

## CHAPTER

# 4

# ECONOMIC PLANNING

- ⇒ Introduction
- ⇒ Definition
- ⇒ Origin and Expansion of Planning
- ⇒ Types of Planning



*The idea of planning and a planned society is accepted now in varying degrees by almost everyone. But planning by itself has little meaning and need not necessarily lead to good results. Everything depends on the objectives of the plan and on the controlling authority, as well as, of course, the government behind it.\**

\* As Jawaharlal Nehru writes in **The Discovery of India**, Oxford University Press, 6th Impression (1st Edition 1946, Oxford, London), N. Delhi, 1994, p. 501.

### INTRODUCTION

In order not to limit the discussion on economic planning to just an academic exercise, we need to discuss it taking real life examples from different economies. Without a historical background to planning, we would not be able to understand the meaning and role of planning in India. This small chapter intends to brief the reader on all the *whats, hows* and *whys* of the concept of economic planning with due recourse to the experiments by different countries from time to time, including India. It could also be considered a theoretical backgrounder for the next chapter, *Planning in India*.

### DEFINITION

A number of definitions have been forwarded by different economists from time to time since the term 'planning' entered the domain of economics. To make us develop a clear understanding of planning, we need to see only a few of them which will enable us to draw out a working definition that fits contemporary time.

A large number of economists and experts have agreed that perhaps the best definition is given by H. D. Dickinson, according to whom, economic planning is, "the making of major economic decisions—what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole."

It was the National Planning Committee, set up in 1938 by the Indian National Congress which, for the first time, tried to define planning (in 1940, though, its final report was published in 1949) in India. It could be considered the broadest possible definition of planning: "Planning, under

a democratic system, may be defined as the technical coordination, by disinterested experts of consumption, production, investment, trade, and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics, and raising of the standard of living, but must include cultural and spiritual values, and the human side of life."<sup>1</sup>

By the late 1930s, there was an almost political consensus that independent India will be a planned economy. As India commenced economic planning by the early 1950s, the Planning Commission of India also went on to define planning. According to the Planning Commission, "Planning involves the acceptance of a clearly defined system of objectives in terms of which to frame overall policies. It also involves the formation of a strategy for promoting the realisation of ends defined. Planning is essentially an attempt at working out a rational solution of problems, an attempt to coordinate means and ends; it is thus different from the traditional hit-and-miss methods by which reforms and reconstruction are often undertaken".<sup>2</sup>

In the post-War period, a large number of the newly independent countries were attracted towards planning. Many new forces of change kept refining the very idea of planning due to the compulsive necessities of industrialisation or the issue of sustainability of the development process. But to carry forward our discussion, we need a working as well as a contemporary definition of planning. We may define it as *a process of realising well-defined goals by optimum utilisation of the available resources*.<sup>3</sup> While doing economic planning the government sets developmental objectives and attempts to deliberately coordinate

1. S.R. Maheshwari, *A Dictionary of Public Administration*, Orient Longman, N. Delhi, 2002, p. 371.

2. Planning Commission, *First Five Year Plan (1951-56)*, Government of India, N. Delhi, 1991, p. 7.

3. After the emergence of the concept of **Sustainable Development** (1987) experts across the world started using the term 'optimum' in place of the hitherto used term 'maximum'.

the economic decision making over a longer period to influence, direct and in some cases even to control the level and growth of a nation's main economic variables (i.e., income, consumption, employment, saving, investment, exports, imports, etc.).<sup>4</sup>

An economic plan is simply a set of specific economic targets to be achieved in a given period of time with a stated strategy. Economic plans may be either comprehensive or partial. A **comprehensive plan** sets targets to cover all major aspects of the economy while a **partial plan** may go for setting such targets for a part of the economy (i.e., agriculture, industry, public sector, etc.). Taken broadly, the planning process itself can be described as an exercise in which a government first chooses social objectives, then sets various targets (i.e., economic targets), and finally organises a framework for implementing, coordinating, and monitoring a development plan.<sup>5</sup>

One very important thing which should be clear to all is that the idea of planning first emerged in its applied form and after studying and surveying the experiences of different countries who followed it, experts started theorising about planning. Thus, in the case of planning, the direction has been from practice to theory. This is why the form and the nature of planning kept changing from country to country and from time to time. As we will see in the following pages, the types of planning itself evolved through time as different countries experimented with it.

