Planning and Regional Economics

Developed by

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UTKAL UNIVERSITY

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DIRECTOR

SYLLABUS

Planning and Regional Economics

Unit – I

1. Concepts of planning objects: scope and rational of planning, planning under capitalism and mixed economy.

2. Regulations and controls under planning. (a) Fiscal (b) Monetary (c) Administrative issue of nationalization.

Unit – II

3. Formulation of Development plans: Use of models, linear and non-linear programming, input-output analysis, physical and financial planning, planning in lance, perspective planning investment criteria, optional level of investment choice of sectors, projects, techniques and regions, allocation of resources, pricing in planning.

Unit – III

4. Federalism and planning: planning in federal state, regional balances planning agency and perfect preparation.

5. Regional Planning: Regional accounts, linear programming input-output analysis, area planning, comparative cost studies, industrial complex analysis, cost benefit analysis, system analysis.

Unit – IV

6. Plan mechanism at national and regional levels and their coordination, comparative cost studies, industrial complex analysis.

7. Plan mechanism at national and regional level and their co-ordination, planning commission, planning Boards, National Development Council, Mechanism of policy formulation at national and regional level.

8. Indian plans and Orissa Plans: Objectives, Allocations, Strategy, Finances and achievements interregional balances as strategies of development under five year plans.

Unit – V

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UNIT – I

Chapter

1

CONCEPTS OF PLANNING OBJECTIVES

Learning Objectives

The objectives of this lesson are to:

- Meaning of Planning or Concepts of Planning
- Need for planning or Objectives or aims or Objectives or aims of planning
- Rationale of Planning in India
- Planning under capitalism and mixed economy
- Evaluation of Indian Planning and Development
- Fiscal Policy in India: Trends and Trajectory
- Administrative issue of nationalization

Structure:

1.1 Meaning of Planning or Concepts of Planning

1.2 Historical Overview of planning

1.3 Important Features of Economic Planning

1.4 Need for Planning or Objectives or Aims or Objectives or Aims of Planning

1.5 Rationale of Planning in India

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1.1 MEANING OF PLANNING OR CONCEPTS OF PLANNING

Planning may be defined as means to an end. The end being the realization of certain predetermined and well defined aims and goals laid down by a central planning authority. The end is to achieve economic, social, political and other objectives.

Planning involves deliberate control and direction of the economy by a central authority. In this planning the propose of achieving deliberate control and direction of the economy by a central authority. In this planning the purpose of achieving definite targets and achievements within a specified period of time. Economic planning implies overall planning of the economy as a whole.

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Micro Planning

Micro Planning deals with only specific parts of the economy. For instance: Planning for a region or a town, planning for the development of sugarcane or for textiles production.

Macro Planning

National economic planning is a macro planning because it deals with the whole economy.

Definitions of Planning

Various definitions of planning have been given by different writers.Each emphazising one or the other aspect of economic planning:

(a) Prof. Wilhelm Keilhan thinks Economy consists in a totality of planned efforts to realize certain purposes.

(b) Mrs. Wootton thinks Economic planning is a system in which the market mechanism is deliberately manipulated with the object of producing a pattern other than which would have resulted from its spontaneous activity.

(c) Prof. D.R. Gadgil thinks the planning for economic development implies external direction or regulation of economic activity by the planning authority which is, in most cases, identified with the Government of the state.

(d) Lewis Lordwin defined planning as a scheme of economic organization in which individual and separate plants, enterprises and industries are treated as co-ordinate units of one single system for the purpose of utilizing available resources to achieve the maximum satisfaction of the people's needs within a given time.

1.2 HISTORICAL OVERVIEW OF PLANNING

Norway Prof. Kristian Scholeyder was first introduced, Russian planning is a one of the economic activity. In Russia 1928 introduced the 1st five year plan. In 1934, Sir M. Visvesvarry published a book namely "The planned Economy for India". This book created new interest in the minds of the people and as a result few more book appeared on planning.

Jawaharlal Nehru, the architect of planning in India, set up the National planning committee towards the end of 1938. In the National Planning Committee (NPC) eight industrialists conceived 'A plan of Economic Development' which was popularly known as the Bombay plan. There was also a Gandhian plan prepared by Shriman Narayan. The world famous revolutionary M.N. Roy formulated the people's plan. In August 1964, the Government of India created by Planning and Development Department under the charge of Sir A. Dalal. In 1946, a Planning Advisory Board was set-up by the in trim government. In March 1950, the planning Commission was set up with the fourfold objectives.

Types of Planing

There are several types of planning some of them are:

1. General Planning and Partial Planning

(a) General Planning: The plan covers all aspects of the economy and the central authority completely controls the investments and utilisation of resources.

(b) **Partial Planning:** It is a sort of piecemeal planning, the plan that covers only some important aspects of the economy. Strictly speaking, partial planning is no planning.

2. Functional Planning and Structural Planning

(a) **Functional Planning:** Planning may be attempted within the existing social economic framework. Functional planning attempts to modify or improve the existing structure or repair or rehabilitate. Functional planning is evolutionary e.g., Indian economy after the partition.

(b) **Structural Planning:** It may seek to change the economic structure radically. Structural planning s revolutionary, e.g., China.

3. Planning by Inducement and Planning by Direction

(a) **Planning by Inducement:** This is planning through the market mechanism. The planner either subsidises production or controls price intended to increase the consumption of a commodity. Planning by inducements avoids swollen bureaucracy.

(b) **Planning by Direction:** There is complete absence of *Laissez Faire* central authority. This plans directs and orders the execution of the predetermined targets and priorities based on comprehensive in nature. This sort of planning is bound to be inflexible. Black markets emerge to overcome the imperfection of the plan.Planning by direction also leads to excessive standardization which impinges on consumer's sovereignty. For instance: Russia.

4. Physical and Financial Planning

(a) **Physical Planning:** Physical Planning is concerned with the physical targets, i.e., targets in terms of the output to be achieved or some other targets in concrete terms e.g., materials, men,power etc. physical planning require the fixation of physical targets in terms of production and other services.

(b) **Financial Planning:** Planning is the outlay in terms of money is fixed, the estimates are made for the various hypothesis regarding the growth of the national income, consumption, import etc. to cover the outlay by taxation, savings and the increase in cash holdings. Financial planning really implies that the real resources exist and can be diverted to the desired channels.

5. Perspective Planning

This means long-term planning in long range targets are set in advance for a period of 10 to 25 years. To achieve the objective this plan may be divided into several short period plans, 4 to 6 years for greater precision and to avoid unpredictable changes. A five year plan is further broken up into annual plan. The annual plan is further divided into further sub-plans for each branch such as plan for iron and steel, a plan for export and so on. A perspective plan reflects long-term targets while the current plans and sub plans are the necessary support for the former to achieve those targets.

6. Indicative Planning

The French type of planning is based on decentralization in the operation and the execution of the national plan is known as indicative planning. The mixed economy in France is distinct from other mixed economics in the world. The private sector and public sector works together. The state controls the private sector may co-operate in fulfilling the targets and priorities of the transportation, fuel, firm machinery, electricity, tourism, steel, cement, fertilizer etc.

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7. Capitalist Planning and Socialist Planning

(a) **Capitalist Planning:** Under capitalism planning involves extensive state control over business and a conscious and co-ordinated endeavour to promote economic growth or stability. There is unfettered functioning of price-mechanism. In the system planning involves price control. For instance: USA.

(b) **Socialist Planning:** Under Socialism, state is all and all. Instruments of production are owned and managed by the state. The state is in a position to plan all economic activity and to mobilize and use the country's resources deems to fit. All economic activity is directed towards socially prescribed goals and to predetermined priorities. For instance: Russia and china.

8. Rolling Planning and Totalitarion Planning

(a) **Rolling Plan:** In rolling plan three new plans are made and acted upon. First there is a plan for the current year. It includes annual budget and foreign exchange budget. Second a plan for 3 to 5 years, it is changed every year in keeping with the requirements of the economy. Third, is a perspective plan for 10 to 20 years is presented every year in broader goals are stated and the outlines of future development are forecast.

(b) **Totalitarion Planning:** This means central control and direction. There is no opposition, no freedom but people hold a different view. In Totalitarion Planning may be the degree of control and direction of economic forces occurs. It is making for the economic system more perfect and maintain stability and achieving growth.

Main Implications of Planning

(a) Formulation of objectives or goals to be achieved with in a certain time.

(b) Fixing targets to be achieved and priorities of production for each sector of the economy.

(c) Mobilisation of the financial and other resources required for the execution of the plan.

(d) Creating the necessary organisation or agency for the execution of the plan.

(e) Creating assessment of machinery for assessing the progress made.

1.3 IMPORTANT FEATURES OF ECONOMIC PLANNING

1. **Survey of the Economy:** The first step in economic planning is to make a detailed study of the existing economic conditions in the country. The resources available, of the extent to which they are utilized and the economic problems facing the country.The present state of the economy is thoroughly surveyd.

2. **Setting the Targets and Objectives:** A plan must have clearly laid down goals. These goals are called targets and objectives. A target means what is aimed at. The target must not be expressed in general or vague terms. Tragets must be quantifiable. For instance production targetas of cereals should be mentioned in, say, million tones.

3. **Fixing Priorities:** 'Priority' means arranging the different development projects in an order of importance or urgency. Priorities should be laid down on the basis of short-term and long-term needs of the economy. It is keeping in view of the available materials, capital and human resources. Development programmes should be executed first are given top priority.

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While the less important ones receives low priority. For instance:India's First Five year plan, top priority was given to the development of agriculture, but in Second Five year plan priority given for industrial and mineral development.

4. **Implementation:** To make a plan successful,sincere efforts must be made to achieve the targets. If efforts are lacking or misdirected, the plan be only on paper and achievement will be nill. Therefore a strong,efficient and dedicated administrative machinery is necessary for the successful implementation of a plan.
5. **People's Co-operation:** An economic plan is for impoving their standard of living by increasing their income for their people. People should know the aims of the plan that they may offer their support and co-operation for the success of the plan.
6. **Central Planning Authority:** An economic plan pre-supposes the existence of a central planning authority entrusted with the responsibility of drawing up a blue-print or plan for the country as a whole.

1.4 NEED FOR PLANNING OR OBJECTIVES OR AIMS OR OBJECTIVES OR AIMS OF PLANNING

Objectives: Scope

Planning: Objectives and Importance of Planning

Economic planning is often regarded as technique of managing an economy. When the structure of an economy becomes complex and subject to rapid change and transformation (due to population growth, discovery of resources, industrialisation, etc.) some sort of advance thinking becomes necessary to resolve that complexity and to prepare the economy for those changes. Such preparation is called planning.

Most often that not an economic plan is regarded as a programme of action. It may also be taken to mean an instrument for regulating a free private enterprise economy. The regulatory measures may vary from country to country.

They may leave either too much or too little a degree of freedom to private enterprise. This may hamper the working out of the plan. Many plans leave their programmes incomplete because they hesitate to exercise their regulatory functions. They are little more than a list of public development projects.

