riparian Arunachal Pradesh and lower riparian Assam over the right of the river since many of the rivers on those dams are constructed ultimately drains down to the river Brahmaputra. The issue of interstate conflict over water also attracts importance as apprehensions prevail about provocation of ethnic conflicts. Fear also aggravates due to the existence of fragile relationship among various ethnic groups of the region. Looking at the scenario the questions those arise are: — is it worth building dams? Will dams really bring development? At this backdrop the case of Arunachal Pradesh is presented to understand the major challenges and issues a state might encounter while constructing a dam and the precautions it should take while planning for dams which will contribute in overcoming controversies and saving both time and money. Controversies have been factors for delaying dam project which increases the project cost.

Introducing Arunachal Pradesh

Arunachal Pradesh the Himalayan state in the North Eastern (NE) India attained statehood in February 20, 1987. The state has a population of 1,091,117 with a density of 13 persons per square kilometer is lowest in the country. It covers a territory of 83,734 square kilometer making it the biggest state in terms of geography in the NE region. The state has a long international border with Bhutan in the West (160 km), China in the North and North-east (1,080km) and Myanmar in the east

AP registered a high population growth of 36.8% in (1981-91) higher than the all India growth rate of 23.6%

(440 km). The state receives a 300 centimeters of yearly rainfall and has 51,480 of forest cover. The road communication is very poor in the state. Only 15,356 kilometers for 100 square kilometer compared with 47.27 kilometers at the national level. There are 16 districts, 57 Community Development Blocks 3649 villages. Most of the villages become inaccessible in rainy and winter sessions. 868,429 are rural population and 222,668 urban population, 63.65 schedule tribes, literacy rate 54.7 percent (2001 Census Report), male population 64.07 percent, female 44.24 percent. Arunachal Pradesh registered a high population growth of 36.8 percent in (1981-91) higher than the all India growth rate of 23.6 percent.

The state's economy is predominantly agricultural. The shifting cultivation known as Jhuming, occupies the central position in Arunachal Pradesh in the field of Agriculture. However, traditional practice of Jhum cultivation is slowly diminishing. The state is also rich in forest resources and forest products are the next most significant sector of economy. Arunachal is also ideal for horticulture and fruit orchards. The state is also rich in minerals like dolomite, graphite, coal, YelloOrche, Marble. The state is trailing behind in industrial development. But with the socio-economic development there have been rise in the expectation of the people and the youth today are reluctant to take up the traditional ways of employments. This impinges upon the government the need to look for alternative ways of employment. Hence the state

is in desperate need for enhancing its industrial growth.

The topography of the state of Arunachal Pradesh shows a distinct pattern. Nestled in the high mountains the state is characterized by a hilly terrain interspersed with rivers and valleys. There are 10 major river basins in the state including: 1) Tawang 2) Kameng 3) Dikring 4) Subanriri 5) Siang 6) Sisiri 7) Dibang 8) Lohit 9) Torap-Dehing and 10) Tissa. Besides there are numerous rivers originating from these basins and ultimately drain to Brahmaputra. These river basins have identified to be ideal for generation of hydropower. The state wants to utilize its potential and transform hydropower production as its flagship industry to lift the economy of the state.

Arunachal Pradesh has drafted a Hydropower policy with the ambitious plan of constructing nearly 100 dams to exploit its hydropower potential. Accordingly the state has signed Memorandum of Understanding (MoU) with both public and private companies. The major public sector companies are like - NEEPCOLtb, NHPC, NTPC(Hydro)Ltd and private companies include- GMR Energy and Jayprakash Associates. The state plans to produce 30,00 MW of hydropower in 10 years. The major projects those are currently been executed in the state are *Ranganadi Project*, the *Subansiri project* and the *Tohal Project*. The state is not only planning to sell the power domestically but also eyeing markets in neighbouring countries. The state feels that it would be floating in “hydro dollars” as popularly said that the

Arab Countries are floating in “Petro Dollars”. It is estimated that the state would be able to earn Rs. 70 billion as revenue by generating power once these projects are completed. Despite these opportunities, there are certain concerns about the possible implication of these projects those demands immediate attention.

Environmental Concerns

Impact of these projects on the environment has been the centre of the debate. Intensity of concern also increases as the state falls into the seismic zone V making it one of the most earthquakes prone. The environmentalist's anxiety also aggravates as the mountains in Arunachal Pradesh are regarded to be very young and prone to landslide. Such alarmist reaction also arises since the state is located near to the epicentre of the infamous 1950 earthquake, one of the most devastating earthquakes of the century the country witnessed. The 1950 quake was so devastating that thousand of people were killed and tremors were felt at six in the Richter scale in Kolkata some thousand of kilometers away from the epicentre. At the 1950 quake a large landslide blocked the *Subansiri River* and a natural dam was created. This natural dam broke after eight days, creating a wave of seven meters high which inundated villages killing hundreds of people. Experiences of the passed have made people of the state fearful and they feel that there would be a catastrophic impact at the occurrence of earthquake once these dams are completed. The question

they are raising today — what worth the dam will bring if there will be none to enjoy its benefits. An obvious answer to this would be to initiate a study to look into the possible impact of earth quake on dams on the region. The hydroelectric power policy of the Arunachal Pradesh though says that the projects will be developed considering fragile geological condition of the state and big dams will be developed in a most environment, eco-friendly and judicious manner. However, the reality depicts a different picture many of these projects have been initiated without acquiring adequate environmental clearance. Media reports claimed the on January 31, 2008 Manmohan Singh laid the foundation stone for the 3000 MW *Dibang multi purpose project* which did not secure the mandatory environmental clearances.

Social Concerns

Concerns have been raised over the societal implication of these dams. The society in Arunachal Pradesh is agrarian, rivers and forest playing a dominant role

in lives of common people. Hence, a fear of losing identity, customs and tradition is prevailing among the mind of the people. Construction of dams has led to loss of large number of agricultural land and forest cover which had been major resource base for the agriculture and fishing threatening the sustainability of the people. Some of the reports claim that flow of water on the rivers on those the dams already have been constructed reduced drastically adversely affecting production of fish. Cultivation is also facing problem as many of the cultivable land either have submerged or the channels made for irrigation purpose have dried up. Generally relocation is the obvious solution for rehabilitation of the affected people but this is not free of complexities. The rehabilitation or compensation for the loss of resources is complicated because ownership of land, forest to rivers is attached to specific clans or tribes. Fears are expressed that any attempt to resettle one tribe or clan into another may lead to tensions between tribes. Besides, the issue of cultural marginalization is slowly emerging in the psyche of the people. As construction of dams would require huge skilled and unskilled workers and the people of the state would not be able to fill the demand, large number of people would be coming to the state from outside; local fear that the influx of people from outside would threaten their culture and identity.

Is the fear illogical? The common picture in many of the project sites have been high walls barricaded with barbed wire making it out of bound for the locals and they need permission



to enter on the land which once they claim to be their own. Frustration also deepens as on many occasions they fail to enjoy the benefits of the facilities like — schools and health centre, which are available inside these well guarded complexes and accessible only to the workers. Such situation creates a feeling of deprivation and alienation which gets expression in the form of opposition to the dams. In fact today many are raising question that if locals are not bearing the fruit of development then it is for whom?

Concern of the Lower Riparian State

This opened the debate about the ownership of the river. Is it the upper riparian who will have the first stake on the water of the river? Assam being a lower riparian has raised concerns over Arunachal Pradesh constructing dams on the river Brahmaputra. There are apprehensions that these dams will adversely affect the flow of river putting at risk the

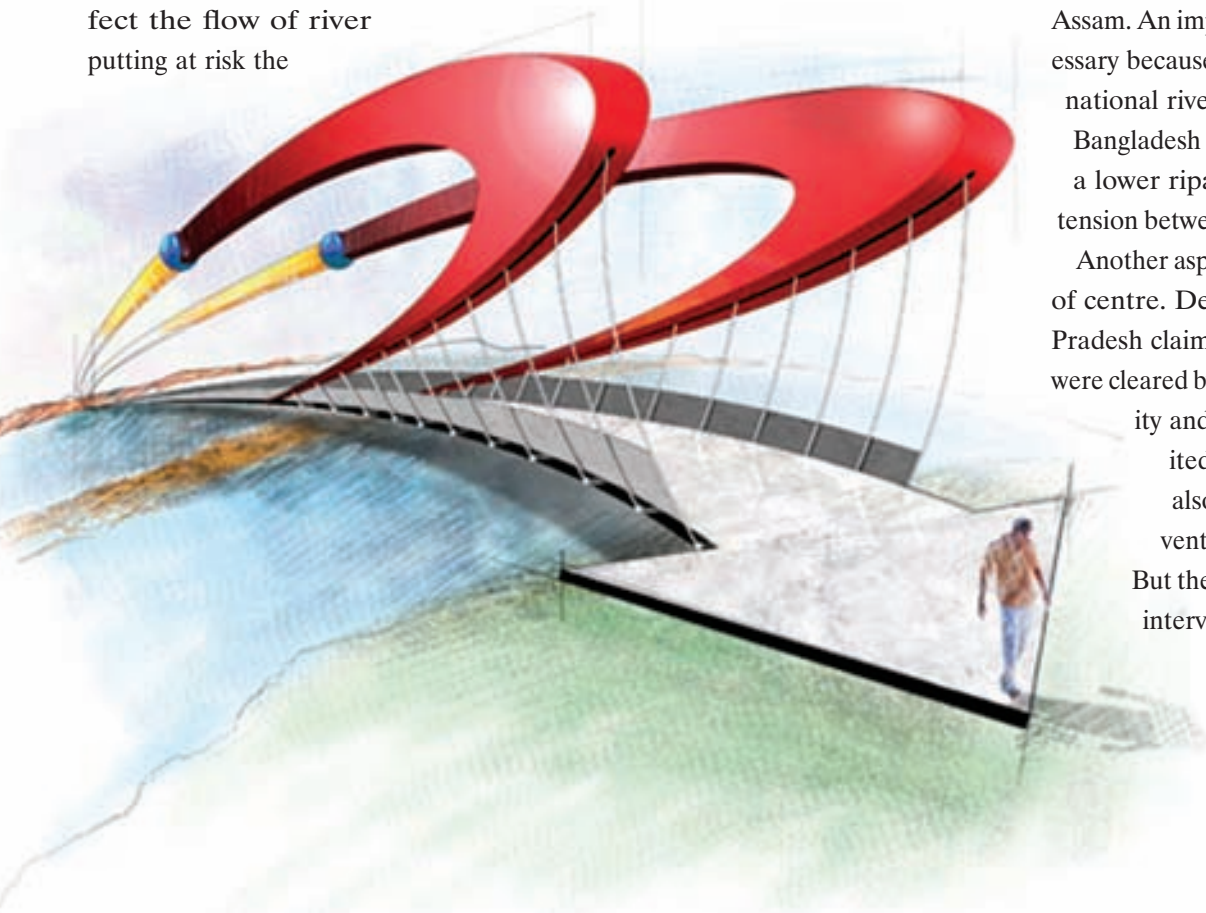
Today many are raising question that if locals are not bearing the fruit of development then it is for whom?

water security of the state. The people of Assam have taken to street to voice their protest against the dams. The arguments forwarded against these dams are: - Brahmaputra is the major source of water for Assam. The river is inherently connected with the socio-economic life of the state. People of the state are not only dependent on the river for their daily survival but also it provides livelihood to the states population like fishing. Hence, any disturbance in the natural flow threatens the sustainability of the large population those who have been living in the state for generations. Again, there are speculations that a decrease in the water flow might lead to migration from the state to other part of the country which would have deep socio-economic implications. Further the envi-

ronmentalists also claim that since Arunachal Pradesh being situated in a seismic region earthquake of high magnitude would have be disastrous for the state causing flash floods which might lead to huge loss of lives. So, this is also a question of survival.

Contrary to Assam's claim Arunachal Pradesh has claimed that those dams would end perennial flood problem for the state. The Chief Minister of Assam said that these dams would not solve the problem of flood but would bring evil than good. The situation is grim as the present dispute contributing in instigating ethnic tension in the bordering areas of both the state. This spontaneously precedes the demand for a study to assess the impact of these dams in lower riparian states like Assam. An impact assessment is also necessary because Brahmaputra is an international river and not only Assam but Bangladesh also get affected as it is also a lower riparian, which might create tension between both the countries.

Another aspect to this debate is the role of centre. Defending itself Arunachal Pradesh claimed that as the mega dams were cleared by central electricity Authority and, hence, the state had limited role to play. The Assam is also demanding centre's intervention to resolve this situation. But the centre restraint itself from intervening since Indian Constitution regards water as a state subject empowering states to legislate law with respect to



water supplies, irrigation and canals, drainage and embankments, water storage and water power.

What the way ahead? Establishment of dispute resolution tribunal is the option. According to the Interstate dispute Act of 1956, a state government that may request the central government to refer the dispute to a tribunal consisting of a chairman and two members nominated by the Chief Justice of India from among judges of the Supreme Court. These tribunals investigate the matter and make a final and binding resolution of the conflict. In India, 85% of the rivers are interstate and several dispute have arisen over the sharing of river water. Unfortunately tribunals constituted to resolve inter state water disputes proved to be a time consuming process, often requiring many years to achieve real conflict resolution. Hence, this precipitates demand for finding alternatives in tackling such a scenario and the centre should take proactive step in this regard.

Way Forward

Development desired by all. To pave way for smooth development it is necessary to frame policies that would take all onboard and their issue and concerns. In this regard the most important step would be to protect the environment. A run of the river project is ideal as it will be helpful to convince the locals that culture would be respected. An assessment of the impact on lower riparian state should be carried out as it will help to clear doubts of the lower riparian states. Meanwhile, the locals should be provided the opportunity to enjoy fruits of the development that would be coming following establishment of power projects, like — school could be run by these power projects for the neighbouring areas, free power and even shar-



ing of revenues earned from these projects with affected villages could be considered. Public Hearing should be made without fail so that everyone could express their views. Most important in this regard is to build bridges with the locals and this requires engagement with tribal leaders and local people. Again, proper arrangement of compensation should be made in line with the local tradition and norms.