As per our working definition, we may say the following things about planning:

- (i) **Planning is a process.** It means planning is a process of doing something. Till we have some goals and objectives left

regarding our lives, the process might continue. With the changing nature of our needs, the nature and scope of the planning process might undergo several changes. Planning is not an end in itself. As processes accelerate and decelerate, change direction and course, so also does planning.

- (ii) **Planning must have well-defined goals.** After the Second World War, several countries went for development planning. As these nations had enormous socio-economic hurdles, they first set some goals and objectives and then started their process of realising them via planning. In due course of time, there emerged a consensus that planning must have some goals and those goals should be well-defined (not vaguely defined)—so that the government's discretionary intervention in the economic organisation could be democratically transparent and justified. Even in the non-democratic nations (i.e., erstwhile USSR, Poland, China, etc.) the goals of planning were clearly defined.<sup>6</sup>
- (iii) **Optimum utilisation of the available resources.** Here we see two catch concepts. *First*, is the way of utilising the resources. Till the idea of sustainability emerged (1987) experts tried to 'maximise' the resource exploitation. But once experts around the world introspected the untenability of such a method of resource utilisation, the sustainable approach was included into planning and here in entered the idea of utilising resources at its 'possible best', so that environmental degradation could be at its minimum and

4. Michael P. Todaro, *Development Planning: Models and Methods*. Oxford University Press, Nairobi, 1971.

5. United Nations Department of Economic Affairs, *Measures for Economic Development of Underdeveloped Countries*, UNO, DEA, New York, 1951, p. 63.

6. *First Five Year Plan (1928–33)*, The Gosplan, USSR, 1928.

the future generations could also be able to continue with their progress. *Second*, is the idea of the natural resources which are available. Resources (i.e., natural as well as human) could be of indigenous origin or exogenous. Most of the countries doing planning tried to utilise their indigenous resources, yet some others tried to tap the exogenous resources too, taking leverage of their diplomatic acumen. For example, the first country going for national planning, i.e., Soviet Union, leveraged resources available in the East European countries. India also used exogenous resources for her development planning wherever it was necessary and possible to tap.<sup>7</sup>

By 1950s, planning had emerged as a method or tool of utilising resources to achieve any kind of goals for policymakers, around the world:

- (i) Trying to achieve a particular size of family for different countries came to be known as ***family planning***.
- (ii) The process of providing suitable physical and social infrastructure for the erstwhile or the upcoming urban areas came to be known as ***town/urban planning***.
- (iii) A country trying to optimise the use of its revenues for different categories of expenditures came to be known as ***financial planning***. Financial planning is more popularly known as ***budgeting***. Every budget, be it of the government or of the private sector is nothing but exercises in the area of financial planning.
- (iv) Similarly, at the macro and micro levels, there might be any number of planning processes—agricultural planning, industrial

planning, irrigation planning, road planning, house planning, etc.

Simply said, the art of achieving any kind of goal by the use of the resources we have is the process of planning. We may cite a very general example—students of a class are able to join the class at the right time coming from different places of their stay. How they are able to do so? All of them must be planning their time in such a way that they are able to join the class at the same time though their places of residence are not at an equal distance from the class. All might be having their own way of time planning—some might be having bed-tea, some might not, some might be having breakfast at their place, yet some others might think to take their breakfast in the college canteen, etc.

It means that even if we are not consciously planning or have not announced it as yet, we are always planning our days. Same is correct in the case of countries also. Many countries announced that they will be planned economies yet some others didn't go for any such policy announcements. The Soviet Union, Poland, China, France, India are examples of the former category while the USA, Canada, Mexico fall in the latter category.<sup>8</sup> But here we are concerned with the conscious process of planning. There will be some methods, some tools and types of planning emerging through time as different countries will start their processes of planning.

### ORIGIN AND EXPANSION OF PLANNING

Planning as a method of achieving faster economic progress has been tried by different countries at different times and at different levels. We may see them as under:

7. Many of the PSUs in the 1950s and the early 1960s were not only set up with natural resources (capital as well as machines) from USSR, Germany, etc. but even the human resource was also tapped from there for few years.
8. Though the USA was the first to go for planning, but at the regional level (Tennessee Valley Authority, 1916)—it never announced its any intention of national planning.