Many other plans perform their regulatory functions with such seriousness and severity that their programmes of action are completely jeopardised. In such planned economies any sort of enterprise ceases to exist. The correct plan is one in which a comprehensive and consistent programme of action is sought to be implemented by carefully harnessing enterprise for the success of the plan.

It should be noted that a plan is just a programme of action, it is not a guarantee for action. In short, a good plan is one which makes adequate provisions for and ensures that its targets are properly fulfilled.

Objectives of Planning

The objectives of planning are many and varied. These aims are not the same for all countries, not are they same for the same country at all times.

Some major objectives of economic planning are:

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(a) An improvement in the standard of living of the people through a sizable increase in national income within a short period of time;

(b) A large expansion of employment opportunities for the removal of unemployment and for creating jobs and incomes;

(c) A reduction in all types of social, economic and regional inequalities;

(d) An efficient utilisation of the country's resources for faster growth;

(e) Removal of mass poverty within a definite time limit through land reform, employment creation, and provision of educational and medical facilities;

(f) Attainment of self-reliance by reducing dependence on foreign capital and foreign aid.

Importance of Planning

The importance of planning lies in the fact that it is an instrument through which important socio-economic objectives, unrealisable under free private enterprise, are likely to be effectively realised.

In an underdeveloped country like India these objectives may be broadly grouped as:

- A higher rate of growth than was being realised in the absence of the plan;
- A greater degree of economic equality than was possible under free enterprise;
- Fuller employment opportunities for the growing labour force of a country; and
- Larger provisions for capital formation as one of the principal instruments for accelerating the rate of growth.

In the language of Gunnar Myrdal, "A main element of every national development plan is a decision to increase the total amount of investment, aimed at raising the productive powers of the country, and to procure the capital formation necessary for this purpose."

The usefulness can be gauged only by examining the extent to which it succeeds in removing the ills of unregulated free enterprise, while simultaneously realising the above goals. In underdeveloped countries like India an economic plan is to be looked at not as a substitute for private enterprise.

Rather it is to be taken as the only instrument through which enterprise can spread to non-traditional forms of economic activity.

In countries like India the most important objective of an economic plan is to bring into being new forms of production by accelerating capital formation. This will surely raise the overall productivity of the economy and thus raise people's income by providing them adequate employment opportunities, and thus remove the problems of mass poverty.

Prima facie, the over-populated underdeveloped countries often suffer from capital starvation. In other words, there is always a shortage of all types of productive capital equipment in such countries. So most people have to depend on land. Under-employment and unemployment are just a reflection of this.

Economists like Nurkse and Lewis believe that the only way to provide gainful employment opportunities and better living standards to the masses is to equip them with more capital. The accumulation of capital must proceed at a pace which would closely correspond to the rate of population growth and productivity change.

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It is thus clear that the basic aim to economic planning in a backward country like India is to achieve in different ways a more rapid of capital formation than what would have been possible under private enterprise. "The success of the plan", says Prof. D. Bhattacharya, "is to be judged mainly by the advance it registers in respect of capital formation as compared with the period before the plan was launched."

In short, only planned economic development can hope to achieve a rate of growth which is politically acceptable. The most fundamental objective of planning is to alter the pattern of resources use and, if possible, to intensify such use in such a fashion as to achieve certain socially desirable goals.

For an LDC like India the most important goal is the removal of mass poverty and growing unemployment by putting resources more effectively into use. In other words, planning must focus its attention primarily on the task of improving the pattern of resource use, for raising incomes and improving the pattern of income distribution.

Major Objectives of Planning in India

(a) Economic Growth

Attainment of higher rate of economic growth received topmost priority in almost all the Five Year Plans of the country. As the economy of the country was suffering from acute poverty thus by attaining a higher rate of economic growth eradication of poverty is possible and the standard of living of our people can be improved.

The First Plan envisaged a target of 11 per cent increase in national income against which 18 per cent growth in national income was achieved. The Second, Third and Fourth Plan envisaged targets for annual growth rate of 5 per cent. 5.6 per cent and 5.7 per cent respectively against which the achievements were 4 per cent, 2.6 per cent and 3.4 per cent respectively.

Again the Fifth and Sixth Plan also proposed the annual growth rate of 4.37 per cent and 5.2 per cent against which the achievements were 5.0 per cent and 5.2 per cent respectively. The Seventh Plan also set the target of 5 per cent in respect of annual growth rate of national income.

The Eighth Plan and the Ninth Plan set the target of 5.6 per cent and 7.0 per cent annual growth rate of national income against which the achievements were 6.5 per cent and 5.4 per cent respectively. The Tenth and Eleventh Plan set the target of 8.0 per cent and 9.0 per cent in its annual average growth rate of GDP. Thus attaining higher rate of economic growth is found as a common objective for all the Five Year Plans of our country.

(b) Attaining Economic Equality and Social Justice

Reduction of economic inequalities and eradication of poverty are the second group of objective of almost all the Five Year Plans of our country particularly since the Fourth Plan. Due to the faulty approach followed in the initial part of our planning, economic inequality widened and poverty became acute.

Under such a situation, the Fifth Plan adopted the slogan of 'Garibi Hatao' for the first time. The Seventh Plan document shows that nearly 37.4 per cent of the total population of our country was lying below the poverty line and the plan aimed to reduce this percentage of 29.2 per cent by 1990.

Thus to achieve the target, various poverty alleviation programmes like the National Rural Employment Programme (NREP), Composite Rural Training and Technology Centre (CRTTC), Crash Scheme for Rural Employment Programme (CSREP), Rural Landless Employment Guarantee

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Programme (RLEGP) etc. were introduced. But the performance of these programmes is not up to the satisfaction.

(c) Achieving Full Employment

Five Year Plans of India gave importance on the subject to employment generation since the Third Plan. The generation of more employment opportunities was considered as an objective of both the Third and Fourth Plan of our country. But up to the Fourth Plan employment generation never received its due priority.

The Fifth Plan in its employment policy laid special emphasis in absorbing increments in labour force during this Fifth Plan Period. The Sixth Plan accorded much importance on the reduction of incidence on unemployment. It has been estimated that the employment will grow at the rate of 4.17 per cent per annum as against the annual growth of labour force at 2.54 per cent.

To achieve this target the major programmes which were introduced during this Plan were Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP), the Operation Flood II Dairy Development Project, schemes in the villages and small industries sector the national Scheme of Training Rural Youth for Self Employment (TRYSEM) and various other components of the Minimum Needs Programme.

One of the major objectives of the Seventh Plan was a faster growth of employment opportunities. Thus the plan aimed that the employment potential would grow at 4 per cent as against the 2.6 per cent growth in the labour force. Again, the Eighth Plan envisages an annual employment growth of 2.6 to 2.8 per cent over the next ten years 1992-2002.

(d) Attaining Economic Self-Reliance

One of the very important objectives of Indian Planning is to attain economic self-reliance. But this objective attained its importance only since the Fourth Plan, when the plan aimed at elimination of the import of food-grains under PL480. The Fifth Plan also laid much importance on the attainment of self-reliance.

Thus this plan aimed at achieving self-sufficiency in the production of food-grains, raw materials and other essential consumption goods. The Fifth Plan also emphasized the need for import substitution and export promotion for attaining economic self-reliance.

The Sixth Plan also put importance on strengthening the impulses of modernisation for the achievement of economic and technological self-reliance. The Seventh Plan and Eighth Plan also followed the path for achieving self-reliance.

Although India achieved self-sufficiency in respect of food-grains but it has not yet achieved self-sufficiency in respect of edible oil. In the mean time we have developed number of import substitute industries particularly basic and capital goods industries but huge import of petroleum oil along with some other items are creating a serious drain on our foreign exchange reserves leading to a depletion of foreign exchange reserves to such an extent in 1991-92 that the country has reached at the near-bankruptcy level with a huge external debt obligation, Thus the objective of self-reliance still remains unfulfilled.

(e) Modernisation of Various Sectors

Another very important objective of Five Year Plans of our country was the modernisation of various sectors and more specifically the modernisation of agricultural and industrial sectors. The Fourth Plan laid much emphasis on the modernisation of agricultural sector and undertook a vigorous

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scheme for modernisation of agriculture in the name of Green Revolution. The successive plans also continued their efforts in the same direction but at a reduced rate.

The Sixth Plan categorically mentioned this objective of modernisation for the first time. Here the objective of modernisation means those structural and institutional changes in economic activities which can transform a feudal and colonial economy into a progressive and modern economy. Thus through modernisation economy may be diversified.

It requires setting up of various types of industries and advancement of technology. In the mean time some sort of modernisation always gone against employment generation thus the country is facing a conflict between the objective of modernisation and the objective of removal of unemployment and poverty.

(f) Redressing Imbalances in the Economy

Regional disparities and imbalances in the economy have become so acute in India that it needed special attention in our Five Year Plans. Thus by regional development we mean economic development of all the regions by exploiting various natural and human resources and by increasing their per capita income and living standards.

Since the Second Plan onwards, the Government realized the need for balanced development. Thus the Second, Third, Fourth and Fifth Plans laid emphasis on the redressal of economic imbalances for attaining a balanced regional development.

The Sixth Plan again aimed at progressive reduction in regional inequalities in the pace of development and in the diffusion of technological benefits. The Seventh Plan and Eighth Plan also carried this objective of balanced development in systematic manner. Besides then long-term objectives, our plans also laid importance on short-term objectives like control of inflation, industrialization, rehabilitation of refugees, building up infrastructural facilities etc.

(g) Importance of Economic Planning

The main purpose of economic planning is to keep a proper balance between production and social needs. The demands or social needs are always presented by the people, which are changing with the variations of income, habit and fashion of the people, and hence the planner has to be cautious for maintaining balance between the two.

The planning, thus, related to a predetermined end. The end of economic planning may be economic or non-economic. In other words, the objectives of planning may be concerned with political or socio-economic achievements. But mostly they are interlinked with each other. The main objectives of planning that have been accepted by the planned economics in the world are: Political Objectives and Economic Objectives. However the objectives of planning largely depend upon the natural, social, political and economic environment prevalent in a country at a specific time. Hence, economic planning has multiple objectives in the developing countries, which are summarized below:

(i) Rapid economic development: The objective of planning in underdeveloped countries is to increase the rate of economic development. Planning for economic development implies external direction or regulation of economic activity by planning authority. It means increasing the rate of capital formation by raising the levels of income, saving and investment. But increasing the rate of capital formation in Nepal's economy is hindered with a number of difficulties. People are poverty ridden. Their capacity to save is extremely low due to low levels of income and high propensity to consume. Low productivity means

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low income and the vicious circle of poverty. This vicious circle can only be broken by planned development.

(ii) Solve the problem of unemployment: The need of planning in Nepal is further stressed by the necessity of removing widespread unemployment and disguised unemployment in Nepalese economy. Capital being scarce and labour being abundant, the problem of providing gainful employment opportunities to an ever-increasing labour force is difficult. IT is only a centralized planning authority, which can solve this problem.