Looking at the vest opposition to dams there is urgent need to encourage participation of multi-stake holders. A dialogue need to be developed among stake-hold-

ers like environmentalist, tribal leaders, civil society, representative of lower riparian states, engineer, private company, representative of state and central governments existing informal groups working on human rights. The dialogue will be helpful in consensus building and finding alternatives. However, a credible leadership on the part of the government is necessary to sustain the process. [IER](#)

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Where's Natural Resources in the Development Strategy?

Paucity of natural resources can cause diminishing output per worker; integrating natural resources with the planning of development strategy is indispensable to attain a steady state where economic growth depends mainly on the rate of technological progress leading to sustainable economic growth

Debnarayan Sarker

*Professor and Secretary,
Centre for Economic Studies,
Presidency College, Kolkata*

Natural resources, especially, has a pivotal role in the livelihoods of rural people: predominantly the poor of the world depends directly on natural resources, through cultivation, herding, collecting or hunting for their livelihoods. Therefore, for the livelihoods to be sustained, the natural resources must be sustained (*Rennie and Singh, 1996: 16, cited in Reddy et al., 2004:300*). Natural resources are the basis for most rural economic activities and therefore are especially important for poor people. Economic opportunities from sustainable use of natural resources can act as a catalyst in reducing poverty and improving food security (*World Bank, 2005: 224*). Improved natural resource management has increased soil fertility and water retention, reserved soil erosion, improved water management, maintained and/or improved biodiversity, reduced habitat destruction, and reduced deforestation. Sound community-based natural resource



management optimizes the use of the natural resource base to enhance agricultural productivity goals, ensure long-term sustainability, and protect the livelihoods of poor and vulnerable families (*ibid*: 223).

In India, the overall estimate is that 33 percent of the tribals earn their livelihood from forests and forest products (*Sarmah and Rai, 2001:207*). The World Bank Report (2006) indicates that forests offer vast potential for poverty reduction and rural economy growth in India while also supporting critical national conservation goals (*World Bank, 2006: xiii*). The Report also reveals that half of India's 89 million tribal people live in forest fringe areas and forests have the potential to improve the

livelihoods of forest dwelling people, particularly tribal people who are the most disadvantaged group in Indian society (*ibid*:2). Forest fringe households having more than 75 percent households under BPL category earn over 60 percent of their per capita net real annual income from forest source (*Sarker and Das, 2010:53*). All forest fringe households under BPL category earn over 75 percent of their per capita net real annual income from forest source (*Sarker 2009:78*). Common property resources (CPRs) are especially important in India in supporting subsistent farming via the sustenance provided to farm animals (*Rao, 2001:55*). Based on the data from seven states in the dry tropical zone in India, Jodha (1986

and 1991) concluded that poor households secure up to 23 percent of their income, 84 percent of their fuel supplies, and 84 percent of their annual grazing needs and 196 days of employment from CPRs.

But neither the draft approach paper to the previous plan strategies nor the draft approach of Eleventh Five Year Plan of India (2007- 12) titled "Towards Faster and More Inclusive Growth" address this issue. As regards the draft approach of Eleventh Five Year Plan of India (2007-12) is concerned, the 'source of growth' does not include natural capital, which is a major capital and a major source of livelihood of the masses in the Indian economy. As the approach paper men-



tions there are three broad sources of growth, namely, accumulation of physical capital, accumulation of human capital (*i.e. labour*) and increase in productivity due to technical changes *i.e. technology* (*also cited in Hirway, 2006: 3465*). But, it is argued that the development or degradation of natural capital makes a big difference to the life of masses (*Ibid*).

Environment comes into the discussion in the approach paper only when it is damaged by economic growth, and there is need to 'deal with environmental problems'. The draft paper mentions, 'Population growth increases the environmental load irrespective of the rate of economic growth. Rapid economic growth can intensify environmental degradation. The solution does not lie in slowing growth since slow growth also leads to its own form of environmental deterioration. With rapid growth we can have the resources to prevent and deal with environmental problems' (*p.53*). The approach paper also mentions, 'we must in the longer run, take recourse to the comple-

mentarities between environmental sustainability and human wellbeing' (*p.8*). But the concept of sustainable development that integrates natural capital with the development process, that strengthens the links between environmental generation and economic growth, is totally out of the purview of the paper.

Natural Capital in Development Economics

One of the major factors of economic development is natural resources. Economists like Jacob Viner, William Baumal and Arthur Lewis have provided great importance to natural resources of a country for its development. In his classical argument Malthus (1798) exemplifies that natural resources, pollution and other environmental considerations are critical to the possibilities for long-run economic growth. As the amounts of oil and other natural resources on earth are fixed, any attempt to embark on a path of perpetually rising output will eventually deplete those resources, and must therefore fail. As an influential modern statement of these concerns, Meadows, Meadows, Randers, and Behrens (1972) argue that ever-increasing output may gener-

ate an ever-increasing stock of pollution that will bring growth to a halt. Even Romer (2001) examines the issue of how (*ibid*) environmental limitations affect long-run growth (*p.36*). While extending his growth analysis in a baseline case, he also includes natural resources (*R*) and land (*T*) along with capital (*K*), labor (*L*) and effectiveness of labor (*A*) in his Cobb-Douglas production function model (*ibid:37-39*). The model shows that resource and land limitations can cause output

per worker to eventually be falling. In recent history, the advantages of technological progress have outweighed the disadvantages of resources and land limitations. But the model apprehend that if the disadvantages of resource and land limitations are very larger than the advantages of technological progress, it will cause the growth of income per worker falling (*ibid*).

While examining the economic sustainability of natural resources, Solow (1986) points out, "A society that invests in reproducible capital, the competitive rents on its current extraction of exhaustible resources, will enjoy a consumption stream constant in time ... an appropriately defined stock of capital-including the initial endowment of resources — is being maintained in tact". The Solow growth model, as our starting point to the analysis of long-run economic growth, stresses on two fundamental issues of sustainability — initial stock of natural capital is being maintained intact and the stream of consumption is constant over time. A situation in which capital, output, consumption and population grow at constant rates — called balanced growth path, both these two fundamental issues will be maintained.

Once the economy is in steady state, the rate of growth of output per worker depends only on rate of technological progress and technological progress can lead to sustained growth of output per worker. According to Solow model, only technological progress can explain persistently rising standards. But it is argued that if externally determined technological progress drives growth and technology is roughly speaking a public good, available to all countries after some lag, it seems that all countries ought to be observed to



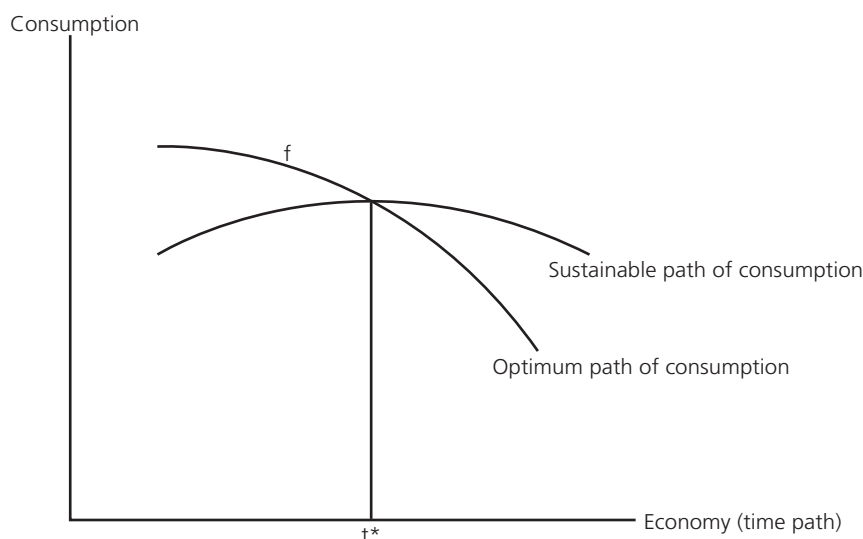
grow at close to the same rate. But nothing like that shows up in the data empirically. The divergence might be explained by difference in national characteristics or what Solow calls ‘stock of capital including the initial endowments of resources’ — which, in turn, explains why countries are able to take advantage of the exogenous technical progress differently.

Some substitutability of two factors — labour and capital — is possible in the production function of Solow model, but according to Solow, “stock of capital — including the initial endowments of resources — is being maintained intact”. It usually implies strong sustainability i.e., natural capital — all gifts of nature including renewable and non renewable energy and material resources, clear air and water, nutrient and carbon cycles, and bio-diversity — cannot be substituted either by human capital or by man-made capital.

The economics of renewable natural resource exploitation like forest, water relates to sustainability of renewable natural resource. It leads to the normative issues about how society should exploit it efficiently over time so that the stock of renewable natural resource might be sustainable. Renewable resource stocks are those which grow through reproduction. In renewable resources, a steady state may be reached where the rate of biological growth equals the harvest rate.

How does an economy face a choice between an optimum rate of consumption over time and a sustainable rate? As may be seen in Figure 1, the optimum path of the consumption over time (*essentially, that which maximize the discounted value of all future consumption*) starts to fall after some period ‘f’. Clearly, it is not sustainable, since people living after time will

Figure 1



Note: In this simple economy, optimum (Consumption) reaches a peak at t^*

It implies strong sustainability i.e., natural capital cannot be substituted either by human or man-made capital

be worse off than people living before ‘f’. So the problem of ‘f’ arises from the point of intragenerational equity (*fairness within a current time period*). But sustainable path of consumption emphasizes livelihood, assets, or capital, as the basis for sustainable improvement of people’s livelihood for now and future without undermining the natural resource base. It is only possible at the concept of sustainable development that integrates natural capital with the development process that strengthens the links between environmental generation and economic growth.

Although the basic Solow model includes only physical capital and does not try to explain the efficiency of labour, human capital is analogous to physical capital in many ways — human capital, like physical capital, raises our ability to produce goods and services (*Mankiw, 2005:*

214). How is initial endowment of resources, according to Solow, maintained intact in the growth process? As mentioned earlier, the divergence of growth in the Solow model might be explained by difference in national characteristics or what Solow calls ‘stock of capital including the initial endowments of resources’ — which, in turn, explains why countries are able to take advantage of the exogenous technical progress differently. In this perspective, to continue the growth process, it should satisfy two fundamental issues of sustainability — initial stock of natural capital is being maintained intact (*strong sustainability criterion*) and the stream of consumption is constant in time (*although this abstracts from the problem of fairness within a current time period / intra-generational equity*), natural capital ultimately enters into the growth process, because in an agrarian economy, like India, rural

livelihoods are intricately linked with the access of rural people to natural resources such as, land, water and biotic resources. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (Carney, 1998: 4).

Livelihood Assets

About how to improve the effectiveness of government poverty reduction schemes, the sustainable (SL) approach provides a coherent framework within which multi-sectoral activities can be placed, and ties in closely with the new guidelines of the ministry of Rural Development, Government of India (GOI, 1994). It provides new ways to address poverty issues beyond the traditional method of employment generation and target group programmes. As the basis for sustainable improvement of people's livelihoods, it emphasizes livelihood assets in terms of five capital assets—natural, physical, financial, human and social—identified in the framework (Carney, 1998; Davis, 1996; Reddy et al., 2004). Participatory initiative in natural resource management programmes such as water development, water lands development, joint forest management, coastal zone development, typify this approach.

These five capital assets are conventionally associated with a stock, whereas there are many aspects of the five assets that are akin to flows in the dynamics of livelihood operations. A better understanding of these concepts can be gained by looking at them in relation to entitlement theory (Sen, 1982, 1985; Scoones, 1998). The livelihood assets, in this perspective, can be seen as a capability or a potential that can be deployed to undertake, or be in-

vested in livelihood activities. But they are not uniform in character: for example, under natural capital, access to food fodder, fuel wood are dependent on the flow of these resources through the cycle of community forest management, whereas social capital can take the form of the network of social relationships among individuals, families, communities and states that have potential to influence the viability of livelihood activities. From this perspective, livelihood capital will accumulate where the potential to which the household, the community and the state have an entitlement increases.

But, with regard to the growth of financial capital, financial capital is ultimately employed in accumulation of physical capital, human capital, technology and the investment in natural resources (*measured in terms of changes in access to or improvements in land, water, and other common*

terial sacrifice (cited in Sobel, 2002: 144). Communities that have high network of social relationships have high growth of social capital and they are more successful in managing irrigation projects, water supply and sanitation projects and many other infrastructural projects including common pool resources (CPRs) and common activities. It is argued that while the poor have little access to other capital assets, they often do have substantial social capital, such as social networks and connections through membership of organization, clientelism, and so on, which allow them to weather subsistence crises and might even afford them the possibility of capital accumulation and a way out of poverty (Ray, 2006: 462).