## 1. REGIONAL PLANNING

It was at the regional level that planning was used as a part of development policy by any country for the *first time*. It was the USA which started the first regional planning after the Tennessee Valley Authority (TVA) was set up in 1916—for a large-scale rehabilitation in south-eastern USA covering parts of seven states. With the primary aim of flood control, soil conservation and providing electricity, the TVA/the regional plan was also involved in many related activities such as industrial development, forestry, wildlife conservation, town planning, construction of road and rail, encouraging sound agricultural practices and malaria control in the defined region.<sup>9</sup> The US experience of regional planning became such a success in realising its well-defined goals that it emerged as a role model and an object of inspiration for many countries around the world in the coming decades—the Damodar Valley Corporation (DVC) in India (1948), the Volta River Project in Ghana (1966), etc.

## 2. NATIONAL PLANNING

The official experiment in the area of national planning is rooted in the Bolshevik Revolution of Russia (1917)—the Soviet Union. Dissatisfied with the pace of industrialisation, it was in 1928 that Joseph Stalin announced its policy of central planning for the Soviet Union. The collectivisation of agriculture and forced-draft industrialisation were other radical new policy initiatives announced by Stalin besides economic planning in 1928.<sup>10</sup> The Soviet Union went for its first five year plan for the period 1928–33 and the world was to have its *first* experience of *national*

*planning*. The famous Soviet slogan “great leap forward” was initiated for rapid industrialisation through the introduction of economic planning at the national level. The nature and scope of Soviet planning (called *the Gosplan*) will have its direct or indirect bearings on all those countries who went for economic planning, be state economies or capitalist or mixed economies. India was to have direct bearings of Soviet planning on its planning process. In the first Soviet Plan, heavy industry was to be favoured over light industry, and consumer goods were to be the residual sector after all the other priorities had been met. We see the same emphasis in the Indian planning process.<sup>11</sup> The Soviet model of economic planning spread to the East European countries, especially after World War II and found its purest form of such planning in the People’s Republic of China (1949). During the early 1940s, the concept of national planning was borrowed by France and the world saw national planning being initiated by a hitherto capitalist economy as well as by a non-centralised political system (i.e., democratic system). France started economic planning at the national level after announcing itself a mixed economy.

### TYPES OF PLANNING

After the first national planning was started by the Soviet Union, many more countries followed it, but with variations in their methods and practices. Though there are many variants of planning the most important one is on the basis of the type of economic organisation (i.e., state economy, mixed economy). During the course of evolution, planning has been classified into two types, based

9. Leong, G.C. and Morgan, G.C., *Human and Economic Geography*, Oxford University Press, Oxford, 1982., p. 145.

10. Alec Nove, *An Economic History of the USSR*, 3rd ed., Penguin Books, Baltimore, USA, 1990, p. 139.

11. Rakesh Mohan ‘Industrial Policy and Controls’ in the Bimal Jalan (Eds), *The Indian Economy: Problems and Prospects*, Penguin Books, N. Delhi, 2004., p. 101. Also see Bipan Chandra et. al., *India After Independence*, Penguin Books, N. Delhi, 2000, pp. 341–342 as well as A. Vaidyanathan, ‘The Indian Economy Since Independence (1947–70)’ in Dharma kumar (ed.), *The Cambridge Economic History of India*, Vol. II, Cambridge University Press, Cambridge, 1983, pp. 949–50.

upon the type of economic system the economy has:

### 1. IMPERATIVE PLANNING

The planning process followed by the state economies (i.e., the socialist or communist) is known as the imperative planning. Such planning is also called as **directive or target planning**. Such planning had two main variants. In the Socialist system, all economic decisions were centralised in the hands of the state with collective ownership of resources (except labour). In the Communist system (i.e., China of the past) all resources were to be owned and utilised by the state (including labour). Thus, communist China was the purest example of such planning. In the case of the Soviet Union a little bit of 'market' did exist—even after the collectivisation of agriculture was enacted by Stalin in 1928 only 94 per cent of Soviet peasants could be included in the process.<sup>12</sup> Basic features of such planning are as under:

- (i) *Numerical (i.e., quantitative) targets* of growth and development are set by the plans. As for example, five lakh tonnes of steel, two lakh tonnes of cement, 10,000 kms of national highways, 5,000 primary schools, etc., will be produced/built in the coming 5 or 6 years.
- (ii) As the *state* controls the ownership rights over the resources, it is very much possible to realise the above-cited planned targets.
- (iii) Almost *no role for the market*, no price mechanism with all economic decisions to be taken in the centralised way by the state/government.
- (iv) No private participation in the economy, only state played the economic role.