(iii) Balanced development: In the absence of sufficient enterprise and initiative, the planning authority is the only institution for planning balanced development of the economy. For rapid economic development, underdeveloped countries require the development of agricultural and industrial sectors, the establishment of social and economic overheads, and the expansion of the domestic and foreign trade sectors in a harmonious way. All these require simultaneous investment in different sectors, which is only possible under development planning.

(iv) Agriculture and industrial development: Agriculture is the backbone of Nepalese economy, which covers more than 40% of national income. The need for developing the agricultural sector along with the industrial sector arises from the fact that agriculture and industry are interdependent. Reorganization of agriculture releases surplus labour force, which can be absorbed by the industrial sector. Development of agriculture sector is essential to supply the raw material needs of the industrial sector. The agricultural and industrial sectors cannot, however, develop in the absence of economic and social overheads. Building of canals, roads, power stations etc. are indispensable for agricultural and industrial development. State to crate social and economic overheads in a planned way.

(v) Strengthen the market mechanism: The rationale for planning arises in such countries to improve and strengthen the market mechanism. The market mechanism works imperfectly in Nepal because of the ignorance and unfamiliarity with it. A large part of the economy comprises the non-magnetized sector. The product, factor, money and capital markets are not organized properly. Thus, the price system exists in only rudimentary form and fails to bring about adjustments between aggregate demand and supply of goods and services. To remove market imperfections, to mobilize and utilize efficiently the available resources, to determine the amount and composition of investment, and to overcome structural rigidities, the market mechanism is required to be perfected in Nepal through planning.

(vi) Poverty alleviation: The planning for development is indispensable for removing the poverty of nations. For raising national income and per capita income, for reducing inequalities in income and wealth, for increasing employment opportunities, for all-round rapid development and for maintaining newly own national independence, planning is the only path open to Nepal.

(vii) Proper utilization of natural resources: In the unplanned economy, natural resources are underutilized, misutilized and wasted. Therefore, in an underdeveloped economy, concrete action is essential for making the use of natural resources for production purpose and it is safe which implements this action through economic planning. Nepal is assumed rich in natural resources; hence the existing natural resources can be properly utilized in periodic plan.

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(viii) Reduction in unequal distribution of income and wealth: In the poor and underdeveloped countries, there exist inequalities and disparities in the distribution of income and wealth. There is a sharp gap between poor and rich which is a threat to the sovereignty of a nation. Thus, distributive justice becomes indispensable by removing economic inequalities and disparities through adopting effective monetary and fiscal and other development activities. For this purpose, economic planning is a tool to overcome such shortcomings and creating a conductive atmosphere for economic development.

(xi) Economic and price stability: In the planned economy, the development of one sector is co-ordinated in such a way with other sectors so that a balanced and smooth development may take place. Similarly, there are fewer chances of occasional fluctuation and uncertainty which affects development adversely. Thus, economic planning is a green signal to economic stability and prosperity of a country. Similarly, to attain stability is the price level is also a vital objective of economic planning. Economic planning is the only effective alternative for all evil of capitalism by minimizing the fear of trade cycles and progress with stability is desirable.

(x) Defence of the country: By formulating economic planning, a country prepares and executes comprehensive plans to make modern and sophisticated armaments and equipments. There is another point in favour of making defence through planning. It enables the country to provide sufficient funds to modernize the defence structure.

Besides these, reduction in population, more farsightedness, control in economic concentrations and monopolistic tendencies, co-ordination of other sectors, expansion of the domestic and foreign trade requires not only the development of agricultural and industrial sectors along with social and economic overheads but also the existence of financial institutions. There is economic instability generated by international cyclical movements. It is the planning authority, which can control and regulate the domestic and foreign trade in the best interests of the economy.

1.5 RATIONALE OF PLANNING IN INDIA

In India, comprehensive national planning is required to fulfil some broad social and economic objectives. The followings are some principal reasons for planning in India:

1. Rapid Economic Development: Before Independence, the long period of British rule and exploitation had made India one of the poorest nations in the world. The main task before the national government was to undertake some positive development measures to initiate a process of development, which can be done .effectively only through the instrument of planning. The state planning mechanism has been proved to be much superior to private market operations in bringing about it a quick transition in the less-developed economics. The spectacular success of planning in some countries had inspired the national leaders to adopt the path of planning for an accelerated development of the shattered economy.

2. Quick Improvement in the Standard of Living: The fundamental objective of planning is to bring about a quick improvement in the standard of living of the people in the less-developed countries. In an unplanned economy the country's resources and materials cannot be employed for increasing the people's welfare as the private capitalists in such an economy direct their activities in increasing their own profits. The path of planning has been chosen to promote a rapid rise in the

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standard of living of the people by efficient exploitation of resources, increasing production of most goods, and offering employment opportunities to the people.

3. Removal of Poverty: Planning in India is necessary for the early removal of abject poverty of the people. This can be effectively done through:

- Planned increase in the employment opportunities of the people,
- Planned production of mass consumption goods and their planned distribution among the people,
- Fulfilment of minimum needs programme by providing essential facilities (e.g., housing, roads, drinking water, public health, primary education, slum improvement, etc.), and,
- Planned increase in the consumption of the poorest section of the people.

4. Rational Allocation and Efficient Utilization of Resources: India is rich in natural resources, but these resources are not fully exploited to get maximum advantages. In the unplanned economy resources tend to be engaged in the production of these goods and services which yield maximum profits, as a result rational allocation of resources is not possible. An unplanned economy faces frequently the problem of either shortages in some sectors or surpluses in others. But such misallocation of resources can be rectified in a planned economy in which the planning authority determines the pattern of the investment of resources. In fact, the development plans in the country are now utilized for the rational allocation of investable resources.

5. Increasing the Rate of Capital Formation: Planning can also raise the rate of capital formation in the less-developed countries like India. The surpluses of public enterprises as found in the planned economy can be utilized for investment and capital formation. In India, the governments have been increasing the rate of capital formation through the planned investment in the construction of roads, bridges, manufacturing of machineries and transport equipments etc.

6. Reduction in Unequal Distribution of Income and Wealth: Income and wealth are not evenly distributed in India as in other less-developed countries. In the absence of planning such inequality tends to increase due to growing concentration of economic resources at the hands of a few capitalists. Besides, the capitalists in the unplanned society increase their own profits by paying less to the labourers and other suppliers of raw materials. Planning can reverse this trend through the proper guidance and control of production, distribution, consumption and investment. The development works can be so planned and so executed that the greater equality is established with the increase of income and employment.

7. Reduction of Unemployment and Increase in Employment Opportunities: The backwardness of the different, sectors of the economy accounts for the presence of widespread unemployment, both open and disguised, in the country. The rate of economic growth usually becomes low in the unplanned society; as a result it becomes a difficult task to mitigate this serious problem without proper planning. The government can, however, increase the employment opportunities by undertaking development programs for the different sectors like agriculture, industries, social services, transport and communications, etc. Besides, labor-intensive development projects and job-oriented programs can also be undertaken to provide relief for the problem of unemployment.

The development plans in India have already given proper stress for increasing employment. The steps have been taken to create both short-term and long-term employment opportunities in various sectors like agriculture, industry, small and village industries, irrigation works, construction, etc.

8. Reorganization of Foreign Trade: Economic planning in the less-developed countries can bring about fundamental Changes in the foreign trade structure of such countries like India. The foreign trade structure may be reoriented from primary producing economy to the industrialized economy. Through proper controls of import and effective promotion of export of industrial goods the development plans can reorganize the foreign trade structure. In India, the trade policy has been reoriented to realize some cardinal objectives such as import control and substitution, export promotion and growth of economy. Owing to such development the trade structure is no longer regarded as colonial as it was before Independence.

9. Regional Balanced Development: Economic planning in India can correct the regional imbalances in development. Proper development programs may be taken for the all-round development of backward areas, so that all the regions are sufficiently developed. More and more industries are to be set up in the less-developed areas and the Plans should provide for dispersal of industries.

10. Other Considerations: Indian economy requires planning for other purpose also such as the removal of the shortages of essential goods, attainment of self-sufficiency in essential goods such as food grains and key materials, economic self-reliance, establishment of social justice for increasing economic facilities for weaker and neglected sections of the people etc.

The aforesaid discussion points to the supreme necessity of economic planning in India. It is now fully realized that without planning the country would not be able to initiate a process of quick economic growth.

Objectives of Planning in India

In India, the First Five year plan began in the year 1951-52. Although the objectives of these plans were different, we can identify some of the basic long-term and broad objectives of Indian planning. These are:

(a) Raising the growth rate: The economic planning in India was to bring about rapid economic growth through the growth in agriculture, industry, power, transport and communications and different other sectors in our economy. Further, the growth in real national income was considered to be the basis for an increase in per Capita real income and an improvement in the physical quality of life for, the maximum number of people. The growth, in national output must be higher than the growth rate in population for an increase in per capita output. Indian planners aimed at increasing national income and per capita income on the assumption that the continuous growth in national income and per capita income would remove the problem of poverty and raise the standard of living for the maximum people of the country.

(b) Raising the investment-income ratio: Growth in investment as a proportion of national income was also one of the important long-term objectives of Indian five year plans.

(c) Achieving self-reliance: This objective was considered to be an important objective for keeping the growth activity free from political pressures of dominant capitalist countries of the world. India had to import a huge quantity of food grains from abroad for a considerable period. Again, she had to depend on foreign countries for the import of heavy machinery, transport equipment, machine tools, electrical instruments, etc. This was required for the

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expansion of the industrial sector and for building, a strong infrastructural base in India after independence. Hence, it was quite natural that the developed capitalist countries, supplying food grains, machinery and capital to India, used to take full advantage of their strong bargaining power, by imposing different conditions while extending such help. In many cases, the domestic economic policies are also influenced by such conditions. Because of all these reasons, a self-reliant economic growth became a major objective of economic planning in India, particularly since the inception of the Third Five Year Plan.

(d) **Removing unemployment:** Removal of unemployment and underemployment can be regarded as a precondition for the elimination of poverty.

It was assumed by Planning Commission that an increase in investment would accompany not only an increase in national output but also a rise in employment opportunities. This argument was put forward by the Planning Commission quite explicitly during the Third Five Year Plan. The planning commission however, believed that the removal of unemployment would lead to increase in GDP, on the one hand and improve the standard of living of the people on the other.

(e) **Reducing the incidence of poverty:** Various plan documents have all along indicated that the policy of the Government of India is to reduce the incidence of poverty. The problem of poverty has been conceived as one of low productivity of a large section of the people. Hence, to remove these handicaps of the poor and to integrate them in the growth process, alleviation of poverty became one of the broad objectives of Indian planning. So, the long run objective was to free the economy from the vicious circle of poverty which encircles the economy, not only with poor purchasing power, low savings, low capital formation, low productivity and low level of national output, but also with a poor physical quality of life.