Admittedly, as an engine of economic growth, natural capital is also an important source of growth of Indian economy as other capital assets. Most importantly,

The livelihood assets can be seen as a capability that can be deployed to undertake livelihood activities

pool resources). Similarly, as social capital is an attribute of an individual in a social context (Sobel, 2002:139), the growth of social capital depends on the 'institutions, relationships, attitudes and values that govern interactions among people and contribute to economic and social development' (WORLD BANK, 2002: 2). These attributes come into being by the nature of participation, type of participation and the process of participation of the local communities in the management of natural resources and common activities. Kenneth Arrow (1999) argues that social capital shares the temporal aspect of physical capital but does not require ma-

as the growth of financial and social capital assets, the growth of natural capital does not ultimately depend on the source of growth of other capital assets. As natural capital is a major source of capital and a major source of livelihood of the majority of the people of Indian economy, it is also an important source of growth of Indian economy as physical capital, human capital and technology. But the draft approach paper of Eleventh Five Year Plan of India (2007- 12) fails to include natural capital into it as a source of growth. So, without any piecemeal development programme, sustainable development programmes that integrates natural

capital with the continuous development process strengthening the links between environmental regeneration and economic growth needs to be addressed in the planning strategy of India through continuous and integrated programmes and the schemes. [IER](#)

References and Additional Thinking

- Arrow, K.J. (1999): 'Observations on Social Capital', in P. Dasgupta and I. Serageldin, eds. **Social Capital: A multifaceted Perspective**, Washington, DC: World Bank.
- Carney, D. (eds.) (1998) : 'Sustainable Rural Livelihoods', London ,DFID .
- Das, N. and D. Sarker(2010): 'The Framework of household Model under Joint Forest Management Programme: A Study of Forest Dependent Households', *The Indian Economic Journal* ,Vol. 57, No. 3, October-December, pp.44-71.
- Davies, S.(1996) : 'Adaptable Livelihoods', London, Macmillan .
- GoI (1994): 'Guidelines for Watershed Development', Ministry of Rural Development, Government of India, New Delhi, October
- Hirway, I. (2006): "Where Is Gender in Eleventh Plan Approach Paper?" *Economic and Political Weekly*, Vol. XLI No. 32 August 12-18, 2006 .
- Jodha, N. S. (1986): 'Common Property Resources and the Rural Poor in Dry Regions of India', *Economic and Political Weekly*, Vol. 21, pp.1169-81.
- Jodha, N. S. (1991): 'Rural Common Property Resources: A Growing Crisis', International Institute of Environment and Development, London
- Ray. (2006): 'Rural Poverty and Development Strategies in Latin America', *Journal of Agrarian Change*, Vol.6 No. 4, 455-508, October.
- Malthus, T.R.(1798): 'An Essay on the Principle of Population, as It Affects the Future Improvement of Society', London: J. Johnson
- Mankiw, N.G.(2005): 'Macroeconomics', Worth Publishers , New York , Fifth Edition .
- Meadows, D.H., D.L. Meadows, J. Randers, and W.W. Behrens, III. (1972) 'The Limits to Growth', New York: Universe Books.
- Rao, J.M. (2001) : 'Whither India's Environment?' in S.N. Chary and V. Vyasulu (eds.), **Environmental Management**, Macmillan.
- Reddy, V.R., M.G. Reddy, S. Galab, J. Soussan and O. Springate-Baginski (2004): 'Participatory Watershed Development in India: Can it sustain Rural Livelihood?' *Development and Change*, 35(2).
- Rennie, J.K. and N. Singh (1996): 'Participatory Research for Sustainable Livelihoods', Winnipeg: International Institute for Sustainable Development.
- Romer, D.(2001): 'Advanced Macroeconomics; Second Edition', McGraw-Hill International Edition, Economic Series, Singapore.
- Sarker, D.(2010): 'Sustainable Rural Livelihoods under Joint Forest Management Programme: Some Evidence from West Bengal, India', *Artha Vijnana*, Vol. LI, No. 1, March, pp.59-84.
- Sarmah, D. and S. N. Rai(2001): "Forest Resource Management in India: Role of State and Its Effectiveness", in S.N. Chary and V. Vyasulu (eds.), **Environmental Management**, Macmillan Scoones, I (1998): 'Sustainable Rural Livelihood; A Framework for Analysis', IDS Working Paper 72 Brighton: Institute of Development Studies, University of Sussex
- Sen, A (1982): **Poverty and Famines: An Essay on Entitlement and Deprivation**, Oxford Clarendon Press
- Sobel, J. (2002): 'Can We Trust Social Capital?', *Journal of Economic Literature* , Vol. XL: 139-154, March.
- Solow, R.M. (1986): 'On the inter-generational allocation of Natural Resources', *Scandinavian Journal of Economics*, 88: 141-9.
- World Bank (2002): 'Social Capital: From Definition to Measurement' in C. Grootaert and T. V. Bastelaer (eds.) **Understanding and Measuring Social Capital: A Multidisciplinary Tool for Practitioners**, The World Bank, and Washington, D.C.
- World Bank (2005): **Agriculture Investment Sourcebook: Agriculture and Rural Development**, Washington, D.C.
- World Bank (2006): 'India: Unlocking Opportunities for Forest-Dependent People', The World Bank, Agriculture and Rural Development Sector Unit, South Asia Region, Oxford University Press, New Delhi.
- Government of India(2006): 'Towards Faster and More Inclusive Growth: An Approach to the 11th Five Year Plan', Planning Commission, Yojana Bhawan , New Delhi, December

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Plundered Histories, Forgotten Terrains & Entangled People

The case of planning in Mining in India — issues, deficiencies and consequences — an outline of the policies in Mining industry

Goldy M. George

General Coordinator of Dalit Mukti Morcha, Chhattishgarh & Convener, Dalit Study Circle, Chhattishgarh

In the early 1950s India embarked on a program of planned industrial development. Borrowing planning concepts from the Soviet Union, the government tried to stimulate development through massive investment in the public sector, imposing a system of tight controls on foreign ownership of capital in India and playing a highly interventionist role in all aspects of economic policy. The private sector was allowed to continue to operate in agriculture and in a wide range of ‘non-essential’ industrial sectors.¹

The steady economic growth of industries with active support from the state machinery is directly proportional to the unchecked exploitation of masses. Several instances of eviction, evacuation etc. had put before a long array of questions on the very edifice of mining and develop-

ment. Marginalised communities such as Dalits, Adivasis, women, working class, etc. are the first victims of this. Though during the independence struggle “factory to the workers” prominently came on to the national agenda, nowhere in India it was implemented in the post independence era. Resultant displacement, migration, repercussion of workers, loss of land and livelihood, pilfering state revenue, forest resources, etc. has outgrown to monstrous magnitude.

Decolonisation of erstwhile colonies invariably saw the elite take control of political power. Naturally they were inclined to capitalism preferring to inherit the colonial state – its laws, structure and character – rather than to transform it fundamentally in ways to respond to the most urgent needs of the oppressed sections. The development process initiated

by the organs of the ‘state’ built on the edifice of the colonial structure, while evolving into a full blown neocolony, had to content with political threats of fundamental nature.² The political compulsions, when confronted by the state and ruling classes, evoked invariably responses to manage and control the threats themselves. These took the form of cooption, diversion, fragmentation, outright suppression or combination of these, depending on the extent that these challenges posed. The state provided a semblance of mitigating problems without actually having to resolve them in fundamental ways.³

While the challenges could be contained, at least for the time being, the system was constantly being legitimised by its actions of acknowledging its responsibility for changes in the required direc-

tions. While keeping these pretensions alive and flourishing in ever so many ways, the political upheavals and movements were constantly being undermined. These pretensions were constantly kept alive by concessions, which were often only marginal or nominal and constituted populist issues of the entrenched political system. While these marginal gains and proposed gains were kept alive, the system continued, efficiently and with sophistication, the further marginalisation of the oppressed. This diabolical state of existence of the state and political system has been nurtured and perpetuated vigor-

ously for it to ensure its own existence itself. The neo-liberal doctrines aimed at also destroying collective structures, which stay on the way of unhampered pursuits of exploitation and expropriation of resources. The expansion and development of the neocolonial state in its structures and functions naturally meant dismantling or modified changes. Fuelled by capitalist development, these significant changes constituted change nevertheless, but what was not apparent was that these changes constituted new ways for the continuance of the order, nationally and globally. The reaffirmation of the pri-

macy of the democratic political process in symbolic terms helped the system to command legitimacy.⁴

Slowly all notions and models of development shifted completely. With globalisation, sweeping changes have come about already, throwing to the winds the earlier pretensions and legitimacy, of the state and the political system that controls the state, its resources and all aspects of power. This has become possible in many ways, one of which is the extension of economic rationality to all spheres of public and even private lives. Taking the argument that economic mobility in the



hierarchy of the world economy requires higher level of production and technology, the state pushes forward greater vertical linkages to the capitalist market and deepens their internal accumulation through exploitation of labour and nature. It is hoped that the external linkage of local economy to the world economy could reinforce the ruling elite and promote internal expansion.⁵

Globalisation emerged as the cannon fodder of capitalism in the mid-eighties and early nineties. Practically globalisation is nothing new, it is the establishment of the territory of the mighty across the globe through establishing the dictums of political and economic power centres and its controlling systems. In many ways, the world economy in the late 20th century resembles the world economy in the late 19th century. The fundamental attribute of globalisation, then and now, is the increasing degree of openness in most countries. The openness is not simply confined to trade flows, investment flows and financial flows; it also extends to flows of services, technology, information, ideas and persons across national boundaries. There can be no doubt, however that trade, investment and finance constitute the cutting edge of globalisation. The past two decades have witnessed an explosive growth in international finance, so much so that, in terms of magnitude, trade and investment and now dwarfed by finance.⁶ The political stability or instability has a direct bearing on the process, pace and intensity of the globalisation and reforms, which admittedly have been slow and inadequate.⁷

Under the conflicting state of interests between power and people, the connecting link between human, resource, production, and nature is the worst hit. As

Table 1: Mineral Production in India from 1970 to 2000

Mineral Units	1970-71	1990-91	1999-2000
A. Fuel Minerals			
Coal	73.7	211.3	300.0
Lignite	3.5	14.00	21.9
Crude oil		33.00	32.00
Natural Gas		18.00	26.4
B. Metallic Mineral			
Bauxite	1.4	5.00	6.8
Chromite	0.3	0.9	1.7
Copper Ore	0.5	5.3	3.1
Iron Ore	31.4	55.5	73.5
Mn Ore	1.7	1.5	1.6
Lead and Zinc Ore	NA	2.7	
Gold Ore	NA	0.7	
C. Non-Metallic Minerals			
Limestone	23.8	70.1	127.9
Dolomite	1.1	2.6	2.9
Gypsum	NA	1.7	3.3
Diamond	20	18	41

All figures in million tones, except diamonds, which are in 1000, carats

Source: Ministry of Mines annual reports 1999-00 to 2006-07

the basis of all economic activity, land can either serve as an essential asset for a country to achieve economic growth and social equity, or it can be used as a tool in the and of a few to hijack a country's economic independence and subvert its social pressure.⁸ This is the context under which one needs to rethink on a broader canvas on the entire question of land rights, land reforms, the prospects and modalities of planning and developing sustainable livelihood and coexistence.

Mining in the Pre and Post Globalisation Planned Era

Planned mining and development, the much aphorized face of modern Indian economic growth has two phases. This could be broadly categorised as the pre-globalisation and post-globalisation. In India, as in most Asia-Pacific countries,

exploitation of land for mineral resources has a long history involving abuse and plunder. India's Five Year Plans have focused on mining to achieve 'development', demanding the forfeiture of people's lands for 'national prosperity'. Most mineral and mining operations are found in forest regions, which are also the habitat for *Adivasi (indigenous)* communities. India is a vast country and as such the history and status of mining varies between regions. Mining projects vary from rat hole mining, small-scale legal and illegal mining, to large-scale mining – most of which had been historically managed by the public sector. Since the introduction of private sector participation in the 1990's, a number of mining related community conflicts have arisen with far reaching consequences.

No doubt mining industry provided

employment to a large proportion of the industrial workforce in the past. But are the developments in the mining industry, in keeping with national interests? This draws a lot of controversial aspects related with question of national interest versus community interest. One of the decisive factors of fast growth of mining industry is the impact of economic policies of liberalisation, market and trade, land and labour, as well as production and consumption. Economic policies, in India, have undergone a sea change in the nearly two decades, starting from 1991. The underlying argument is to have a minimal state and rely more on market forces.

With the concept of Planned Development, planned mining was introduced in 1951. The Private Sector and the Public Sector were clearly demarcated giving the Public Sector a bigger role in India's mineral wealth. 'There was spectacular progress in Indian Mining Industry from 1947 to 1985 when mineral production grew by about 120 times'.⁹

With the concept of Planned Development, planned mining was introduced in 1951. The Private Sector and the Public Sector were clearly demarcated giving the Public Sector a bigger role in India's mineral wealth. 'There was spectacular progress in Indian Mining Industry from 1947 to 1985 when mineral production grew by about 120 times'.¹⁰

a. Public Sector and Their Achievements

In the pre-plan period i.e. before 1950, there were 24 types of minerals with a total value of \$US 23 million. Today, 84 minerals are produced valued over \$US 1200 million. Four fuel minerals are extracted which together account for 85% of this total value. Eleven metallic minerals account for seven percent and the re-

Public Sector mines account for 91% of the total mineral value, even though 80% of mines is privately owned

maining eight percent are attributed to 49 non-metallic minerals and 20 minor minerals. The mineral sector employs 800,000 personal and accounts for three percent of the country's GDP and forms an 11.5% share of total industrial sector production. Public Sector mines account for 91% of the total mineral value, even though 80% of mines is privately owned.¹¹

Today the Public Sector mines are in a state of disarray. There are multiple reasons for this: bureaucratic, technological, market pressures, added to this the terms and conditions signed with the IMF conditions, better known as the Structural Adjustment Program (*SAP*), and now the conditions set about by the World Trade Organisations (*WTO*) to which India is a signatory. But however the crisis, it did not start only with the *SAP* and *WTO*. It began much before this. For this reason it is essential to look into the pre globalisation state and how it was fuelled by the liberalisation in practical terms.

b. Modernisation/Mechanisation/Automation

USSR Help and Obsolete Technology

In the 1980's, the government sought imports of technology in the coal sector to encourage foreign collaborators to implement the projects on a turnkey basis. With guarantees against time and cost over-runs, the government entered into a long-term agreement for Soviet "technical assistance" in the coal sector until the year 2000. The USSR was to collaborate in the development of fifteen coal mining projects, five open cast

mines and ten underground mines from the stage of preparation of the feasibility report till the mining stage. The foreign exchange component to cover the cost of equipment and services would be covered with Soviet soft loans and long term credit. The Government also sought collaboration with Poland, United Kingdom, France, West Germany, East Germany, Canada and Australia for projects till the mining stage. These collaborations were strictly technical and only up till the mining stages. The ownership of the mines and their running would still be with the PSU.