The **Command Economies** followed this kind of planning. That is why such economies are also known as the **Centrally Planned Economies** — the USSR, Poland, Hungary, Austria, Romania, etc., and finally China. Basically, it was the migration of some of the great economists from the Soviet Bloc countries to Britain and the USA that a proper study and discussion started on the very nature and purpose of planning in the command economies. Many of these economists went back to their countries of origin after the Second World War to serve and in some measure, suffer the revolution there.<sup>13</sup> It was their articulate and contemporary economic thinking which formed the basis for the idea of mixed economy in the post-War world. One among them was Oskar Lange, the famous Polish economist who after returning home to serve as the Chairman of the Polish State Economic Council (as India has the Planning Commission) suggested and coined the concept of '*market socialism*' in the 1950s. His ideas of market socialism were cancelled by not only Poland but also by other state economies of the time.<sup>14</sup>

The peak of this type of planning was reached in China after the Cultural Revolution (1966–69), which led to an economic slowdown in the country which had adopted a Soviet-style central planning system after 1949. Under Deng

12. Samuelson, P.A. and Nordhaus, W.D, **Economics**, McGraw-Hill Companies Inc., N. York, 2005., p. 591.

13. From Poland two great economists Oskar Lange (1904–65) and Michal Kalecki (1899–1970); from Hungary, William J. Fellner (1905–83), Nicholas Kaldor (1908–86), Thomas Balogh (1905–85) and Eric Roll (1907–95); from postwar Austria Ludwig von Mises (1880–1973), Friedrich A. von Hayek (1899–1992), Fritz Machlup (1902–83), Gottfried Haberler (1900–96) and Joseph A. Schumpeter (1883–1950) [J.K. Galbraith, **A History of Economics**, Penguin Books, London, 1987, pp. 187–190].

14. It was blasphemous to preach in favour of market in the socialist world at that time—he was not put behind the bars was a great mercy on him. Oskar Lange towards the end of his life told Paul M. Sweezy, the most noted American Marxist scholar, that during this period he did not retire for the night without speculating as to whether he might be arrested before the dawn (J.K. Galbraith, **A History of Economics**, Penguin Books, London, 1987, p. 189).

Xiaoping (1977–97), China decentralised a great deal of economic power with its announcement of the “open door policy” in 1985 to save the economy. The Chinese *open door policy* was an initiative in the direction of ‘market socialism’ under the communist political design itself (a popular student demand for political reform in favour of democracy was ruthlessly repressed in Tiananmen square in 1989). Similarly, the Soviet Union under the leadership of Mikhail Gorbachev began a process of political and economic reforms, called *prestroika* (i.e., restructuring) and *glasnost* (i.e., openness) in 1985 to save the failed economic experiments in the state economy. Other East European economies followed, similar economic reforms from 1989 onwards. Thus, the whole world of the state economies had moved towards market economy by the late 1980s. Since then none of the countries have followed imperative planning.

## 2. INDICATIVE PLANNING

In the following two decades after the Soviet planning commenced, the idea of planning got attention from the democratic world. A time came when some such economies started national planning. As they were neither the state economies nor communist/socialist political systems, the nature of their planning was to be different from the command economies. Such planning has been called as indicative planning by economists and experts. Identifying features of indicative planning may be summed up as under:

- (i) Every economy following the indicative planning were the mixed economies.
- (ii) Unlike a centrally planned economy (countries following imperative planning)

indicative planning works through the market (price system) rather than replaces it.<sup>15</sup>

- (iii) Side by side setting numerical/quantitative targets (similar to the practice in the imperative planning) a set of economic policies of indicative nature is also announced by the economies to realise the plan targets.
- (iv) The indicative nature of economic policies which are announced in such planning basically encourage or discourage the private sector in its process of economic decision making.

After converting to a mixed economy by the mid-1940s, France commenced its first six year plan in 1947, which got popularity as the *Monnet Plan* (he was the first chairman of the General Planning Commission and the then Cabinet Minister for Planning in France).<sup>16</sup> Later, Monnet Plan became synonymous with indicative planning. This plan is also sometimes described as the *basic sector planning* as the government had selected eight basic industries as the core of development in which the nature of planning was almost *imperative*, i.e., under state monopoly (these sectors were owned by the private sector till 1944 when France went for their nationalisation).<sup>17</sup> Other economic activities were open for private participation for which indicative kind of policy-planning was essential. France as well as Japan have followed indicative planning with great success. It was in 1965 that the UK commenced such a planning with the National Plan and abandoned in 1966 after being overtaken by events (a balance of payment crisis resulting in

15. *Collins Internet-linked Dictionary of Economics*, Glasgow, 2006.