(f) **Reducing income inequalities:** Indian planners visualized the creation of a socialistic pattern of society where each member of the society would get equal opportunities in the fields of education, health, nutrition, occupation, etc. Hence, they felt the need for reducing income and wealth inequalities in our society. These inequalities have their roots in the feudal system. Hence, reduction in income and wealth necessitated the abolition of semi-feudal relations of production in Indian villages. Thus; the objective was to abolish the 'Zamindari' system, impose ceilings on land-holdings and distribution of surplus land among the landless in rural areas.

Income and wealth inequalities arising out of industrialization and growth were far more complex. The Planning Commission felt the need for imposing some restrictive and fiscal measures e.g., by imposing higher rates of direct taxes on high incomes, to tackle this problem. Further, to reduce the disparity between urban and rural sectors, the Planning Commission suggested various measures to raise agricultural productivity, development of agro-based industries, a fair price to farmers for their products, etc.

The Planning Commission stated its policy towards income inequalities in the Fourth Plan document. It emphasized economic growth with the hope that the poor will benefit from it and thus, income inequalities would be reduced.

A part from these long-term objectives the Sixth plan of India recognized one more objective of modernizing the production process. The implications of this modernization were to shift the sectoral comparison of national income, diversification of productive activities and advancement of technology.

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Modernization, as per the view of the Planning Commission, also implied introduction of modern technology, both in industrial and agricultural activities. It also implied an emergence of new types of banking, insurance and marketing institutions, which would facilitate the dynamics of growth process.

Planning under Capitalism and Mixed Economy

Economic Planning - Capitalistic and Mixed Economy Systems.

Under capitalism there is no authority who could perform the job of planning as under the system the resources are own by the private sector, the individual entrepreneur produce the goods and the individual consumers are independent in respect of consumption of goods. Here government does not make any compulsion in connections with the production of the goods rather it is the price mechanism which performs the function of exchange, production, allocation and distribution.

The free market forces are helpful in operating the whole economy. While the government remains confined to defense law and order etc. But after divesting effects of 1930s great depression and popularity Keynesian thinking, the capitalistic economies performs the following functions relating to economic planning.

Governments attempts to maintain effective demand so that inflation and deflation could be avoided. In this respect the fiscal and monetary measures are adopted. Government doesn't allow the monopolies to grow as monopolistic forces obstruct the working of the market mechanism. In this connection government makes anti monopoly and anti cartel laws.

For the sake of community betterment of socialization government provides the basic facilities of health, education and recreation.

On the other hand in socialism there is a planning board. Such board formulated the plans which cover the whole economy. The central planning board has unlimited parts regarding allocation of the resources and production of goods.

To run socialist economy Where market fails to make economic decisions, the determine prices becomes helpful. There should not be the trade cycles in the economy. It is easy to face the unexpected circumstances.

1.6 SUMMARY

1. Planning may be defined as means to an end.
2. Micro Planning deals with only specific parts of the economy.
3. National economic planning is a macro planning because it deals with the whole economy.
4. **People's Co-operation:** An economic plan is for impoving their standard of living by increasing their income for their people. People should know the aims of the plan that they may offer their support and co-operation for the success of the plan.
5. Under capitalism planning involves extensive state control over business and a conscious and co-ordinated endeavour to promote economic growth or stability. There is unfettered functioning of price-mechanism. In the system planning involves price control. For instance: USA.

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1.7 SELF ASSESSMENT QUESTIONS

1. Define planning, What are its types?
2. What is the implication of planning?
3. What are important features of economic planning?
4. Explain the objectives of planning?
5. Explain in detail about the administrative issue of Nationalization.

Chapter 2	REGULATIONS AND CONTROLS UNDER PLANNING

Chapter 2

REGULATIONS AND CONTROLS UNDER PLANNING

Learning Objectives

The objectives of this lesson are to:

- Linear programming
- Non-linear programming
- Cost-benefit Analysis

Structure:

2.1 REGULATIONS AND CONTROLS UNDER PLANNING (REVIEW OF VARIOUS PLANS: EVALUATION OF INDIAN PLANNING AND DEVELOPMENT

At the time of the First Five-Year Plan (1951-56), India was faced with three problems – influx of refugees, severe food shortage and mounting inflation. India had also to correct the disequilibrium in the economy caused by the Second World War and the partition of the country.

Accordingly, the First Plan emphasized, as its immediate objectives, the rehabilitation of refugees, rapid agricultural development so as to achieve food self-sufficiency in the shortest possible time and control of inflation. Simultaneously, the First Plan attempted a process of all-around balanced development which could ensure a rising national income and steady improvement in the living standards of the people over a period of time.

The First Five-Year Plan prepared the way for achieving the socialistic pattern of society – an economic and social order based upon the values of freedom and democracy without class, caste and privilege in which there will be a substantial rise in employment and production and largest measure of social justice attainable.

The importance of agricultural production was sought and therefore, out of total outlay of ₹ 1,493 crores in the first part of the five-year plan, ₹ 191.69 crores and ₹ 450.36 crores were allotted for agricultural and rural development, and irrigation and power sector, respectively, together which constituted 43 per cent of the total outlay.

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The economy has responded well to the stimulus of the first plan. Both agricultural and industrial production has awarded substantial increases. Prices have attained a reasonable level. The country's accounts are virtually in balance. The important targets prepared in the first plan have been realized, and some of them in fact, been exceeded.

Some seventeen million acres of land have been brought under irrigation in these five-year plans, and the installed capacity for generation of power has been increased from 2.3 million KW to 3.4 million KW. Considerable progress has been done with the rehabilitation of railways. A large number of industrial plants both in the public and private sectors have gone into production.

Against this backdrop the principal objectives of the Second Five-Year Plan were to secure a more rapid growth of the national economy and to increase the country's productive potential in a way that will make possible accelerated development in the succeeding plan periods.

Unlike First Five-Year Plan, in the Second Five-Year Plan there was a clear enunciation of a strategy of development by Indian planners. Prof P.C. Mahalanobis, the architect of the Second Five-Year Plan was responsible for introducing a clear strategy of development based on the Russian experience. This strategy emphasized investment in heavy industry to achieve industrialization which was assumed to be the basic condition for rapid economic development.

According to the plan frame "In the long run the role of industrialization and the growth of national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally – which would increase the capacity for capital formation. One important aim is to make India independent as quickly as possible of foreign imports of producer goods as that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed".

The Second Five-Year Plan (1956-61) was formulated with reference to the following objectives:

1. A sizable increase in national income so as to raise the level of living in the country;
2. Rapid industrialization with particular emphasis on the development of basic and heavy industries;
3. A large expansion of employment opportunities; and
4. Reduction of inequalities in income and wealth, and a more even distribution of economic power (Government of India, 1956, Second Five-Year Plan).

The plan emphasized the socialistic pattern of society. It says "major decisions regarding production, distribution and consumption and investment and in fact, the entire pattern of socio-economic relationships must be made by agencies informed by social purpose. The benefits of economic development must accrue more and more to the relatively less privileged classes of society, and there should be a progressive reduction of the concentration of income, wealth and economic power. The state has to take on heavy responsibilities as the principal agency speaking for and acting on behalf of the community as a whole. The public sector has to play its part within the framework of the comprehensive plan accepted by the community".

By the beginning of the Third Plan (1961-66) the Indian planners felt that the Indian economy had entered the "take off stage" and that the first two plans had generated an institutional structure needed for rapid economic development. Consequently, the Third Plan set as its goal the establishment of a self-reliant and self-generating economy. But the working of the Second Plan had

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also shown that the rate of growth of agricultural production was the main limiting factor in India's economic development.

The experience of the first two plans suggested that agriculture should be assigned top priority. The Third Plan, therefore, gave top priority to agriculture but it also laid adequate emphasis on the development of basic industries, which were vitally necessary for rapid economic development of the country. However, between the India's conflict with China in 1962 and with Pakistan in 1965, the approach of the Third Plan was later shifted from development to defence and development.

In 1960-67, following a severe drought, national income registered only nominal increase of 0.9 per cent. However, the record harvest of 1967-68, marking a significant increase in agricultural output, was instrumental in raising national income by 9 per cent in that year.

The slow rate of growth in agricultural production not only depressed the rate of growth of the economy but also led to an alarming dependence on imports food-grains and other agricultural commodities. During the Third Plan, the country imported 25 million tones of food grains, 3.9 million bales of cotton and 1.5 million rates of jute. Similarly, industrial production was also slowed down. The index of industrial production (base 1960-100) increased by only 1.7 per cent in 1966-67 and there was hardly any growth (0.3%) in 1967-68.

This sharp deceleration was accompanied by an increased in unutilized capacity in a number of industries. Many factors constituted to it: decline in purchasing power because of the setback on the agricultural front; stagnation in investment; shortage of foreign exchange because of the need for abnormal high import of food-grains and raw materials and for completion of number of projects started earlier.

As a result of several measures taken by the government – such as import liberalization following devaluation, decontrol of certain commodities like steel, coal, paper, fertilizers and commercial vehicles, delicensing of a number of industries, some increase in the public sector demand for domestic manufactures and a rise in the export of engineering goods; an all-round industrial economy began in January 1968 and resulted in increase of 6.2 per cent in industrial production in 1968-69 (Government of India, 1969, Fourth Five-Year Plan).

Hence, the process of liberalization policy in India began, though very slowly, during this period (Hantal, 1996).

The original draft outline of the Fourth Plan prepared in 1966 under the stewardship of Ashok Mehta had to be abandoned on account of the pressure exerted on the economy by two years of drought, devaluation of rupee and the inflationary recession. Instead, three Annual Plans (1966-69) euphemistically described as "Plan Holidays" were implemented (Datt and Sundharam, 2000).

The Fourth Plan (1969-74) aimed at acceleration of the tempo of development in conditions of stability and reduced uncertainties. It set before itself the two principal objectives "growth with stability" and "progressive achievement of self-reliance". It aimed at average 5.5 per cent of growth in the national income and the provision of national minimum for the weaker section of the community – the latter came to be known as the objectives of "growth with justice" and "Garibi Hatao" (removal of poverty).

It was proposed to introduce safeguards against the fluctuations of agricultural production as well as the uncertainties of foreign aid in the period of the Fourth Plan. It proposed to reduce the dependency of foreign aids. It was planned to do away with concessional imports of food-grains under PL 480 by 1971.

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In the process of development there was inevitably an increase in concentration of economic power. The government has, therefore, formulated the new licensing policy to control and regulate the concentration of economic power. While continuing with efforts in intensive irrigated agriculture and basic modern industry, it proposed to pay special attention to certain fields of productive activity particularly in agriculture and related primarily production which had been relatively neglected.

It proposed to chart the course of industrial development so as to provide for future technological advance and at the same time to bring about dispersal of industrial activity and enterprise. The plan proposed detail action through regional and local planning to help the very large numbers of the smaller and weaker producers and increase immediate employment and future employment potential.