Such technology imports were criticised by sections of the press in India as 'importing obsolete' and 'creating a relationship of dependent exploitation'. The aim of these changes was to increase output per worker shift. Coal India Ltd. (*CIL*) a PSU accumulated losses at the end of 1986-87 to the tune of Rs. 1,800 crores. It was hoped that these steps would reverse



the trend.

Faulty & Total Mine Management

The Eastern Coalfields Ltd. run the Rajmahal Coal Mining Project, situated in Godda Jharkhand was the worst hit with the technological up gradation as a new phenomena of faulty management surfaced. It is a much talked hi-tech Public Sector venture worth 1,000 crores. Planned in 80's it hired Met-Chem (of *Bailadila fame*) a Canadian based MNC linked to US STEEL, for the procurement of equipment technology transfer and technical consultancy in mining. It is said to be Asia's largest open cast, coal mine. It employs a workforce of only 2441 and is fully automated. But the production cost of coal is Rs. 440/- per tone in comparison to the sale price of Rs. 260 per tone. There is a dearth of ancillary and auxiliary industries. 30% of the imported machineries are not functional and the project is sustaining losses for the last several years and the causes are attributed to its faulty management.¹²

In 1988 the 'Total Mine Management' system was introduced commencing with the Rajrappa project of Central Coalfields Ltd. (CCL) but here technology was introduced in the non-mining sector i.e. telecommunications and computerisation of payrolls inventory and office work. Similarly Singaroli Collieries took a number of steps to modernise its mines under a similar program. But not all equipment brought had been used. In Dhanbad BCCL spent Rs. 2000 crores on machinery and equipment but it lay unused at a depreciation rate of Rupees three lakh a day. While the aim was to increase the per worker output, the results show that this has not happened.



The technology, which is capital intensive, has mopped up a huge amount of capital.¹³

c. The Question of Technology

The question of technology or choice of technology or mechanisation in mining is a complex one. When technology totally replaces labour it is a political and social question. When technology reduces the hazardous of mining especially occupational health hazards then it is beneficial to labour. When technology is used only with the sole aim of increasing profit and production over the interest of society, the environment and labour it should be challenged.

Unfortunately the mining sector in India has gone in for technological upgrading without having a clear perspective of what is actually required. A labour surplus country like India can ill afford

such option. Most of the technologies are designed for countries with a shortage of labour force like Australia, Canada, USA, etc. India's research and development in the field of mining technologies are almost zero. Even the safety equipment our miners are supplied with makes it impossible for them to use in tropical humid climatic conditions. As a result many miners do not use the safety equipment (*provided in the few mines*), giving the Management a convenient excuse for not providing safety equipment. If technology has helped, it has helped, it has surely helped the companies producing these technologies and selling them. Nevertheless, technologies are required to reduce occupational health hazards, to evolve an ecological balance in mining areas, to enhance the per worker tone of production, to extract non-fuel minerals, and to manage and recycling waste.

d. Private Sector Panacea?

This failure in 'technological collaborations' or in the 'choice of technology' automatically led to the failure of the PSUs and brought a shift in the government's policy and it placed all hopes on the Private Sector. The failure of modernisation drive in the Public Sector mines was not evaluated. Privatisation, which includes foreign collaborations and Joint Ventures (*JV's*) was seen as the panacea to this crisis.

Leasing of mines was seen as one step towards the reversal of government policy in favour of private ownership of mines. Opposition to such a policy got cemented on the issue of lease of *Bailadila* mines Madhya Pradesh taken by the Ministry of Steel in October 1995. The opposition urged the MP Governor to direct the state government not to permit transfer of the lease for mine. In 1996 the Kumaraswamy Iron Ore Mines situated in Sandur Taluk Bellary district Karnataka was leased to M/s Jindals as a captive mine. Rajasthan has the largest number of leases for small mines in the country. It has 42 major and 23 minor minerals. There are 10,851 leases of minor minerals and 19,251 quarry licenses in force. The labour employment in the sector has increased ten folds from 0.32 lakhs in 1950 to about 3.25 lakh in 1993. The Rajasthan government introduced a New Mineral Policy with the aim of maximising exports.¹⁴

Child Labour in Mines Today

Child labour has been eliminated in the official records of mines. But this is not due to good will or legislation. Mechanised mines do not need child labour. The other controversy is that mining companies interpret the Mining Act as an act

covering that area where the mineral is being extracted i.e. that pit. It does not take into account the extra-pit areas or the transport and haulage work or the wagon-loading etc. Thus no child in the pit, means no child labour, an interpretation convenient for the Labour Enforcement Officer (*LEO*), and mine owner.¹⁵

The problem of child labour in mining cannot be ignored or taken in isolation. It is connected and related to the issue of 'contract' or 'casual' and 'piece rate' labour extensively used in the mining industry. Especially in the rate sector where all hands in the family are involved in optimising their outputs. 'Piece rate' employment is very convenient for the Mining Companies, one doesn't have to give

ers replaced women workers. Women were cajoled to give up their jobs to their sons or sons-in-law, with the active encouragement of the male workers and the trade unions, thereby reducing her into the four walls of kitchen. Today in the following private iron ore mines over 50% are women: SKG & SKG Iron Ore Mines, Balaji Iron Ore Mines, Bihar Iron Ore Mines.

Golden Hand-shake

The Voluntary Retirement Scheme (*VRS*) introduced by the mining companies in the 1970's has resulted in grave consequences to particular sections of the working class especially Women, Adivasis and Dalits as a community, and the 4th

Mining sector has gone in for technological upgrading without a clear perspective of what is required

minimum wage, maintain working hours, maternity benefits etc.

Women & Mining

On 16th January 1960 the Mining Act was amended (*Sec 46 (1) (a) (b)*) prohibiting the employment of women in any underground mine, and in any open cast mine between 7 pm and 6 am This amendment was brought about at the dawn of mechanisation in Indian mining. According to Ministry of Labour, in the underground mines the number of women mine workers fell from 9,568 in 1981 to 3,151 in 1993. In the above ground mines the statistics shows a decline, but not as serious as the above from 21,290 women in 1981, to 18,532 in 1993. In both these cases the decline was sharper from 1991 onwards.¹⁶ In the coal and iron ore mines, men work-

grade class as such. Workers were cajoled and in some cases even force was used to make them sign on the forms. Adivasis and Dalits were falsely lured by the golden handshake. This method of retrenchment has drastically reduced the number of Women, Adivasis and Dalits in the mining industry and it continues even to this day. If the statistics show any employment of women in mines, it is largely those jobs like sweepers, nurses or teachers. The effect of VRS and now, ESS (*Early Separation Scheme*) on Women, Adivasis and Dalits needs to be closely studied.

Contract Labour Yes!

Permanent Jobs No!

When mines were manually operated and a large workforce was required, women

were employed. In some cases like iron ore mines, the percentage of women in mining was more than 50%, i.e. IISCO Gua, SAIL Chiria, BSP Dalli-Rajara. Contractors taking contracts within the mine area do employ women in all sections at all times. In clear violation of the Contract Labour Abolition Act, for works that are of perennial nature to production/mining i.e. cleaning of conveyor belts area, transport and haulage, wagon loading etc. contractors employ women. But when it comes to a permanent job, the women are discounted. The common reasons given by Managements were that employment of women in mines is risky, their saris get caught in the conveyor belts and machinery. In the dark underground tunnels women are vulnerable to men workers.

World Bank Funds Retrenchment?

Coal India Ltd. in 1993, approached the World Bank for a loan \$ US 500 Million to fund their retrenchment programme officially for 15,000 mine workers but unofficially for 1,40,000 worker. Since the World

Bank cannot provide financial assistance for such a programme (*retrenchment*), Coal India has requested that the proposed Bank loan would also cover the local cost of investments. This would free resources, which Coal India could use to finance its retrenchment programme.

The closure of uneconomical mines and the retrenchment of surplus labour by far were the major obstacles in the smooth implementation of reforms. The Government of India and Coal India has agreed on a reform strategy that would ensure that Coal India would –

- Invest only in the most profitable mining operations
- Phase out its subsidies to loss-making operations over a 5-7 year period
- Outsource all activities that can be ob-

tained cheaper from other companies.

- Improve the quality of its coal supplies.
- Make its operations environmentally and socially sustainable.

While we welcome No 4, and hope that No 5 will be taken seriously, it is clear that the first three will involve reduction of workers and retrenchment.

e. Environmental, Health & Occupational Hazards

Mining involves the movement of mountains, the changing of river courses, digging deep into the bowels of the earth, some times thousands of feet below, extensive and intense blasting with scaring amounts of dynamite. The rich geology that has taken million of years to evolve, our tropical forest, store-houses of rich and irreplaceable bio-diversity, can be aluminium to make our beer cans. Its operations need a large amount of energy, water and chemicals, called process chemicals. Only a fraction of the earth



that is removed is used as ore's the rest goes as wastes or tailings. The topsoil that is nutrient rich and has taken thousands of years to form, is called the 'over burden' in mining jargon and it is normally wasted.

The ores have to be washed and huge amounts of water are needed for this purpose. The washers consume about 50,000 litters of water per hour. For this traditional water sources of the people are diverted to the mines. In return the water laced with affluence, chemicals and sewage, is poured back into the rivers or on people's lands, including agricultural lands.

Toxic and Radioactive Pollution

The other question is the mining of heavy metals rare on earth. The percentage of the ore is so little i.e. in uranium it is only 0.02%, that it accumulates mines and mill tailings that build mountains. Apart from these materials it also consumes large quantities of water, in quantity three times the material waste that ultimately flows into rivers and joins the underground water. The quantity of these materials is one part of the story the other part is their low dose radioactive potential that can go on for thousands of years. The half life of Thorium a waste product in uranium mining is 80,000 years and it will take 2,50,000 years for all the waste tailing in the uranium mine in Jaduguda to become lead and harmless. Each day tones of radioactive waste are sent down the Subarnarekha river that winds its way around the city of Jamshedpur into West Bengal, Orissa and into the Bay of Bengal.

Social Impacts of Mining

The Washington based World Watch Institute has categorised the social impacts

of mining as-

- * Displacement from the mine site.
- * Loss of sites of cultural importance.
- * Loss of autonomy or food self-sufficiency.
- * Influx of outsiders attracted by prospects of employment with the mine, or hoping to mine independently (*illegally*) in a prospective area.
- * The boom-town syndrome – disruption of social cohesion influx of consumer goods and rising prices for basic goods, with an added value of commercial prostitution.
- * Social stratification of original community caused by employment of community members (*usually men*) by the company.
- * Social tension caused by the juxtaposi-

are 25 million workers directly employed in the mines throughout the world. Our records in India are again dismal.

One week in a year is designated as 'Mines Safety Week', and prizes are given for safety in mines. One prize is given for that mine that put up the best hoarding (*in English of course*). It is a well-known fact that mining companies do play down deaths in mines and misinterpret the definition of safety in mines. A death in the pit is considered as a death in the mine. So most deaths and injuries are shown outside the pit area. There have been cases of the medical reports being manipulated to show a worker dies of 'cerebral thrombosis' or other 'natural causes' when in fact the death was the result of electrocution or other mechani-

Mining companies do play down deaths in mines and misinterpret the definition of safety in mines

tion of a relative luxurious accommodation and facilities for well paid management and the less well off surrounding communities.

To these we can add, the undermining of political cohesion and self respect of local communities. The bringing in of new diseases i.e. Sexually Transmitted Diseases (STD), HIV/AIDS, Malaria, Filariasis, Leprosy, TB, and other enteric and toxicity related diseases.

Safety in Mining

An ILO press release in May 1994 claims "15,000 mine workers lose their lives every year and there is also suspected under reporting of fatal mines accidents". The press release brought out at the 75th anniversary of the ILO states that there

cal injuries.

Contract Labour and Safety

Not only contract labour are not supplied any safety equipment, but their deaths and injuries in the mines are denied, making it possible for the mining company to get the coveted 'Mines Safety Week' prize, and avoiding any medical treatment and cash compensation. Since contract labour is used for the cleaning and maintaining of the conveyor belt systems, hoppers that can extend up to a couple of kms, many deaths take place here as there is no proper signalling system or communication to warn the workers when the belts start to roll. Some important questions

- * Who will benefit from the New Mineral Policy and all the other new poli-

cies the government is announcing to welcome joint ventures or 'opening up' of the mineral sector?

- * Will it reduce even a part of our ever-bloating unemployed labour?
- * Will it exhilarate the process of that model of 'development' projected by the Britton Woods Institutions?

In general the devastation and human misery caused by mining, has been callously taken as an 'acceptable price' to pay for industrialisation and military might. In India the protagonist of this theory use the familiar term 'National Development'. Well who makes a nation, a nation is a real question.

The Power Hub Strategy!