16. Steiner, *Government's Role in Economic Life*, McGraw-Hill, New York, 1993, p. 152.

17. India had a French influence on its development planning when it followed almost state monopoly in the six infrastructure industries also known as the *core* or the *basic* industries, i.e., cement, iron and steel, coal, crude oil, oil refinery and electricity.

## 4.8 • Indian Economy

a deflationary package of measures). Since then the UK never went for the Planning.<sup>18</sup>

Though the first use of economic planning as an instrument of economic progress was done by the USA (with the Tennessee Valley Authority in 1916 at the regional level), it never went for a *formal* national planning. In the 1940s, some economists had suggested in favour of the use of national planning. We may have a reflex of indicative planning in the USA if we look at the *Presidential Reports* which come after regular intervals. These reports are just ‘benchmarks’ in the area of resource utilisation and governmental announcements of its objectives—basically trying to motivate the private sector towards the area of public objectives. The indicative planning as it is practised by the mixed economy, any growth target could only be achieved once the public and the private enterprises worked in tandem. This is why besides the plan targets, the governments need to announce some set of indicative policies to encourage and motivate the private sector to accelerate their economic activities in the direction of the plan targets.

After the Second World War, almost all the newly independent countries adopted the route of planned development. Though they followed an overall model of the indicative planning, many of them had serious inclination towards imperative planning. As in the case of India, the heavy bias towards imperative planning could only be reformed once the process of economic reforms was started in 1991.

Today, as there are mostly only mixed economies around the world, any country’s development planning has to be only of the indicative type. After the revival of the role and the need of market in promoting growth and development via the Washington Consensus (1985), the Santiago/New Consensus (1998) and the World Trade Organization (1995), only

indicative planning has remained possible with the state playing only a marginal role in the economy, especially in the areas of social importance (i.e., nutrition, healthcare, drinking water, education, social security, etc.).

There are still many other types of planning depending upon the point of view we are looking with. For example, from the territorial point of view, planning could be **regional** or **national**. From the political point of view planning could be **central**, **state** or **local**. Similarly, from the participatory point of view, planning has been categorised into **centralised** and **decentralised**. Again, from the temporal point of view planning could be **long-term** or **short-term** (in relative sense). Finally, from the value point of view planning could be **economic** or **developmental**.

A major classification of planning is done on the basis of societal emphasis. The type of planning which gives less emphasis upon the social and institutional dimensions is known as the **systems planning**. In such planning, the planners just search for the best possible results in relation to the established goals giving less importance to issues like caste, creed, religion, region, language, marriage, family, etc. Opposed to it, the **normative planning** gives due importance to the socio-institutional factors. This is a planning from social-technical point of view, but only suitable for a country which has lesser degree of social diversities (naturally, not fit for the Indian conditions). But in the coming years there was a shift in the very thinking of policymakers. The *Economic Survey 2010–12* is probably the first document of the government of India which advocates the need for a **normative approach** to planning in India. It is believed that until a programme/scheme run by the governments are not able to connect with the customs, traditions and ethos of the population, their acceptability will not be of the desired levels among the target

---

18. Though the planning agencies the National Economic Development Council (NEDC) and the Economic Development Committees (EDCs) continued functioning, it was in 1992 that the NEDC was abolished (*Collins Dictionary of Economics, 2006*).



population. Establishing an empathic relationship between the programmes/schemes and target population is now considered an important aspect of planning and policymaking. Such a change in the thinking is based on the experiences of India and other countries of the world.

Economic planning is classified into more types—*sectoral* and *spatial*. In sectoral planning, the planners emphasise the specific sector of the economy, i.e., agriculture, industry or the services.

In spatial planning development is seen in the spatial framework. The spatial dimensions of development might be defined by the pressure and requirements of national economic development. Indian planning has been essentially normative—single level economic planning with a greater reliance on the sectoral approach though the multi-level regional or spatial dimensions are being increasingly emphasised since the early 1990s.

---