It suggested steps to even out supplies of food-grains and to stabilize prices through buffer stocks and through operation by public agencies in certain sensitive trading areas.

It looked to the monopoly legislation and appropriate fiscal policy to reduce concentration of economic power. It expected that the nationalization of banking would help in this and also contribute towards diffusion of enterprise and strengthening of weak producing units. It proposed utilization of Panchayati Raj Institution (PRI) in local planning and the gradual building up of an integrated co-operative structure for establishing social and economic democracy particularly in the countryside.

It suggested reorganization of the management of public enterprises to achieve the twin aims of a strong well-knit public sector and the autonomous operation of responsible units. It emphasized the need for encouraging operation and decentralized decision-making for the private sector – small and large, within this overall frame. Last but not the least, it called for a more even distribution of benefits, a fuller life for an increasing large number of people, and building up a strong integrated democratic nation (Hantal, 1996).

The Draft Fifth Five-Year Plan was formulated in terms of 1972-73 prices and in the context of the economic situation obtaining in the first half of the fiscal year 1973-74. Thereafter, two major developments took place. The inflationary pressure gathered momentum till September 1974; and the balance of payment position worsened due to the steep rise in the prices of imported oil and other materials (Government of India, 1973, Draft Fifth Five-Year Plan).

It was, therefore, designed mainly to control inflation and increase production particularly in the key sectors. The plan outlay had to be kept at a modest level. Yet care was taken to ensure adequate provisions for agriculture including irrigation and fertilizers, energy (power, coal and oil), ongoing payment in steel, non-ferrous metals and certain basic consumer goods industries. Emphasis was on fuller utilization of the unutilized capacities. The provision for social services was restrained but kept at a reasonable level.

After having succeeded in containing inflationary tendencies and giving the economic situation a promising turn, the objectives laid down in this plan were: removal of poverty and achievement of self-reliance. The strategies related to growth in the three leading sectors, *viz*., agriculture, energy and critical intermediates and the creation of additional employment opportunities.

The 20-point Economic Programme announced by the Prime Minister on 1st July 1975; the various constituents of the 20-point economic programme especially those which require financial investment, have been identified. Priority has been accorded to the implementation of the schemes falling under this programme (Government of India, 1973, Fifth Five-Year Plan).

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The Fifth Plan also permitted foreign capital participation where the technological gap could not be filled by indigenous technology. However, such participation was normally not expected to exceed 40 per cent (Government of India, 1973, Draft Fifth Five-Year Plan).

There were two Sixth Plans. The Janata Party's Sixth Plan (1978-83) sought to reconcile the objectives of higher production with those of greater employment so that people living below the poverty line could benefit there from. The focus of the Janata's Sixth Five-Year Plan was enlargement of the employment potential in agriculture and allied activities, encouragement to household and small industries producing consumer goods for mass consumption and to raise the incomes of the lowest income classes through a minimum needs programme.

When the Sixth Plan (1980-85) was introduced by the Congress, the planners rejected the Janata approach and brought back Nehru model of growth by aiming at a direct attack on the problem of poverty by creating conditions of an expanding economy.

The gradual process of liberal economic policy was followed in Sixth Five-Year Plan to maintain growth with stability. It, therefore, called for flexible licensing policy for private participation in the capital formation (Government of India, 1980, Sixth Five-Year Plan). Though the key industries remained under the control of public sector, a little openness gradually started in country.

The Sixth Plan policies stated attentions in following areas:

(a) Removing the disadvantages, which exports suffer because of restrictions on imports.

(b) Removing obstacles to the expansion of capacity for exports.

(c) Streamlining the existing cash compensation and other schemes intended to remove the disadvantages suffered by exports on account of taxation and physical controls operating in the economy.

(d) Ensuring that government intervention in the foreign trade policies is such as not to discriminate against exports and production for exports, there is a case for making exporting marginally more profitable than import substitution, in view of the need to diversify export trade which involves capturing new markets abroad and retaining them; and

(e) Maintaining adequate links with technological development abroad so that our export capability is not hurt by outdated technology.

The Seventh Five-Year Plan (1985-90) sought to emphasis policies and programmes which would accelerate the growth in food-grains production, increase employment opportunities, and raise productivity – all these three immediate objectives were regarded as central to the achievement of long-term goals determined as far back as the First Plan itself (Datt and Sundharam, 2000).

It the Seventh Plan the liberal economic policy was more encouraged. It says, "in addition to the programme of public sector investment, the plan must contain a set of policies designed to bring about the desired pattern of investment in the private sector. Other policies lead supportive of the plan will be those which lead to efficiency and economy in resource use in both the public and the private sector. Thus, the success of the plan would depend among others on the choice of the Current Policy Framework" (Government of India, 1985, Seventh Five-Year Plan: 68). The Seventh Plan stated that a strenuous effort at non-planned expenditure control was required. Arguing that many of the subsidies are not beneficial to the poor, it called that the subsidy burden must be kept down to a reasonable level.

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It justified the need of introducing the principle of 'zero-based budgeting' which according to the plan could be applied to non-developmental expenditure as well as developmental expenditure. This would make possible for redevelopment of personnel, thereby cutting down new recruitment.

The Seventh Plan also argued that because of the development of economy and the industrial structure which were becoming more and more diversified and complicated, the licensing mechanism and other physical controls became more difficult to operate. Hence, it considered it is necessary to reduce the regular and range of physical controls and plan greater reliance on financial controls which would give signals but would not involve inefficiency and delays.

The Sixth Five-Year Plan had Noted

"The Framework of Rules and Regulations relevant to the nascent stage of development are not necessarily appropriate to the complex industrial structure which has since been built up. Without sacrificing the basic principles of a planned economy, sufficient flexibility would need to be built into the system to impart a sense of dynamism to take advantage of the considerable technological and managerial capabilities that have been developed over the years".

During the Sixth Plan considerable liberalization was introduced in the rules and operations relating to industrial and import licensing. The level of investment below which licensing was not required was raised to ₹ 5 crores. A sizable number of commodities were placed on the Open General License (OGL). In the light of the experience gained during the Sixth Plan, substantial changes in the licensing policy have been introduced. Several important industries have been delicensed and broad-banding has been introduced to impart flexibility in regard to choice of product by the entrepreneurs.

It also called for liberalizing the import policy. It says: Quantitative import restrictions, though no doubt effective, have also fostered a chronic disregard for productive efficiency by creating a protected domestic market. And in the absence of equally secure and commensurate incentives for sales abroad, they have discriminated against exports in the same way as a generalized exports duty. As a consequence, a large number of import products are replaced at a much higher domestic resource cost than would have been involved in acquiring equivalent foreign exchange through exports.

In line with the Sixth Plan policy concerns, deliberate efforts were mounted to minimize this bias against exports; and the policy package for exporters from Domestic Tariff Area (DTA) consisting essentially import replenishment, duty drawbacks, Cash Compensatory Support (CCS), concessional credit and provision for domestic intermediates was streamlined and liberalized. It also stated in subsequent para as "Discrimination against exports can be avoided as has been done through the establishing of Free Trade Zone (FTZ) or more per cent of Export Oriented Units (EOUs) – a Foot Loose version of the former".

Various programmes and schemes were also devised for social upliftment of the poor sections, as per the various facets of the Indian Constitution.

2.2 EVALUATION OF INDIAN PLANNING AND DEVELOPMENT

Reviewing the overall achievement of planning in India, Draft Five-Year Plan (1978-83) under Janata regime stated: "It is a cause of legitimate national pride that over this period a stagnant and dependent economy has been modernized and made more self-reliant. Moderate rate of growth per capita income has been maintained despite the growth of population" (Government of India, 1978, Draft Sixth Five-Year Plan, 1978-83).

Among the major achievements of planning in India, increase in national and per capita income progress in agriculture, development of infrastructure, progress in industry, diversification of export and import, development of science and technology and development of a huge educational system are some of the notable features.

The Net National Product (NNP) at 1980-81 prices in 1950-51 was ₹ 40,450 crore which increased to ₹ 1,86,450 crore in 1990-91 and further to ₹ 2,58,470 crore in 1996-97. Similarly, per capita NNP at 1980-81 prices increased from ₹ 1,130 of 1950-51 to ₹ 2,220 in 1990-91 and further to ₹ 2,760 in 1996-97. This increase, despite, huge population increase over the period, is praiseworthy (Economic Survey, 1998-99).

During the period, the government had spent on an average 23 to 24 per cent of the plan outlay in each of the five-year plans on the development of agriculture and allied activities and irrigation. This expenditure was in addition to the private sector investment on agriculture and minor irrigation.

As a result, food-grains production rose from 51 million tonnes of 1950-51 to 108 million tonnes in 1970-71 and further to 199 million tonnes in 1996-97. In other words, during 1950s, despite relative smaller size of population we had shortage of food. But now government is claiming for buffer stocks of food-grain.

Another achievement of great significance is the creation of economic infrastructure which provides the base for the developmental programme and industrialization. According to Janata's Sixth Plan: "A large infrastructure has been built to sustain this sub-continental economy: the network of irrigation storage works and canals, hydro and thermal power generation regional power grids, a largely electrified and dieselized railway system, national and state highways on which a rapidly growing road transport fleet can operate and telecommunication system covering the most urban centres and linking India with the world" (Government of India, 1978, Draft Sixth Five-Year Plan, 1978-83).

Similarly, achievements in the field of industrial development in the country are appreciable, as the Janata's Sixth Plan states: A major achievement has been the diversification and expansion of India's industrial capacity with the public sector playing the leading role.

The country is self-sufficient in consumer goods and in basic commodities like steel and cement, while the capacity of other industries like fertilizers is rapidly expanding. The growth of capital goods production has been particularly impressive, and India can now sustain the likely growth of most of her industries, whether textiles, food processing or cement or chemicals, metallurgical industries, power and transport, by the domestic production of capital goods needed with marginal imports (Government of India, 1978, Draft Sixth Five-Year Plan, 1978-83).

Diversification of export and import, development of science and technology and development of huge educational systems are other notable features of achievement of Indian planning. Reviewing national achievements after 40 years of planning D.T. Lakdawala wrote: "There has been some satisfaction with the economic progress made by India on several fronts – the rate and diversity of economic growth, the increase in savings and investment, the almost entire self-reliance realized in food-grains production, the high transformation in the structure of industry, the capacity in training highly skilled manpower so as to lead to an exportable surplus in certain lines, the extension of normal and special banking facilities to hitherto unbanked areas and sectors, the unprecedented expansion of state, quasi-state and co-operative institutions in marketing and technical aid and

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guidance, etc. Some indicators of the quality of life expectations of life at birth, death rate, infant mortality rate have also recorded a welcome change" (Lakdawala 1988).

However, planning was gross failure in the other aspects of development, notably in respect to social equality and development in the country. It has been observed that it failed miserably in its goals of poverty eradication, providing employment, bridging inequalities, education to all, land reform, self-reliance and balance regional development and so on.