Power hub strategy is one of the core industrial strategies of mining and industrial development which has been given special emphasis both in the mining and industrial policies. With abundant coal reserves in the state power generation is easily possible. The total installed capacity in the State is approx. 3900 MW. Efforts are being made to encourage entrepreneurs to develop their own captive power projects.¹⁷ During the past five years all efforts have been made to turn the state into a power hub. According to the Industrial Policy, as part of the power hub strategy the government in a planned manner has signed Memorandum of Understanding (*MoU*) with public and private sector under to produce 50,000 megawatt power. This would attract industries such as automobile, capital goods, steel and aluminum producers.¹⁸

a. Recent Developments in Energy & Power Sector

According to a document of Government of India under the head "Consortium

Lending" it is said that the Government of India envisions 'Power for All' by the year 2012 which requires ambitious target of augmentation of generating capacity by 100,000 MW. Like the other infrastructure projects, power projects are also highly capital intensive and have long gestation periods and a sizeable part of the investment is required to be made by the private sector. However, in the absence of uniformly acceptable approach, private sector projects are bound to face numerous hazards in obtaining finance like multiplicity of appraisal by participating institution, stipulation of different types of terms and conditions, different procedures/methodologies for disbursement and monitoring leading to delays in achieving financial closure and expeditious project implementation.¹⁹

Govt in a planned manner has signed MoU with public & private sector to produce 50,000 megawatt power

Realising the above situation, Power Finance Corporation (*PFC*) in association with Life Insurance Corporation (*LIC*) and four other Indian Banks had established a Power Lenders' Club (*PLC*) in August 2005 to provide single window financing solutions for clients in the private power sector and to achieve expeditious financial closure. It is essential to take a note that both *PFC* and *LIC* are Government of India undertaking. Subsequently, with the joining of Housing & Urban Development Corporation Ltd. (*HUDCO*) and eight other Indian Banks, *PLC* has now emerged as a 21 members strong Club. The Consortium approach offered by Club would provide a comprehensive solution to the debt requirements

of these projects without the developer having to queue up before a number of lenders to arrange for the funds.²⁰

The *PLC* has already adopted a Common Loan Approach Form and standardized the loan documents for the convenience of the borrowers and lenders. As on date, *PFC* with some of the other members of *PLC* has been associated with funding of three power projects viz. 350 MW Domestic Coal based project of *RKM Power Gen* in Chhattisgarh, 20 MW Bagasse based project by *Viswanath Sugar* in Karnataka and 820 MW Kona-seema Gas Based power project in AP. Further, *M/s. IFFCO Chhattisgarh Power Ltd* have placed a Letter of Intent on *PFC* for providing project advisory, appraisal and loan syndication services for their

1000 MW power project to be set up in Chhattisgarh estimated cost Rs. 5400 crore with debt component of Rs. 3780 crore.²¹

With the aim to give impetus to Consortium Lending Operations, particularly through the *PLC*, *PFC* has recently established a Consortium Lending Group (*CLG*) headed by an Executive Director. The *CLG* shall work towards harnessing the huge business potential offered by the Power Sector. *CLG* is interacting with the Banks and Financial Institutions (*FIs*) to make an assessment regarding the cumulative exposure which could be taken by *PLC* members with a view to identify and firm up the various power projects to meet their funding requirements and to facilitate their expeditious financial clo-

sure.²²

b. Strategising Power Hub through IPPs: A Scanner of Experiences

Independent Power Producers is a western concept recently adopted by Indian state. Increasingly governments are turning to the private sector for power generation. Some developing countries started allowing private firms to enter electricity generation at the beginning of the 1990s. In some countries it began as early as 1970s.²³ IPPs are presented as an attractive option because they are supposed to facilitate investment where a bankrupt public sector can barely afford to make ends meet; and because they allow the private sector to operate without the need for lengthy regulations to be in place beforehand, as the conditions of operating can be specified in the terms of the IPP contract. IPPs are heralded as the start of further liberalisation and subsequent privatisation of electricity.²⁴

However, more and more governments are running into difficulties with IPPs in countries such as Pakistan and Indonesia where IPPs have been the subject of protracted legal, political and economic battles. Other countries have seen electricity utilities crippled by payments due to IPPs, for example, the Philippines and Dominican Republic. Others have questioned the generous terms offered to power producers by previous governments and have attempted to limit the damage such arrangements might cause for example, Croatia and Hungary. Despite these difficulties, more IPPs are still being planned in various countries.²⁵

In its origin an Independent Power Producer (IPP) also known as Non-utility

generator (NUG) is an entity, which is not a public utility unit, but which owns facilities to generate electric power both for self consumption and sale to utilities and end users.²⁶ According to the US experiments IPPs may be privately held facilities, cooperatives such as rural solar or wind energy producers, and non-energy industrial concerns capable of feeding excess energy into the system. Hence the real idea of IPP is an ideal one which basically supports in generating renewable energy from unexplored sources. Economically it is highly viable both for the privately owned industrial unit as well as the government for the majority of IPPs, particularly in the renewable energy industry a feed-in-tariff provides a long term price guarantee.²⁷

US Congress passed the Public Utility Regulatory Policies Act 1978 (PURPA), establishing a class of non-utility generators, called Qualifying Facilities (QF), which were permitted to produce power for resale.²⁸ PURPA was intended to reduce domestic dependence on foreign energy, to encourage energy conserva-

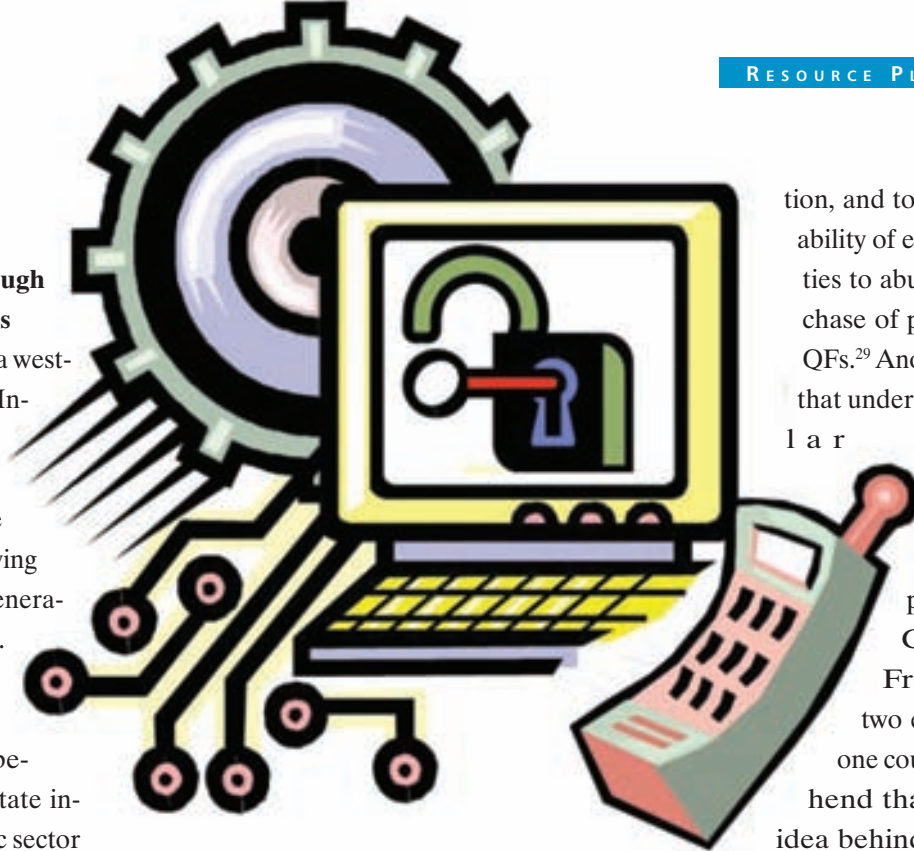
tion, and to reduce the ability of electric utilities to abuse the purchase of power from QFs.²⁹ Another nation that undertook a similar process, although at a later period, was Canada.³⁰ From these two experiences one could comprehend that the real idea behind IPP is to

generate non conventional as well as renewable energy sources. Further the intentions of these energy sources also clearly stratify that it is meant to generate green energy generated through solar, wind, waves and other sources.

IPPs are Means to Drain State Revenue

IPPs are sometimes presented as new sources of finance for investment in electricity generation. This is misleading. Investors in an IPP will not construct (or buy) a power plant unless they are sure they will ensure to be repaid (with a profit margin), and so usually require that a power purchase agreement (PPA) is in place. Under the terms of a PPA, the electricity utility undertakes to buy all or partial power produced by a power plant. The price of the power (usually in foreign currency) and the amount to be sold are specified in such agreements.³¹

This highlights a further point – that the financial status of the IPP customer – usually the government-owned electricity utility – is crucial to the IPP obtaining finance for the project. A guarantee from





the electricity utility may be underwritten by a government guarantee. The government guarantee is in fact assisting the IPP investors to raise finance — not the other way around. Often the IPP will require that an Escrow account is established to ensure payment. This means that some agreed amount of government revenue (*which may or may not be revenue from electricity charges*) is siphoned to a foreign exchange account. These funds are earmarked for the IPP and government cannot touch this money. To provide ‘comfort’ for investors, escrow payments may actually exceed those required by

the PPA.³²

For example in Maharashtra when Enron had come for its huge power plant at Dabhol it had a counter guarantee of regular payment for output from the Maharashtra State Electricity Board (MSEB). The MSEB has set up an ‘escrow account’ collected from electricity consumers on which Enron would have first claim in the event of default, or even delay, in paying the power station: *“If MSEB fails to pay any of its obligations within five business days following the due date for payment, all escrowed amount shall be retained in the escrow account and,*

*to the extent not satisfied by a draw on the phase- II letter of credit, such retained money shall be paid to the company until the unpaid obligation has been paid in full.” To make the guarantee even more secure, the board gave Enron rights over 25% more than it is owed, “..... the escrow account would cover at least 1.25 times of the monthly capacity payment owing pursuant to the power purchase agreement”.*³³

The lack of escrow cover in some parts of India has caused a row over who has first right over the revenue generated through the state electricity boards. IPPs want first claim, but they are currently behind financial institutions and banks.³⁴ Some lenders have suggested that they should have access to other aspects of government revenue, such as sales tax.³⁵ Alternatively others have suggested that investors would get some comfort from a government commitment to undertake reforms, in accordance with certain agreed milestones.³⁶ These are likely to include privatisation of transmission and distribution based on the notion that private distribution companies will have a more sound revenue base and therefore more likely to pay the IPPs.³⁷

Under these circumstances there are also questions that the public sectors electricity utilities, such as the State Electricity Boards, would amass extensive debts due to some of existing contracts with the IPPs. This also would raise the trend of privatisation of public sectors. These situations had already turned down the government electricity generation units in Philippines and Kenya. Similar situations could also arise in India.

IPPS Agreements are Uncompetitive and Inflexible³⁸

The terms of power purchase agreements

can be fixed for decades, in some cases for up to 30 years and provisions are there for further extension too. Circumstances can change dramatically over such a time-frame. Yet, the terms by which governments have to purchase power from IPPs remain inflexible. Governments are tied into buying the same amount of power, regardless of fluctuations in demand or alternative sources of supply. Prices are fixed in foreign exchange, regardless of how this might relate to domestic prices or to what utilities are able to charge customers. Once PPAs have been signed, it can be difficult to change the terms, not least because of the fear that future investors will be put off by a government that is seen to renege on agreements.³⁹

IPPs are supposed to speed up the project process compared with other government contracts but this has not been the case. Once up and running, IPPs continue to stifle competition. According to a World Bank study, *“PPAs can hamper efficiency in system operations and sector liberalisation. Even if all the output can be freely dispatched, PPA prices deviate from those provided by a competitive pool – prices that are the same for all generators, a capacity charge smaller than that of a base load IPP and time-varying energy charges. The potential for inefficiencies is substantial if the IPPs meet a large share of the load; for example, PPA prices provide no incentive to maximize the availability of base load IPPs in the period when supply costs are highest.”*⁴⁰ This implies that the higher the proportion of power comes from IPPs, the greater the scope for inefficiencies. Based on this logic the lower the proportion of IPPs in power generation would increase efficient the electricity sector.

Investors have no incentive to respond

to market conditions or to compete with other producers. The only competition comes in the contract negotiating stage (*and not always then*). This is in itself a disincentive for new investors as, even if they can produce power more cheaply, the electricity utility is unable to switch to alternative sources for the duration of the PPA. Governments get left with ‘stranded assets’ which means that they are committed to paying higher prices for electricity (*or compensation to the IPP*), even if a cheaper competitor comes on to the market which might be due to technological progress and access to cheap power inputs.⁴¹

By insulating companies from some aspects of commercial risk, the IPP

bour. Hence, the main ‘efficiency gains’ one could expect from an IPP over a period of time is downward pressure on wages and numbers employed.⁴²

Gujarat State Electricity Board (*GSEB*) is a classical example to this where it is to pay around Rs. 500 crore to three independent power projects including Essar Power, Gujarat Torrent Electricity Company (*GTEC*) and Gujarat Industrial Power Company (*GIPCL*). However, GSEB will not buy power from them because of the fuel that they use (*high cost naphtha*). GSEB has to continue with payment because it is committed to paying a fixed cost of these power projects as per the power purchase agreements signed between GEB and the three