These Problems are briefly discussed below

Poverty

India's failure to eradicate poverty even after it achieved the independence attracted the minds of the scholars very seriously in 1970s. Various scholars therefore, did important studies on poverty (Dandekar and Rath, 1971; Minhas, 1970; Bardhan, 1973; Bardhan, 1970; Ahluwalia, 1978; Ojha, 1970; Vaidyanathan, 1974; Minhas, 1974). They found huge percentage of India's population living in the below poverty line. For eradication of poverty, Indian government devised various schemes and programmes such as Integrated Rural Development Programme (IRDP), National Rural Employment Programme (NREP), Rural Landless Labour Employment Guarantee Programme (RLEGP), etc.

In the mid-term appraisal of Sixth Plan, the Planning Commission has claimed that there has been a decline in the incidence of poverty between 1977-78 and 1983-84. The success on the front of poverty has been attributed to the above-mentioned programmes, and made highly questionable assumption that the growths of per capita income help benefit the poor. Hence, various scholars sharply reacted to such claim. Raj Krishna asserts that the linking of the poverty ratio with per capita income is not justified.

He also denounced the assumption of the Planning Commission that the expenditure on rural development schemes and reduction of poverty are correlated (Krishna, 1983: 1975). Sundaram and Tendulkar also took exception to the claim of Planning Commission and opined that there was utter casualness in their approach of the Mid-Term Appraisal, which cannot be uncritically accepted without close scrutiny. Other scholars however, have refuted the above criticisms. According to Rath the IRDP strategy" is largely misconceived. Only a small proportion could be helped; what is equally true is that only a very small proportion can be helped in this manner.

Putting more burdens on this approach will discredit the line of attack; generate wastage, corruption and ultimately cynism. In a multi-pronged attack on rural poverty this approach surely has a legitimate place, but it cannot be the mainstay of such a programme". He favours a programme of creating wage employment on a massive scale.

However, Hirway and Dantwala disagreed with Rath and advocated that in a programme for poverty alleviation the role of self-employment should not be undermined. According to Hirway, self-employment is a major force of employment in the rural areas and this fact must not be ignored in the strategy of poverty alleviation (Hirway, 1985). Further, dependence on wage employment alone to tackle the problem of poverty will lead to total dependence of the poor on employers. It is also likely to accentuate the gap between the rich and the poor by strengthening the asset base of the former.

Among other causes there are three important causes such as rapid population growth, concentration of wealth and inequality (Griffin 1979) and corruption and non-implementation of programmes are the important factors responsible for accentuating poverty. But for these, strong and

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careful policy and implementation of such policy with letter and spirit is necessary, which so far is absent in our country.

According to Kurien, the existing social structure is the main obstacle against poverty alleviation. He asserts, "In some instances the structural elements can be so pervasive that even the most carefully designed strategies may not only fail, but can turn out to be counterproductive. It has also been observed that anti-poverty policies eventually help the rich and middle income groups more than they help poor.

The number of people living below poverty is so massive that it cannot be agreed with the viewpoint that poverty has been reduced or can be reduced with gradual approach, but a radical move with target-based design is required. The soft policy of the Indian.

Government, perhaps, is responsible for this massive number of people living under the clutches of poverty. After taking the detail account of the rural poor, Bardhan has listed the following mechanism whereby 'trickle down' effects were prevented since the mid-sixties:

1. The adoption of labour-displacing machinery immiserized a section of wage labourers;
2. The increased profitability of self-cultivation by large landlords led to eviction of small tenants,
3. The increased dependence of agriculture on purchase inputs and privately managed irrigation drove resourceless small farmers out of cultivation,
4. The emergence of the class of new rural rich after the green revolution caused a shift in the demand pattern, away from local handicrafts and services and this led to the impoverishment of the village artisan,
5. Rapid agricultural growth in selected areas induced immigration of agricultural labour from backward areas,
6. The increased use of pump sets by richer farmers has resulted in some areas, a drop in water tables and as a result traditional lift irrigation technology used by poorer farmers has become less effective. Further, the large farmer is no longer interested in the maintenance of old irrigation channels and the small farmers alone are not in a position to mobilize adequate resources for this purpose.
7. The new technology has brought about a decline in the participation of women in the agricultural workforce and this has in most cases caused a decline in the earnings of the relatively poor households.
8. The increased political bargaining power of the rural rich has resulted in higher administered prices of food-grains while agricultural labourers have shown a tendency to lag behind the price rise.

As already stated, the government has taken many measures to eradicate poverty but none of those were really successful in its objective. The solution for eradicating poverty according to the government and, of course, many politicians lies with providing employment and raising the productivity of low level of employment.

The Approach Document to the Fifth Plan (1972) states: "Employment is the surest way to enable the vast numbers, living below the poverty level to rise above it. Conventional fiscal measures for redistribution of income cannot by themselves, make significant impact on the problem" (Government of India, 1972, Towards an Approach to the Fifth Plan, 1972).

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Chakrabarty says: "The solution to the problem of rural poverty will require that small farmers must also be given access to land-augmenting innovation along with a programme of well-conceived public works. Both these make considerable demand on available services and organizational capabilities as they cannot be merely directed from above – many of the specific tasks will need to be done on a decentralized basis" (Chakrabarty, 1987).

Suri and Gangadharan, however, say: "The institutional malady needs to be rectified to completely eradicate poverty in the long-run. The effects of an initial unequal distribution of income yielding assets has been cumulative, resulting in the continuance and intensification of this skewness, that is, we find two interconnected vicious circles, one of affluence and the other of poverty. Thus, any attempt to break the vicious circle of poverty without tampering with the vicious circle of affluence will not affect the cumulative process or halt the widening gap between the rich and the poor. It is in this context that 'Garibi Hatao' (removal of poverty) is incomplete as a drive in the eradication of poverty. In other words, it must be complemented with 'Amiri Hatao' – removal of affluence"(Suri and Gangadharan, 1997).

Finally, it can be concluded, that the free-India's economic policy too miserably failed like that of British economy policy in tackling poverty. In this context writing of Amartya Sen is worth mentioning. He said: "The poor is not an economic class, nor convenient category to use for analyzing social and economic movements. Poverty is the common outcome of a variety of disparate economic circumstances and a policy to tackle poverty must, of necessity, go beyond the concept of poverty. The need for discrimination is essential" (Sen, 1977). He further asserted, "It is not sufficient to know how many poor people there are, but how exactly poor they are".

Unemployment

Poverty and unemployment are mostly interrelated. Because there is unemployment, there is poverty or because there is poverty, there is unemployment. According to Committee of Experts on Unemployment, total number of unemployed was 18.7 million in 1973 which included 16.1 million from urban India. Similarly, according to CMIE report, the number of educated unemployment increased from 22.96 lakhs in 1971 to 224.34 lakhs in 1991 (CMIE, 1994).

Table 2.1 reveals the correlation between poverty and unemployment. As per the facts of the table, nearly three-fourths of the unemployed belong to households with an income level less than ₹ 200 per month. All such families can be broadly classified as living below the poverty live. Obviously, unemployment is widely spread in poor families and as income levels improve the proportion of the unemployed to the total unemployed declines.

Table 2.1

Percentage of unemployment (Age group 15 and above) in the Inome group as percentage of total unemployment in all income group

Household Monthly Income Level	Percentage of Unemployment to Total
₹ 100 and less	45.4
₹ 101-200	29.5
₹ 201-500	17.9
₹ 500 and above	7.2
All levels	1.00

Planning Commission has also stated 'Usual Status' of unemployment through 32nd round and two sub-rounds of 38th round in the National Sample Survey Organization's study on Employment-Unemployment. On the basis of 32nd round, the unemployed figures were 13.89 million, 13.25 million and 13.10 million for age groups 5+, 15+ and 15-59 respectively.

Figures of 32nd round have shown increased unemployment in 1985 in comparison to 1980. Hence, two quick 38th rounds were made to show lesser numbers of unemployed. Because of this, it invited criticism from scholars. According to critics, Planning Commission wished to mislead the people through statistical jugglery about the dimension of the problem (Jha, 1986).

Scholars also criticized various employment generation programmes such as NREP, RLEGP, TRYSEM, IRDP etc. The criticism was based on three points such as, about the scheme itself, non-implementation, and wrong identifications. On the basis of the NABARD surveys of IRDP, Rath concludes: "The NABARD (1984) surveys shows the percentage of beneficiaries wrongly classified to be 42 per cent in Assam, 17.76 in Haryana, 35 per cent in Punjab, 19 per cent in Madhya Pradesh, and 13 per cent in Maharashtra. As against this, the survey showed 11 per cent misclassification in the surveyed districts of Tamil Nadu and Karnataka, 7 per cent in Andhra Pradesh and hardly one per cent or less in Orissa, Bihar and Uttar Pradesh. On the whole, however, it would not be improper to suggest that at least 15 per cent of those identified poor and helped under IRDP did not really belong to the category of the poor" (Rath, 1985).

Krishnan on the basis of his study in Kerala concludes: The majority of the beneficiaries to the extent of 80 per cent (based on annual family income of less than ₹ 3,500) and 63.25 per cent (based on monthly per capita income of less than ₹ 76) were not eligible for assistance under the programme. Targets are fixed without realistically understanding the magnitude of poverty in a specific region resulting in benefits being liberally passed on the well-off sections (Krishnan, 1984).

Similarly, Hirway, on the basis of a study of four selected villages in Gujarat concludes: "Firstly, the non-poor households dominate among participants – about 55 to 75 per cent of the participants are non-poor in the villages. And secondly, the non-participants mainly belong to the lowest three deciles of consumption levels" (Hirway, 1984).

Ashok Rudra asserts that the government never had an employment policy. It also did not set a target date "by when any able bodied person who wants to work and make an honest living can be assured of a job that would offer him at least a minimum subsistence" (Rudra, 1982). Making his observations, Tarlok Singh wrote in the mid-seventies, "lags in employment and inadequacy of various policies and measures adopted thus far are indications that the task of ensuring work for all has to be taken up in a much more fundamental way than in the past". (Singh, 1974).

It has also been observed that the employment programmes were not sufficient enough to enable the poor to increase his level of status because these are even non-sufficient for basic subsistence of life. According to Jha, therefore, "the employment to be generated must be gainful and if the wages earned are not to be a burden on the community and, therefore, in the nature of dole or charity of goods and services produced must have an effective demand for them out of their sale proceeds, reasonable wages can be paid preferably but not necessarily in all cases – without raising prices" (Jha, 1984).

According to Chaudhari, there is lack of compatibility between employment and output. There is no serious concern in the formulation of the strategy for the compatibility of the employment targets with various output and investment targets (Chaudhari, 1978).

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Bharadwaj in his writings of unemployment in India, emphasized on growing rate of urban unemployment in India. Sometimes, the reason cited for such growing urban unemployment, particularly educated unemployment, had been excessive supply of educated youth. Supply has consistently moved ahead of demand so that educated unemployment as a fraction of the stock of educated manpower has remained relatively constant".