In the case of IPPs, however, where PPAs are fixed for long periods, another kind of moral hazard arises

framework sets an environment in the private sector, which the whole privatisation process seeks to eradicate from public ownership. One of the reasons put forward for privatisation is that government bureaucracies can suffer from ‘moral hazard’. This is the inefficiency that arises from economic actors being insulated from the real risks of their actions. In the private sector, where profits are at stake, the argument is that managers will use resources more efficiently. In the case of IPPs, however, where PPAs are fixed for long periods, another kind of moral hazard arises. Managers have no incentive to respond to market changes or to improve technological practices. The only incentive is to keep profits up and so keep costs down. IPPs are capital intensive and the most flexible cost is la-

companies.⁴³

High Prices and Generous Concessions⁴⁴

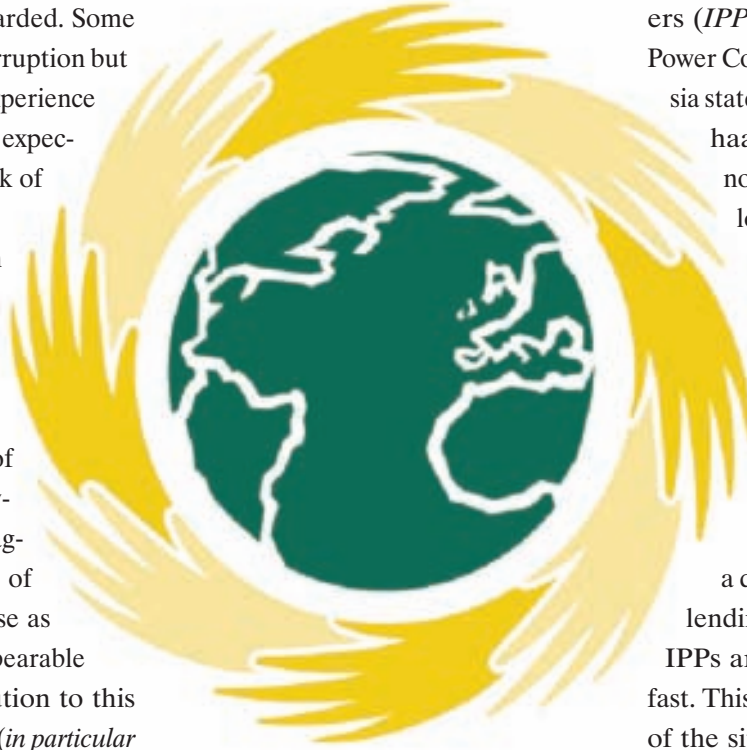
IPPs are an expensive source of power generation. According to the World Bank study, *“in the final analysis, it appears that IPPs have often inflated supply prices for utilities”*.⁴⁵ Prices paid under PPA terms are often so high relative to sales tariffs that they leave no margin for the costs of transmission. Raising prices for the end user is not always a solution as higher prices may just result in less usage or efforts to avoid charges.⁴⁶

The reasons for high PPA prices and generous concessions stem from the terms negotiated between the IPP and the government when the contract is drawn up. Subsequent events may further inflate costs but to a large extent the problems

start when contracts are awarded. Some attribute inflated costs to corruption but this is also to do with the inexperience of governments and inflated expectations of IPPs as well as lack of competition.

One of the problems with evaluating the effect of IPPs is that the central utility may already be in financial difficulties and the IPP may not be the only cause of impending bankruptcy. However that where there is a fragile electricity utility, the use of IPPs will make matters worse as the high costs result in an unbearable financial burden. The solution to this situation, according to some (*in particular the World Bank*) is to privatise the electricity utility. This is proposed in Uganda (*in order to make the Bujugali IPP 'sustainable'*). However, this does not guarantee success as events in the Dominican Republic demonstrate. Here, electricity distribution as well as generation has been privatised. The result is that the government sector has been squeezed further while the private sector has increased charges and profit margins. The effects have been disastrous with consumers facing massive tariff increases as well as lengthy blackouts.⁴⁷

In Costa Rica, it is reported that the electricity utility the Instituto Costarricense de Electricidad (*ICE*) paid private generators more than what the company would have produced the electricity itself.⁴⁸ In Dominican Republic, generators increased charges by 51 percent on privatisation. Consumers have suffered and in June 2000, wholesale businesses in the north of the country began to withhold payment of electricity bills in protest



against daily blackouts lasting more than 20 hours and 'abusive rates' charged by power companies. The government agreed to absorb 42 percent of the increase leaving customers with nine percent to pay.⁴⁹

This subsidy has been costing the government around five million dollars every month. By July 2000, the Dominican Republic state-owned electricity corporation CDE has accumulated a debt of more than US\$135mn with private generation companies. With mounting arrears, IPPs (*which now provide about 40% of the country's power*) are pulling the plug on power supplies, exacerbating blackouts which have been lasting up to 24 hours affecting businesses, schools and hospitals.⁵⁰ In Philippines, the average generating cost for IPPs in 1996 was \$76 per MW compared with \$57 per MW for the state-owned utility. Power contracts entered into by the former Ramos administration with independent power produc-

ers (*IPPs*) are bleeding the National Power Corporation to death.⁵¹ In Indonesia state electricity company PT Perusahaan Listrik Negara (*PLN*) announced a twelve fold increase in losses in the first half of the year 2000. These losses were made despite a 30% increase in revenue over the period.⁵²

In India according to experts, "the demand assessment for power has been the weakest link in the chain for the Electricity Boards. There is a distinct fear in the international lending community that too. Many IPPs are coming into the arena too fast. This would lead to a rapid reversal of the situation from power deficit to surplus. The Central and the State governments have further added to the fears by announcing large and small power projects in the public sector. From the above experiences of turning a state into a power hub is full of economic and financial risks. The idea of establishing IPPs at economic risks of state revenue recalls to the inability of planning at the primary level. This would further weaken the state and its apparatus politically. The abovementioned analysis hasn't calculated the social, cultural and environmental risks involved in the entire process.

The Issues that matters!

a. Land Alienation and Depeasantisation

Land alienation and displacement are integral part of life in mining plazas. In fact land is the lone sources of livelihood in rural areas across the country. In the last two decade, as an integral part of globalisation liberalisation policies large area of land has been taken away from the

people for various purposes – mega industries being the major one. While acquisition of the land from the people is a major issue, to the industries – most of them being private including both national as well as international – it is a means of multiplying capital.

An overwhelming majority of the Adivasis are agriculturists. Apparently there are a few Adivasis nomadic by history, culture, character and nature. The settled groups owe land for centuries without any external intervention, mostly in forest areas and fringes. Their entire life process was centered and built upon two major means of production i.e., the forest and the land. To understand the dynamics of land problem in the totality, one needs to understand the logic underlying the forces that govern its ownership pattern. The specific economic form in which unpaid surplus labour is pumped out of the direct producers, determines the relation of the rulers and the ruled.⁵³

Hence land problem of a particular area has to be understood from its historical perspective. Historical evidences are ample to prove the conception of depeasantisation as the net result of uneven structural changes that have taken place from time to time due to the commoditisation of the Adivasi economy in which land plays a critical and predominant role. This is what has and is happening to the entire Adivasi areas.

b. Privatisation of PSUs

In 2001, Sterlite, a subsidiary of Vedanta took over BALCO's Korba unit in Chhattisgarh along with its mining areas. Sterlite's further acquisition of a 65.9 percent controlling stake in Hindustan Zinc was challenged in the Supreme Court which questioned the legality of the govern-

ment's sale. The (*BALCO*) deal is economically irrational, politically deplorable, legally unsustainable and environmentally unsound and it violates the Supreme Court verdict in the Samatha case, which vests ownership of Adivasi land to Adivasis.⁵⁴

Even among the sorry stories of betrayals, caused by privatisation in the mining industry, the abject surrender of BALCO – let alone to a dubious outfit like Sterlite – stunk of expediency and underhandedness. This hasty sale of 51% of India's third biggest aluminum company (*brokered by Jardine Fleming of Hong Kong*) was seen by some as a 'pre budget maneuver' to balance the government's shaky books. There were allegations that the then rightwing central government delib-

There were allegations that the then rightwing central govt deliberately prevented BALCO from modernising

erately prevented BALCO from modernising on its own terms and with its own funds. In any event, the company was grossly undervalued; according to some estimates, Sterlite secured assets worth up to ten times what it paid for them.⁵⁵ The most immediate victims of the BALCO 'fire sale' were members of its workforce, threatened by redundancies and loss of benefits. Seven thousand workers in Chhattisgarh came out on a lengthy strike.

c. Fragile Ecology at Stake

Mining had already brought in numerous ecological concerns and problems in the entire country. Most of the mineral deposits are found in central Indian states like Chhattisgarh, Jharkhand, and Orissa.

Heavy deposits of iron ore, coal, limestone, bauxite, dolomite, tin ore, gold, etc. and is also rich in the deposits of precious and semiprecious stones like diamond, corundum, alexandrite, garnet, etc. Coal and iron ore are the key minerals in the state.

For example in Chhattisgarh the following areas within the state containing different minerals are being looked at for future exploitation: Deobhog in Raipur district and Tokpal in Bastar district has been identified for the exploration of Diamond; Bijapur in Bastar district for Corundum; Saraipali of Mahasamund district for Gold and Tin (*Cassiterite*); Bailadila, Raoghat and areas in Rajnandgaon and Kawardha districts for iron ore; Jhanjhar, Meru, Durg, Bhaupratapur,

Kondal area of Kanker district for gold; Renger, Markanar, Vasanpur area of Dantewada district for tin; Chhirahi-Newari, Saradih, Garrabhata and Patharkundi village of Raipur district and Sakti area of Janjgir district for limestone. In addition 500 lakh tonnes of high grade dolomite has been found in Lagra-Madanpur in Champa-Janjgir district; five lakh tonnes of metal grade bauxite in Dorima (*or Barima*) of Surguja district; 220 lakh tonnes of coal has been identified in Hardi Bazar-Kertali in Korba district; 170.4 lakh cubic metres of flagstone having different shades and colours has been demarcated on the revenue land of Chitrakot and Matkot area of Bastar district; clay and banded haematite quartzite (*BHQ*) in the Balod area in

Durg district.⁵⁶

The mining areas have a huge overlap with the forest and Adivasi areas in the state and the increasing mining activities and allied industries have had a tremendous negative impact on these. A study by the Forest Survey of India (*FSI*) looking at 'Forest cover in metal mining areas' shows some revealing statistics. In Bastar region, one of the biodiversity rich areas of Chhattisgarh, out of the 13,470 hectare area under leases for iron ore mining, 11,657 hectares are covered by forests.⁵⁷ This of course indicates the forest within the actual lease, but the impact on the forests, biodiversity and the communities dependent on this region due to ancillary impacts of mining extends far beyond the actual lease area.

structured. The influx of people from outside and mechanical and manual mining operations have ravaged the area. This can be clearly seen around Kirandur, Bachel and Bhansi where units of NMDC are working.

Forest destruction continues unabated to this date for iron ore mining, timber and firewood requirements. Mining operations have caused tremendous pollution in the water of river Sankhini and other rivers and streams.⁵⁸ As a consequence of runoff from the mines, a 32 km stretch of the Sankhini river is called 'lal pani' (*red water*) by the Adivasis; who see the "earth bleeding from the wounds inflicted on it by the miners." The impact on both the terrestrial and aquatic ecosystems in the region has been tremendous.

Raipur district of Chhattisgarh and their connecting corridors are threatened by the proposed diamond mining. The proposed mining is mainly around the Udanti sanctuary. Udanti holds some of the last herds of the wild buffalo and the mining will also cause great loss of habitat contiguity for wildlife in this region.⁶¹ In January 2001 it was reported that the Union Government had ordered an inquiry into illegal mining carried out by B. Vijay Kumar Chhattisgarh Exploration (*BVKCE*) in Deobhog in Chhattisgarh in the year 1999. The company had been given a 'prospecting license over large area' of 4600 sq. km. The firm had illegally collected jeeploads of diamond soil from inside the Udanti sanctuary and samples had also been sent to Australia and South Africa for testing.⁶² More recently several companies have been granted reconnaissance permits for diamond in Chhattisgarh.

d. Mechanisation and Rights of Mine-workers

The issue of mechanisation is closely linked to the question of industrial production, and to the question of the size of the organised industrial workforce and consequently, to the question of unemployment.⁶³ Up till the 80s whatever mechanisation has taken place was primarily due to certain bilateral agreements. Dumping of obsolete machinery and technology in the third world, especially in India, is destabilising the very economy. The deployment of machinery should be undertaken only when it is keeping with the economic, social and cultural needs of the specific locality and country.

Another critical issue related with mechanisation is that of contract labour. Industrial development and contract la-

The impact on both the terrestrial and aquatic ecosystems in the region has been tremendous

Another instance is the Bailadila hill ranges is a 36 km long and 10 km wide hill range located in the Dantewada district of Chhattisgarh. The area is characterised by rugged terrain and heavy rainfall. It harbours rich biodiversity. Its upper ridges are covered with dense deciduous forest and the lower slopes and banks of the nalas consist of semi evergreen species. Varied physiographic elements and micro-climatic conditions, in association with vegetation, have made this area a treasure house of medicinal plants. Excavation of iron ore has caused immense damage to the Bailadila hills and adjoining water resources and land. NMDC started exploitation of iron deposits in 1962 for export to Japan for which a railway line from Kirandur to Vishakapattanam was con-

The afforestation done for rehabilitation also involves the use of non native species such as Eucalyptus, *Peltodendron* sp., *Acacia auriculiformis* and *Gulmohar* (*D. regia*). This region lies south of the Bhairamgarh sanctuary and west of Pamed sanctuary.⁵⁹ The area has been recommended to be declared as a biosphere reserve by an ongoing biodiversity planning initiative, which also emphasises the need for NMDC to shoulder the responsibility to restore biodiversity in the degraded areas and protect rest of the areas still having valuable biodiversity.⁶⁰

One of the major threats to wildlife habitats in Chhattisgarh is due to proposed diamond mining in protected areas. It was reported in 1999 that the Udanti and Sitanadi wildlife Sanctuaries in the

bour system coexist in the country like twin brothers. Contract labour system is diametrically opposite to any intension of employment generation.

Here is another example. In Chhattisgarh at Mainpat, the biggest single bauxite mining complex, around thirty Adivasi workers, unhelmeted, clad in shirts and saris under a blazing sun, as the lat-eritic overburden was blasted. The same story is that of the workers in the Daldali mines owned by the same company Vedanta. Virtually all Vedanta's bauxite miners are contract labourers. They earn just over 60 rupees (*less for women*), for loading one tonne of ore. In Daldali it is different story since the rates are different for different group of people. Those who could bargain better rates get better and those who couldn't bargain it to their level are the lost ones. Particularly the Baigas, one of the primitive tribes adopted by the President, couldn't bargain to the extent of the Gonds. Nevertheless it won't be more than 60 rupees per person per day.

Again in Mainpat their habitations are small thatched hovels, perched over the quarry, deprived of electricity and adequate water. "There's only one hand pump to serve 150 families," a young Adivasi woman worker, Mati Shahu, told us. "The company provides no medical facilities and if someone's injured we have to take them ourselves by taxi down to the plains", informed another worker. Villagers at another, slightly better appointed settlement close by, complained that, day and night, the silica laden dust

from the mining blew into their windows, covering walls and floors.

In June 2005, Vedanta's contract labourers at Mainpat went on strike against the appalling conditions to which they are subjected. On July 18, 2005, another 2,500 contract workers at the BALCO Korba expansion project 200 km further north, went on strike to protest a worker's death on duty. On July 19th 2005, police baton-charged the striking workers, injuring seven, instead of consoling the family of the deceased that has four children.⁶⁴ Last year's chimney accident in Korba is another instance of keeping the people in darkness. Although an inquiry has been ordered, the real culprits are still at want.

e. Shrinking Employment Opportunities

Reduction of employment is gripping heavily under globalisation liberalisation policies. On one hand sophisticated technology and mechanisation will directly reduce the possibilities of employment and on the other hand schemes like VRS and ESS are retrenching the workers thereby decreasing the number of employees in each sector. There are clear indicators of this in Chhattisgarh too. For example in 1984, in Bhilai Steel Plant, 96,000 workers were employed but today there are only about 42,000 workers.

The production has tripled but the number of workers has fallen. According to one of the retired managing directors, BSP can go full swing with just 6,000 workers. They have such plan of massive mechanisation and automation.⁶⁵

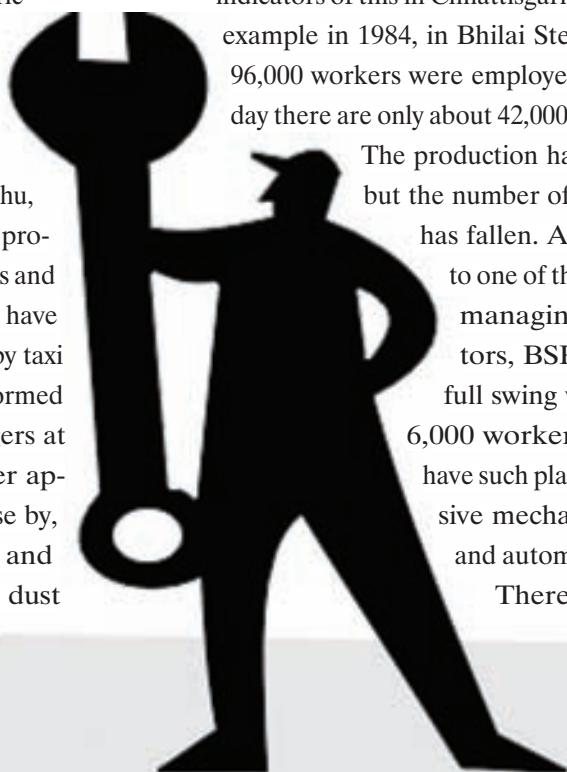
There is a ce-

ment factory run by Ambuja group (*formerly by Modi group*) in Chhattisgarh, which has the largest production capacity in Asia. Its total capacity was 10.46 lakhs in 1992 but to produce that they have engaged only 300 workers. 30 years ago Tata had put up a cement factory in Jamul near Bhilai. It had a production capacity of four lakh tons and the number of workers are 1800.⁶⁶ Mechanisation goes to such extents that in future it may need only two or three employees to run the entire plant. The prophets of industrialisation talk about prosperity and creation of jobs, but what is actually happening is extremely shocking.⁶⁷

f. Refutation of Rights

Refutation of the rights is characteristically multidimensional – one is the denial of the eligible rights of people in mining zones, another is the flouting of law by the State machinery and third is the rights of the mineworkers. Looking at the aspect of denial of rights, certain constitutional provisions are also not taken care while executing the project. Apart from this, there are some other laws with specific provisions in terms of land acquisition, right on common property like water, forests, etc. provisions preventing any sort of mining activity within the Scheduled Area and so on. PESA is fully ignored. In most of the places such violations have become a common routine. Labour laws are never practices with mineworkers. In almost all the places these mines are recruiting contract labourers. Some of the commonly violated articles of the Constitution of India under fundamental rights are Article 19 (e), (f), (g), (i), (o). Similarly under the Directive Principles of State Policy Article 38, 39 (a), (b), 46, 47, 48, Article 51 (g), (i) are grossly violated.⁶⁸

Mining in forest areas grossly violates





major provisions under the National Forest Policy 1988 such as Sections 2.1, 2.2, 3.1, 3.2, 3.4, 3.5, 4.3, 4.4, 4.6, and 4.9.⁶⁹ Similarly in Scheduled Areas all provisions with regards to the provisions under the *Panchayat Raj Act* are clearly violated. In Section 4 (a) it clearly states, “a state legislation on the panchayats that may be made shall be in consonance with the customary law, social, and religious practices and traditional management practices of community resource”. Further Section 4 (b) says, “every gram sabha shall be competent to safeguard and preserve the traditions and customs of the people, their cultural identity, community resources and the customary mode of dispute resolution”⁷⁰. The Scheduled Area Act or the Panchayat Extension to Scheduled Area Act (*PESA*) is one powerful weapon in fight-

ing unjust mining. Gross irregularity and corruption in granting the mining lease are involved.

In Chhattisgarh there is a specific provision holding back the transfer of Adivasi land to non Adivasis under section 170-B of the Land Revenue Code.⁷¹ This again is not a national policy barring the transfer of Adivasi land to non-Adivasis. In addition to this land could be taken away via land acquisition in the name of National Development.

g. Absence of Resettlement and Rehabilitation Policy

Though the inception of planned economic development brought in a lot of infrastructure projects, they have also displaced a number of people. Yet there is the absence of a proper national reset-

tlement and rehabilitation policy. Neither at the national level nor at the state level there exist any specific legislation for rehabilitation of the project oustees, particularly in those areas where the land settlement hasn't been executed in accordance with the traditional land holding patterns among Adivasis. Hence there is difficulty in claiming rehabilitation as a matter of constitutional rights after displaced. Although there are certain policies stands against people's aspiration. In fact this very policy undermines the possibility of Adivais rights in many ways.

Planning and Commissioning: India on Sale!

From the above, there is no doubt that mining has in no way benefited the people.

There are several instances where people have strongly resisted the different moves of such mining companies. They had resisted the land acquisition process, challenged the environmental procedures, and expressed their strong discontented against any such action. In most of these areas PESA as a law had been abandoned by the officials thereby superseding it with other legal acclimation, while on the contrary people's resistance had been turned into a law and order problem. In Scheduled Areas, it is seldom allowed to exercise their rights under the provisions of PESA.

Therefore in a general overview one could find the depletion of natural resources like water, forests, land, declination of food grain produce and productive process, depletion in the arability of cultivable land, pollution of water, air and land and an alarming decline of democracy as an institution in these areas. Hence under these circumstances it is essential to look into the question of the professed national development through mining in the Adivasi areas vis-à-vis Adivasi development through local and natural resources. Never in the past, have the state and industry kept their promises with the ordinary people.

Conflicts over mining have existed for more than four decades in different forms in. In earlier days such disagreements were not taken to be conflicts as such, but only as immediate questions related to inadequacy. Another reason for limitation of these conflicts is the limitation of trade union movements in industrialised areas to understand the gravity of the problem and address it thoroughly. The standpoints of trade unions were only one dimensional; related to an increment in wages or matters related with labouring

class. The Union could never address the entire question of mining in totality. Moreover mining has been strongly presupposed as a major means of industrial development contributing to the state economy. Even organised trade unions find nothing wrong in mining as such. So how the vehicle of development could be understood as a conflict was another question. Over the course of time the very definition of state and its economy has changed. This has impacted the general thought process of the opinion building class.

These middle class thoughts have much reflected in all the policy documents of the state. A few aspects are crystal clear flipping the mineral policy, the industrial policy, the investment policy, the environmental policy, the water policy, the land

and non repairable ecological imbalances. It undermines the amount of disparity it brings due to land acquisition. The indigent people are denied of their eligible rights in mining zones and laws are flouted by the State machinery. The rights of the mineworkers are also flouted. The aftermaths of mining could be gazed in the following few points.

The Final Word

The picture is lucid that how the concept of industrialisation under planned development and now under globalisation liberalisation policies had adversely affected the masses. In this situation, where are the people going to be listed? The choice and space is limited. It is also clear that the land acquisition and free market economy goes hand in glove. In

Never in the past, have the state and industry kept their promises with the ordinary people

utilization policy and the compensation package. It is meant for increasing private and foreign capital in the mining sector by creating conducive business environment to attract private investment in the State. The state will provide counter guarantee in case of any loss incurred by such foreign companies. All social, political, environmental and legal hindrances have been slowly and strategically cleared for the entrance of these private sectors. For realising this, administrative procedures have been simplified and all procedural impediments are taken care by the state. Now the Forests Conservation Act 1980 is considered to be the biggest obstacles.

Mining invariably brings about environmental destruction, human displacement

a market economy people are disallowed to exercise their free will at least in the matter of disposing their land at the market price.⁷² The mechanism of compensation and rehabilitation is too much supportive to the corporate sector; this only pauperises the poor than a change in their destiny. The principles of compensation often forgets or never estimates that on the very first day of reaching a rehabilitation colony, a poor family has to buy firewood, which they procured free from the Common Property Rights (CPR).⁷³

Land is a productive asset but people are more emotionally attached with the land in many ways. For many it is the symbol of their freedom. To some it is the

image of their fight against the upper caste. It represents the mark of reiterating the lost identity. To many it is the icon of self-determination, coexistence and community feeling. But to the corporate sector and agents of development it is a commodity to be consumed. The state also takes side with these so-called think tanks. Land can be purchased and sold for commercial purpose. Or even it could be acquired forcefully. The common man of the country sacrifices himself for the relish and enjoyment of the elite.⁷⁴ No mining company could compensate the loss that people have to suffer.

Today the trust of the disinherited has been shattered and disowned by the disingenuous attitude of the state. In many cases even the highest offices of the President and the Governor closed eyes and remained disabled to use their prerogative powers. All attempts were only to sugar-coat and water-down the efforts of democratic protests and opposition, which give an impetus to the mining companies to capitalise the situation and overthrow the people's aspirations. Questions pertaining to human rights violation go unheard.

This abominable and abhorrent attitude, the odious and repulsive demeanour, the atrocious and heinous actions of the state puts forward an array of questions. The hire and fire formula of the capital-fascist brigade, the coherence of world capital with global fascism is permeating glaringly. It is under this context questions what sort of planning does the many commissions did in the context of mining and for whom it was needs to be addressed. This litmus test is on the meaning of planned development, the meaning of displacement and eviction, the parlance of rehabilitation and resettlement, etc.

With such a drastic situation one can't honestly laud kudos to the entire phase of planned development. The state should become more responsible and accountable to the masses and needs to undergo a serious planning with a bottom-up formula. Otherwise this land would be vacant without people by the next generation! [\[E\]](#)

Endnotes and Additional Thinking

¹ <http://www.tripwolf.com/en/india/info/background-modern-india-economy-india-s-five-year-plans> accessed on August 28, 2010.

² C.R. Bijoy and Jose Sebastian, "Redefining Social Action in the Globalised Era", Programme for Social Action, annual get-together theme paper 1996.

³ Goldy M. George, "Digging the Graveyard A Study on Jindal's Mining in Raigarh of Chhattisgarh", National Centre for Advocacy Studies, Pune, 1999-2000, page 1.

⁴ Optical Cite, C.R. Bijoy and Jose Sebastian, 1996.

⁵ Optical Cite, Goldy M. George, 1999-2000 page 1-2.

⁶ Kavaljit Singh, "A citizen's Guide to the Globalisation of Finance", Madhyam Books, Delhi & Documentation for Action Groups in Asia, Hong Kong 1998, page 5.

⁷ P. M. Tripathi, "Impact of Globalisation on Regional Development in Asia", AVARD, page 1. <http://www.angoc.ngo.ph/pdf/files/Impact-of-Globalisation-on-Regional-Development-in-Asia.pdf> accessed on December 1, 2009

⁸ Manpreet Sethi, "Land Reforms in India: Issues and Challenges", <http://www.foodfirst.org/files/bookstore/pdf/promisedland/4.pdf> accessed on August 27,

2010.

⁹ Optical Cite, Goldy M. George, 1999-2000, page 6

¹⁰ Optical Cite, Goldy M. George, 1999-2000, page 6

¹¹ Xavier Dias, "Mining Today – An Overview", Mines, Minerals & PEOPLE, 1999-2000.

¹² Optical Cite, Xavier Dias, 1999-2000

¹³ Optical Cite, Xavier Dias, 1999-2000

¹⁴ Optical Cite Xavier Dias, 1999-2000

¹⁵ Trade Union Record, July 5, 1998

¹⁶ Annual Report, Ministry of Labour, Government of India, 1993.

¹⁷ Mineral Policy of Chhattisgarh, 2001, page 4

¹⁸ Industrial Policy 2009-14, Government of Chhattisgarh, Section 1.5, page 2.

¹⁹ "Consortium Lending", http://www.pfcindia.com/consortium_lending.pdf accessed on 16th September 2009

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Kate Bayliss, & David Hall, "Independent Power Producers: A Review of Issues", Public Service International Research Unit (PSIRU), School of Computing and Mathematical Institute, University of Greenwich, November 2000, page 3 accessed from www.psiru.org/reports/2000-11-E-IPPs.doc on March 1, 2010

²⁴ Ibid.