According to Blaug et al., however, the educated unemployment in itself is no proof of over investment in education. Since it is caused by market imperfection, the appropriate remedy, might, therefore, involve an active manpower policy designed to improve the functioning of labour markets rather than a contraction of upper secondary and higher education.

According to Myrdal, India's educational policy does not aim at development of human resources, rather it merely produces clerks and lower cadre executives for the government and private concerns. With the expansion in the number of institutions which impart this kind of education, increase in unemployment is inevitable.

It is so because education in arts, commerce and science will not ensure employment to all those who have received it on account of its limited utility for productive purposes. Myrdal considers all those who receive merely this kind of education not only as inadequately educated but also wrongly educated (Myrdal, 1968).

Another reason mostly given for the growing unemployment in India is the backward economy of India. It is therefore, assumed by the Planning Commission that the growth of economy would generate employment and solves the crises of unemployment problem in the country. However, it does not satisfy all economists.

Some of them argued that even the high growth had not generated employment, so it would not be possible to see that in future the high growth of economy would resolve the crises of unemployment in India (Brahmananda, 1978). For Lewis, often wrong choice of technique that is instead of labour-intensive going for capital-intensive technique is responsible for the rising trend of unemployment (Lewis, 1955: 356).

The possibility of an increase in unemployment is not completely ruled out in a rapidly developing economy. In fact, there exists a real conflict between the objectives of economic growth and employment in the early phase of development. Hazari and Krishnamurthy have brought out the conflict between growth and employment inherent in the Mahalanobis strategy which guided India's development efforts for about two decades (Hazari and Krishnamurthy, 1970).

Apart from general unemployment, various scholars have also brought out the hidden or designed unemployment and under employment in India, especially in rural agrarian society and accused the non-sensible Indian economic policies for such miserable situations (Sen, 1977; Mehra, 1966; Bhattacharjee, 1961; Rudra, 1973; Uppal, 1967). Hence, it may be summed up that the planning in India could not provide employment and forced the vast Indian poor into the clutches of poverty.

Inequality

The income inequality in India is another social problem and policy failure of Indian government. Lydall estimated income distribution for the year 1955-56 on the basis of data obtained from income tax records and the NSS data on consumption expenditure. According to his estimates India's per capita income in 1955-56 was ₹ 255 (at current prices) per annum.

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He estimated that income of about 72 per cent people whose incomes were above national average accounted for 51 per cent of the national income while the poorest 25 per cent population had to remain contented with a mere 9.5 per cent of the national income

In term of assets distribution, especially in rural India, the inequality is much higher, in fact it is against the ethos of the Indian Constitution.

According to some scholars, usually in underdeveloped and developing countries, inequality is more in comparison to developed nations in which inequality is in between low and moderate. In socialist countries, however the gap is less (Chenery, 1974). However, according to World Development Report 1994, inequality was more even in advanced countries though it was Brazil who topped in the list of inequality distribution of income followed by Mexico. Table 2.2 states distributions of income in selected countries .

Table 2.2: Distribution of Income in Selected Countries

(In percentage)

Countries	Year	Lowest 20	Highest 20
Brazil	1989	2.1	67.5
Mexico	1984	4.4	55.9
UK	1988	4.6	44.3
Switzerland	1982	5.2	44.6
China	1990	6.4	41.8
USA	1979	6.2	36.7
Pakistan	1991	8.4	39.7
India	1989-90	8.8	41.3
Sri Lanka	1990	8.9	39.3

According to scholars like Kuznets, in the early stage of development the inequalities show a tendency to grow (Kuznets, 1955). However, after several decades of Indian planning and development, the inequality system, instead of getting narrowed, in fact, is widening. Moreover, as per World Development Report, as stated in Table 2.2, the developed nations like, UK, USA and Switzerland also could not reduce the inequality system.

Perhaps, Ambedkar was right in saying that, for only sake of humanistic point of view, no one is likely to give up the power and privileges he/she has been enjoying. Hence, it is the state which should take appropriate decision with regard to reduction of inequality.

Though Indian government has enunciated various programmes for reduction of inequalities such as land reform, it has truly failed in its desired objectives – practical implementation of such principles. Perhaps, one of the biggest reasons of perpetuation of inequality especially in rural India is its failure of implementation of land reform in letter and spirit. Various studies support this.

Bagchi has argued that tax structure in India is regressive and it has encouraged further concentration of economic power . Thus fiscal policy, according to him, further widened the inequalities in country. By criticizing Indian economic policy on income redistribution front, K.N. Raj stated: “Inequalities in income and wealth are also greater now than they were at the beginning of this period of planned development” (Raj, 1969). It is rightly pointed out by some scholars that in a

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society with an unequal distribution of assets and power, growth of nation often failed to redistribute income and to eradicate poverty (Streeten et al., 1982)

Paranjape argued that MRTP Act which controls and restricts objectationable trade practices was rather inadequate and ineffective, yet the government, instead of making it more tightening, further liberalized on one pretext or the other, thereby indirectly supported to the perpetuation of inequalities in the country (Paranjape, 1983).

Similarly, poverty eradications and generation of employment programmes have been rather ineffective tools to bridge the gap of inequality. Therefore, perhaps, Chaudhari rightly asserted that Indian plans had never made any serious attempt to redistribute income and wealth.

In its objective of self-reliance also, the Indian plan failed miserably, for which it has attracted larger number of criticism. The detailed discussion of this topic is not done here. However, following statement of Ezekiel is worth mentioning.

According to him, "planning documents contain many examples of statements in which after declaring self-reliance to be the objective in one sentence, the next and subsequent sentences go on to show how it is proposed to achieve, self-sufficiency" (Ezekiel, 1992). Imbalanced regional development is another instance of Indian Planner's failure of bringing the social equity. The imbalanced development has been highlighted through various works of scholars (Lahiri, 1972; IEA, 1969, 1974; Chand and Puri, 1983).

As stated already, it is not only due to lack of proper planning, it is more so due to lack of proper implementation of such programmes that India could not attain its basic objectives, whether abolition of poverty, generation of employment, reduction of inequalities or balanced regional development in the country.

Towards the end of 1980s the new global economic policy, after the 8th round of GATT (known as Uruguay Round talk), started spreading worldwide. The new policy is known as the liberalization policy. More recently, it is popularized as 'globalization'.

FISCAL POLICY IN INDIA: TRENDS AND TRAJECTORY

Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth of the economy. According to Culbarston, "By fiscal policy we refer to government actions affecting its receipts and expenditures which ordinarily as measured by the government's receipts, its surplus or deficit." The government may change undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

Fiscal policy also feeds into economic trends and influences monetary policy. When the government receives more than it spends, it has a surplus. If the government spends more than it receives it runs a deficit. To meet the additional expenditures, it needs to borrow from domestic or foreign sources, draw upon its foreign exchange reserves or print an equivalent amount of money. This tends to influence other economic variables.

On a broad generalization, excessive printing of money leads to inflation. If the government borrows too much from abroad it leads to a debt crisis. Excessive domestic borrowing by the government may lead to higher real interest rates and the domestic private sector being unable to access funds resulting in the "crowding out" of private investment. So it can be said that the fiscal deficit can be like a double edge sword, which need to be tackled very carefully.

Main Objectives of Fiscal Policy in India

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Before moving on the discussion on objectives of India's Fiscal Policies, firstly know that the general objective of Fiscal Policy.

General objectives of Fiscal Policy are given below:

(a) To maintain and achieve full employment.

(b) To stabilize the price level.

(c) To stabilize the growth rate of the economy.

(d) To maintain equilibrium in the Balance of Payments.

(e) To promote the economic development of underdeveloped countries.

Fiscal policy of India always has two objectives, namely improving the growth performance of the economy and ensuring social justice to the people.

The fiscal policy is designed to achieve certain objectives as follows:

1. Development by effective Mobilisation of Resources: The principal objective of fiscal policy is to ensure rapid economic growth and development. This objective of economic growth and development can be achieved by Mobilisation of Financial Resources. The central and state governments in India have used fiscal policy to mobilise resources.

The financial resources can be mobilised by:

(a) Taxation: Through effective fiscal policies, the government aims to mobilise resources by way of direct taxes as well as indirect taxes because most important source of resource mobilisation in India is taxation.

(b) Public Savings: The resources can be mobilised through public savings by reducing government expenditure and increasing surpluses of public sector enterprises.

(c) Private Savings: Through effective fiscal measures such as tax benefits, the government can raise resources from private sector and households. Resources can be mobilised through government borrowings by ways of treasury bills, issuance of government bonds, etc., loans from domestic and foreign parties and by deficit financing.

2. Reduction in inequalities of Income and Wealth: Fiscal policy aims at achieving equity or social justice by reducing income inequalities among different sections of the society. The direct taxes such as income tax are charged more on the rich people as compared to lower income groups. Indirect taxes are also more in the case of semi-luxury and luxury items which are mostly consumed by the upper middle class and the upper class. The government invests a significant proportion of its tax revenue in the implementation of Poverty Alleviation Programmes to improve the conditions of poor people in society.

3. Price Stability and Control of Inflation: One of the main objectives of fiscal policy is to control inflation and stabilize price. Therefore, the government always aims to control the inflation by reducing fiscal deficits, introducing tax savings schemes, productive use of financial resources, etc.

4. Employment Generation: The government is making every possible effort to increase employment in the country through effective fiscal measures. Investment in infrastructure has resulted in direct and indirect employment. Lower taxes and duties on Small-scale Industrial (SSI) units encourage more investment and consequently generate more employment. Various rural employment programmes have been undertaken by the Government of India to solve problems in

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rural areas. Similarly, self employment scheme is taken to provide employment to technically qualified persons in the urban areas.

5. Balanced Regional Development: There are various projects like building up dams on rivers, electricity, schools, roads, industrial projects etc run by the government to mitigate the regional imbalances in the country. This is done with the help of public expenditure.

6. Reducing the Deficit in the Balance of Payment: Some time government gives export incentives to the exporters to boost up the export from the country. In the same way import curbing measures are also adopted to check import. Hence the combine impact of these measures is improvement in the balance of payment of the country.

7. Increases National Income: It's the strength of the fiscal policy that is brings out the desired results in the economy. When the government want to increase the income of the country then it increases the direct and indirect taxes rates in the country. There are some other measures like: reduction in tax rate so that more peoples get motivated to deposit actual tax.

8. Development of Infrastructure: When the government of the concerned country spends money on the projects like railways, schools, dams, electricity, roads etc to increase the welfare of the citizens, it improves the infrastructure of the country. A improved infrastructure is the key to further speed up the economic growth of the country.

9. Foreign Exchange Earnings: When the central government of the country gives incentives like, exemption in custom duty, concession in excise duty while producing things in the domestic markets, it motivates the foreign investors to increase the investment in the domestic country.