²⁵ Ibid.

²⁶ http://en.wikipedia.org/wiki/Independent_Power_Producer accessed on January 30, 2010

²⁷ Ibid.

²⁸ Public Utility Public Policies Act, 1978.

²⁹ Ibid, Section 210.

³⁰ http://en.wikipedia.org/wiki/Independent_Power_Producer accessed on Janu-

- ary 30, 2010
- ³¹ Optical cite, Kate Bayliss, & David Hall, page 3.
- ³² Ibid, page 4.
- ³³ Amy Louise Kazmin, "Guarantees ignite flurry of Indian power plant activity: Projects are plunging ahead despite claims that the government has changed the rules in mid-game", **Financial Times**, August 26, 1998
- ³⁴ "IPPs FIs Clash on Demand for Revenue", **Business Standard**, May 11, 2000.
- ³⁵ "Lenders to IPPs want Recourse to State Revenue in case of Default", **Financial Express**, May 11, 2000
- ³⁶ "Power funding to be reform linked", **Indian Business Insight Database**, May 10, 2000
- ³⁷ Optical cite, Kate Bayliss, & David Hall, page 4.
- ³⁸ Optical cite, Kate Bayliss, & David Hall, page 5.
- ³⁹ Ibid.
- ⁴⁰ Yves Albouy & Reda Bousby, "The Impact of IPPs in Developing Countries – Out of the Crisis and into the Future" The World Bank, Public policy for the private sector, Note No. 162, December 1998
- ⁴¹ Optical cite, Kate Bayliss, & David Hall, page 5
- ⁴² Ibid, page 5
- ⁴³ "GSEB has to give but cannot take from IPPs", **Economic Times**, September 6, 2000
- ⁴⁴ Optical cite, Kate Bayliss, & David Hall, page 6
- ⁴⁵ Optical cite, Yves Albouy & Reda Bousby
- ⁴⁶ Optical cite, Kate Bayliss, & David Hall, page 6
- ⁴⁷ Ibid, page 6.
- ⁴⁸ "Comptroller claims generator con-
- stants lack legal footing: Costa Rica", **Business News Americas**, World Reporter, August 31, 2000
- ⁴⁹ Optical cite, Kate Bayliss, & David Hall, page 6
- ⁵⁰ Ibid, page 6
- ⁵¹ "IPP deals killing NAPOCOR", **Manila Standard**, September 20, 2000
- ⁵² Optical cite, Kate Bayliss, & David Hall, page 7
- ⁵³ Shyama Prasad Rout, "Land Alienation and Adivasi People's Rights: A Case Study of Mayurbhanj District in Orissa", JNU, New Delhi.
- ⁵⁴ Praful Bidwai, in **Frontline** May 2-25 2001
- ⁵⁵ "Vedanta Resources plc Counter Report 2005 Ravages through India", by Nostromo Research and India Resource Center, London, page 12
- ⁵⁶ "Chhattisgarh Biodiversity Strategy and Action Plan" (draft), 2002, Forest Department, Chhattisgarh.
- ⁵⁷ A study of FSI, 199 (unpublished). Cited in State of Forest Report 1999, Forest Survey of India, Dehradun, page 62.
- ⁵⁸ "Central Forest Belt Biodiversity Strategy and Action Plan" (draft), 2002. This was part of the ongoing National Biodiversity Strategy and Action Plan. Vidarbha Nature Conservation Agency
- ⁵⁹ Neerauj Vaghlikar, and Kaustubh A. Moghe with Ritwick Dutta, "Undermining India Impacts of Mining on Ecologically Sensitive Areas", Kalpavriksha, 1999, page 18.
- ⁶⁰ "Central Forest Belt Biodiversity Strategy and Action Plan" (draft), 2002. This was part of the ongoing National Biodiversity Strategy and Action Plan. Vidarbha Nature Conservation Agency
- ⁶¹ "Threat to Udanti", **Tiger Link News** Volume 5 No. 1, January 1999.
- ⁶² **Indian Express**, January 10, 2001
- ⁶³ Shankar Guha Niyogi, "Mines Mechanisation and People", in "On A Rainbow in the Sky... The Chhattisgarh Mukti Morch", Centre for Education and Communication, New Delhi, page 48-57.
- ⁶⁴ IANS report, July 20 2005
- ⁶⁵ "Dance of Life & Dance of Death", Programme for Social Action, 1992 page 41-42.
- ⁶⁶ "Dance of Life & Dance of Death", Programme for Social Action, 1992 page 42.
- ⁶⁷ Goldy M. George, "Questions arising from the new statehood", **The Hindu**, 31st October 2000.
- ⁶⁸ For further details refer to the Constitution of India
- ⁶⁹ National Forest Policy, 1988.
- ⁷⁰ For further details refer Panchayat Extension to Scheduled Area Act 1996.
- ⁷¹ Section 170-B of the Chhattisgarh Land Revenue Code.
- ⁷² Prafulla Samantara, "People's Rights to Livelihood and Sustainable Development in the Context of Steel Projects at Gopalpur", A pamphlet.
- ⁷³ Goldy M. George, "Global Capital Vs People's Power – People's Struggle Against Gopalpur Steel Plant and Corporate Giants", National Centre for Advocacy Studies, Pune, 1998-99, page 28.
- ⁷⁴ Goldy M. George, "The Politics of Land and the Besieged Lot", A paper presented during the annual get-together of CHETHANA, Madanapalli, Andhra Pradesh, 2001, page 5-6.

(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

Subscription Form

OTHER IIPM JOURNALS



Please enter my subscription for **The India Economy Review**

The IIPM Think Tank's publications address the full range of public policy and managerial issues, wherein the emphasis is on addressing the new economic and managerial challenges. The IER journal is priced notably below both the discipline's standard price and the rates characteristic of large commercial publishers in India and practically all over the world. The idea is to reach out to a general-interest audience, practitioners, and other non-academics.

The India Economy Review Subscription

For India And SAARC Region

Per Issue

INR 140

1 year (4 issues)

INR 520

2 years (8 issues)

INR 990

3 years (12 issues)

INR 1400

Note : All prices excluding shipping cost

I am enclosing my cheque/DD no. _____ dated _____ for INR/USD _____ on bank _____ branch _____ drawn in favour of "The Indian Institute of Planning and Management".

My Personal Details (IN BLOCK LETTERS)

Name _____

Designation _____

Organization _____

Address _____

City _____ State _____

Country _____ Pin (mandatory) _____

Tel _____ Mobile _____ e-mail _____

Age ☐ Below 25 ☐ 25-35 ☐ 35-50 ☐ Above 50

Education ☐ Graduate ☐ MBA ☐ CA/CFA ☐ Other

Signature (Mandatory) _____. We will not be responsible for journals lost in the post/courier.

The Subscription amount is NOT refundable. All subscriptions must be paid in advance in INR.

Contact Details

THE INDIA ECONOMY REVIEW, The IIPM Think Tank,

Shweta Shukla (Subscription Manager)

Satbari, Chandan Haula, Chattarpur, Bhatimines Road, New Delhi-110074

Contact Details: 91-11-42789904; e-mail: shweta.shukla@iipm.edu

IIPM reserves the right to accept subscriptions. For any another queries please write to m.chaitanya@iipm.edu

PRAISE FOR IER

"In my opinion, it has fulfilled its objective in presenting a comprehensive, up-to-date and clear exposition of the issues and concerns that are essential for understanding, evaluating and suggesting solutions to the important national economic problems."

Mr. U.K.S. Chauhan, Director, Department of Agriculture and Cooperation, Ministry of Agriculture, New Delhi

"...I laud your info base and analytical prowess; particularly your solutions vis-a-vis international experience...you may like to examine further from your side the aspects of futures trading in the perspective of the Indian farming community given your extant knowledge base in agriculture."

Mr. Suvendu Ganguly, Deputy Director, Forward Markets Commission, Kolkata

"...I thoroughly enjoyed going through your recent issue of Indian Economic Review...it is undoubtedly a mammoth task of pulling together divergent perspectives on the critical issues of the nation..."

Dr. Parth.J.Shah, Centre for Civil Society, New Delhi

"The IER, a thematic compilation of economic thoughts, ideas, questions, answers and solutions...promises to usher in a potentially better, if not necessarily newer, dawn of economic policies that radiates the power to dispel the current darkness of socio-economic and socio-political confusion... the review exudes qualified optimism about country's prospects."

Mr. S.R.Kasbekar Senior Editor, The Financial Express, Mumbai

"I have to say that the Indian Economic Review, 2005 Volume-III, is very impressive and the material is very good. I send all of you involved with it, my heartiest congratulations and wish you all the best."

The Lord Paul, The Rt. Hon. Lord Paul of Marylebone

"Undoubtedly, it is of exceptional quality and amongst the best that I have seen in my interaction with similar organisations in different countries. I merely wanted to write to you and congratulate you and your institution on an extremely well researched and presented endeavour... I have taken the liberty of putting the copies that I had

got along in the WTO library."

Mr. Shishir Priyadarshi, Development Division, WTO, Geneva

"...The Indian Economic Review is a very informative document."

Dr. V.L.Chopra, Member, Planning Commission, New Delhi

"...I found it very useful material, which has dealt with the vital issues that we are facing in the field of education, health, poverty and employment. I would like to compliment all the authors as well as the editorial team for bringing out such a valuable publication."

Dr. Arun Nigavekar, Chairman, UGC, New Delhi

"If the purpose of a think tank is not merely to think issues through but also to ignite thinking among the readers, I think you have succeeded very well indeed."

Mr. R.Badrinath, Director, Division of Trade Support Services, International Trade Centre, Geneva

"Modern India certainly needs more think tanks like yours... unlike most academic journals, yours is well-designed, readable and also conveys a sense of aesthetics and humour through the illustrations... it well reflects the high standards of the IIPM."

Mr. Brij Khindaria, President, Diplomatic forum for Business, Geneva

"I have received the IER issue...very impressively put together with a lot of solid analysis...kudos to those who are bringing it out."

Mr. B.S.Raghavan, IAS(Retired), ex-US Congressional Fellow, ex-Policy Adviser to UN(FAO), ex-Adviser to International Commission on Peace and Development, ex-Director, Politician and Security Policy Planning, Government of India

"I am much impressed by the content and quality of the journal Indian Economic Review and the wide range of issues it covers. The editors indeed fully deserve the title of 'think tank'!"

Dr. V.M.Madiman Rao, Institute for Social and Economic Change, Bangalore

PRAISE FOR IER

"Thank you very much for sending me the Indian Economic Review 2007 on India's Policy Deficit: Planning for Change. I appreciate the initiative taken by the IIPM Think Tank in this area."

Dr. Indira Hirway, Centre for Development Alternatives, Ahmedabad

"Your publication is interesting and useful to us in our work."

Mr. Mihir.R.Bhatt, Honorary Director, All India Disaster Mitigation Institute, Ahmedabad

"It is nicely designed and also rich in contents."

Dr. Rudra Narayan Mishra, Gujarat Institute of Development Research, Ahmedabad

"We at IDEI do appreciate the efforts being made by your organization...IER which is committed to enhance public awareness of policy issues in economics and management and to engineer solutions that will fulfil the Great Indian Dream."

Ms. Rajpreet Kaur, Program Support Officer, International Development Enterprises (India), New Delhi

"I like the content, which is extremely detailed but balanced and certainly offers a good non-ideological mix from leading authors."

Dweep.I.Chanana, UBS Philanthropy Services, a consulting unit of UBS AG, Zurich

"I managed to flip through the Review and found some of the articles very interesting ... IER has an interesting mix of articles and the photos and layout are also very well done."

Ms. Kumkum Dasgupta, Hindustan Times, New Delhi

"They are highly informative, focusing on contemporary issues."

Dr. Rajib Kumar Sahoo, Senior Economist, Canara Bank, Bangalore

"Presentation of IIPM Think Tank is really of high quality. Your team led by Dr. M. K. Chaudhuri and Prof. Arindam Chaudhuri deserve the appreciation from every one who has a vision and dream for a new innovative India. Hope your effort will become a path finder for innovative research workers."

Dr. Gouri Pada Dutta, Chairman, Subject Committee (Health), State Planning Board, West Bengal, Kolkata

"I would like to Congratulate IIPM for bringing such critical policy issues to the forefront, especially as India and world's other great economies tread on the path of globalization and economic liberalization. Your efforts at adding the human face to some very core management areas are indeed commendable."

Mr. Bharti Ali, Co-Director, HAQ: Centre for Child Rights, New Delhi

"I have been reading it with great enthusiasm, interest and curiosity nonetheless. I would also like to congratulate you and your team for truly high-quality editions of IER that are of the prime importance to the future of India's thriving economy."

Dr. Rok Spruk, Slovenia

"I have received your energy /environment special issue. I enjoyed reading it. This is one of the most comprehensive reviews available on the subject today... This number is timely and will serve as a basic reference for leading policy makers/planners in India. In fact, I can say that all your volumes are packed with information/ideas for development workers. I wish you all the best in your new assignment."

Dr. G.Poyya Moli, Member, CEM, IUCN & Member, SEAC & SHCC, Govt of Puducherry, Reader, Department of Ecology & Environmental Sciences, Pondicherry University, Pondicherry

"I am impressed particularly with the varieties of issues that you have been able to cover in this publication. Thank you for this spectacular piece of work."

Dr. Soumendra K. Dash, Chief Economist, CARE Ratings Ltd, Mumbai

"I find that the journal covers a wide range of subjects in Economics, and is very useful both for reference and research."

Dr. Prabha Panth, Professor of Economics, Osmania University, Hyderabad

"The copies of IER are excellently produced and its so nice to see that you have many new names from new institutions."

Dr. PadmaPrakash, Editor, eSocialSciences