Relative Merits of Fiscal Policy

In order to accelerate of growth of the economy public finance or Fiscal policy is used:

1. To mobilise the human and material resources of the economy and maximize their flow.
2. To promote savings in the economy and minimize current consumption.
3. To direct investment in the desirable channels both in the public and in the private sectors by providing suitable incentives.
4. To restrain inflationary forces in order to ensure economic stability.
5. To ensure equitable distribution of income and wealth in the country so that the fruits of development are fairly distributed. Reduction of economic inequalities and prevention of concentration of economic power become the major objectives of fiscal policy in the developing countries.
6. To protect the economy from unhealthy developments abroad i.e., to reduce the exposure of the economy to the ebbs and flows of world markets and to eliminate or reduce dependence on foreign food or foreign investments.

Limitations of Fiscal Policy

1. There can be clash between various objectives of the policy. Fiscal measures aiming at reducing income inequalities or controlling inflation can affect capital formation and rate of economic growth adversely.

2. A considerable chunk of public expenditure in underdeveloped countries is likely to be wasted upon unproductive, undesirable and ostentations activities, or swallowed by unscrupulous officials.
3. Anti-inflationary and redistributive fiscal measures, too, have their limitations as has already been discussed earlier. Similarly, there is a limit to which taxes and deficit-financing to be used for resource mobilization without affecting the economy adversely.
4. The political and administrative delay in taking measures particularly when legislative sanction is necessary for changing the rates of altering expenditure on programmes, detract from the efficacy of whatever measures are adopted. The measures adopted may be slow in taking effect.
5. Fiscal policy often becomes a wholly inappropriate instrument of economic stabilization and growth.

Monetary Policy-Meaning

Monetary policy refers to measures designed to influence the cost and availability of money with a view to influence the working of the economy. In other words, monetary policy consists of all those measures which help the central banking authority of a country to manipulate the various instruments of credit control. The instruments of monetary policy are the same as the instruments of credit control at the disposal of a central bank of a country. In an under developed country the monetary policy plays a very important role in accelerating economic development by influencing the cost and availability of credit, by controlling inflation and by maintaining balance of payments equilibrium.

According to R.P. Kent, Monetary policy implies management of expansion and contraction of volume of money in circulation for the explicit purpose of attainment of some definite ends such as full employment.

Objectives of Monetary Policy

The monetary policy can influence economic growth by helping to create favourable environment for saving and investment. Savings are encouraged through anti-inflationary currency and credit contractions and investments are stimulated when banks advance medium and long-term finance for development purposes on reasonable terms such as low rate of interest. The success of monetary policy depends on the effectiveness of power of the monetary authority used by the Central Bank as also on the range of credit institutions that exist and the forms of the credit controls that are adopted.

The monetary policy in developed economies has to serve the function of stabilization and maintaining proper equilibrium in the economic system. But in case of underdeveloped countries, the monetary policy has to be more dynamic so as to meet the requirements of an expanding economy by creating suitable conditions for economic progress. It is now widely recognized that monetary policy can be a powerful tool of economic transformation.

As the objective of monetary policy varies from country to country and from time to time, a brief description of the same has been as following:

1. Neutrality of money
2. Stability of exchange rates

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3. Price stability
4. Full Employment
5. Economic Growth
6. Equilibrium in the Balance of Payments.

1. Neutrality of Money

Economists like Wicksteed, Hayek and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Any monetary change is the root cause of all economic fluctuations. According to neutralists, the monetary change causes distortion and disturbances in the proper operation of the economic system of the country.

They are of the confirmed view that if somehow neutral monetary policy is followed, there will be no cyclical fluctuations, no trade cycle, no inflation and no deflation in the economy. Under this system, money is kept stable by the monetary authority. Thus the main aim of the monetary authority is not to deviate from the neutrality of money. It means that quantity of money should be perfectly stable. It is not expected to influence or discourage consumption and production in the economy.

2. Exchange Stability

Exchange stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements. It was popularly known, "Expand Currency and Credit when gold is coming in; contract currency and credit when gold is going out." This system will correct the disequilibrium in the balance of payments and exchange stability will be maintained.

It must be noted that if there is instability in the exchange rates, it would result in outflow or inflow of gold resulting in unfavorable balance of payments. Therefore, stable exchange rates play a key role in international trade. Thus, it is clear from this fact that: the main objective of monetary policy is to maintain stability in the external equilibrium of the country. In other words, they should try to eliminate those adverse forces which tend to bring instability in exchange rates:

(i) It leads to violent fluctuations resulting in encouragement to speculative activities in the market.

(ii) Heavy fluctuations lead to loss of confidence on the part of domestic and foreign capitalists resulting in adverse impact in capital outflow which may also result in capital formation and growth.

(iii) Fluctuations in exchange rates bring repercussions in the internal price level.

3. Price Stability

The objective of price stability has been highlighted during the twenties and thirties of the present century. In fact, economists like Crustar Cassels and Keynes suggested price stabilization as a main objective of monetary policy. Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence because cyclical fluctuations are totally eliminated.

It promotes business activity and ensures equitable distribution of income and wealth. As a consequence, there is general wave of prosperity and welfare in the community. Price stability also impedes economic progress as there is no incentive left with the business community to increase production of qualitative goods.

It discourages exports and encourages imports. But it is admitted that price stability does not mean 'price rigidity' or price stagnation'. A mild increase in the price level provides a tonic for economic growth. It keeps all virtues of a stable price.

4. Full Employment

During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment assumed as the main goal of monetary policy. In recent times, it is argued that the achievement of full employment automatically includes prices and exchange stability.

However, with the publication of Keynes' General Theory of Employment, Interest and Money in 1936, the objective of full employment gained full support as the chief objective of monetary policy. Prof. Crowther is of the view that the main objective of monetary policy of a country is to bring about equilibrium between saving and investment at full employment level.

Similarly, Prof. Halm has also favoured Keynes' view. Prof. Gardner Ackley regards that the concept of full employment is 'slippery'. Classical economists believed in the existence of full employment which is the normal feature of an economy. Full employment, thus, exists when all those who are ready to work at the existing wage rate get work. Voluntary, frictional and seasonal unemployed are also called employed.

According to their version, full employment means absence of involuntary unemployment. Therefore, it implies not only employment of all types of labourers but also includes the employment of all economic resources. It is not an end in itself rather a pre-condition for maximum social and economic welfare.

Keynes equation of income, $Y = C + I$ throws light as to how full employment can be secured with monetary policy. He argues that to increase income, output and employment, it is necessary to increase consumption expenditure and investment expenditure simultaneously. This indirectly solves the problem of unemployment in the economy. Since the consumption function is more or less stable in the short period, the monetary policy should aim at raising investment expenditure.

As monetary policy is the government policy regarding currency and credit, in this way, government measures of currency and credit can easily overcome the problem of trade fluctuations in the economy. On the other side, when the economy is facing the problem of depression and unemployment, private investment can be stimulated by adopting 'cheap money policy' by the monetary authority.

Therefore, this policy will serve as an effective and ideal stimulant to private investment as there is pessimism all round in the economy. Further, the objective of full-employment must be integrated with other objectives, like price and exchange stabilization.

The advanced countries like U.S.A. and U.K. are normally working at full employment level as their main concern is how to maintain full employment and avoid fluctuations in the level of employment and production. While, on the contrary, the main problem in underdeveloped country is as to how to achieve full employment.

Therefore, in such economies, monetary policy can be designed to meet with the problem of under employment and disguised unemployment and by further creating new opportunities for

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employment. The most suitable and favourable monetary policy should be followed to promote full-employment through increased investment, which in turn having multiplier and acceleration effects.

After achieving the objective of full-employment, monetary policy should aim at exchange and price stability. In short, the policy of full employment has the far-reaching beneficial effects:

(a) Keeping in view the present situation of unemployment and disguised unemployment particularly in more growing populated countries, the said objective of monetary policy is most suitable.

(b) On humanitarian grounds, the policy can go a long way to solve the acute problem of unemployment.

(c) It is useful tool to provide economic and social welfare of the community.

(d) To a greater extent, this policy solves the problem of business fluctuations.

5. Economic Growth

In recent years, economic growth is the basic issue to be discussed among economists and statesmen throughout the world. Prof. Meier defined "Economic growth as the process whereby the real per capita income of a country increases over a long period of time." It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants.

In other words, it means utilization of all the productive natural, human and capital resources in such a manner as to ensure a sustained increase in national and per capita income over time.

Therefore, monetary policy promotes sustained and continuous economic growth by maintaining equilibrium between the total demand for money and total production capacity and further creating favourable conditions for saving and investment. For bringing equality between demand and supply, flexible monetary policy is the best course.

In other words, monetary authority should follow an easy or tight monetary policy to suit the requirements of growth. Again, monetary policy in a growing economy, has to satisfy the growing demand for money. Thus, it is the responsibility of the monetary authority to circulate the proper quantity and quality of money.

6. Equilibrium in the Balance of Payments

Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.

It was felt that increasing of deficit in the balance of payments reduces, the ability of an economy to achieve other objectives. As a result, many less developed countries have to curtail their imports which adversely effects development activities. Therefore, monetary authority makes efforts that equilibrium should be maintained in the balance of payments.

Instrument of Monetary Policy

The various ways or channels through which the monetary policy functions as an instrument of economic development are describes below:

1. Financial Institutions: Monetary policy can be used as an instrument of economic development only if the required services of currency and credit systems are available adequately in an underdeveloped country. There is a great need of setting up more banks and financial institutions in order to increase credit facilities and to divert saving into productive channels.

Today the Central Bank is the Central arch of the monetary and fiscal framework in every country of the world. The activities of the central bank are regarded essential for the proper functioning of the economy and indispensable for the monetary and financial operations of the government and thus manages and regulates public debt. It issues government bonds and securities and sells them to the public through commercial banks in the country. The central bank should provide short-term, medium term and long-term credit as lower interest rates to the peasants either directly or through co-operatives credit societies. As a guardian of the money market, the central bank has sufficient powers to central the working of commercial banks in the larger interests of economic development.

2. A suitable interest policy: Some economists have suggested that the underdeveloped countries should follow a policy of high interest rates. A high rate of interest would limit the allocation of scarce capital only to the most productive uses and avoid wasteful use of resources. It would also serve as an effective anti-inflationary measures by restricting undesirable investment and stimulating saving. In order to encourage investment in agriculture and industry especially belonging belonging to the private sector, a policy of low interest rate is essential. Similarly, a low interest rate policy is also essential for encouraging public investment. Alow interest rate policy or a cheap money policy which makes public borrowing cheap, keeps the cost of servicing public debt low and thus helps in financing economic development.

3. Adjustment between Demand for and Supply of Money: Monetary policy can be used as a tool in bringing about a proper adjustment between demand for and supply of money. A mal adjustment between demand for and money supply causes deflation while an excess of it leads to inflation. Both deflation as well as inflation retard economic development. Hence, in an under developed country, the supply of money should be controlled in such a way that the price level is prevented from rising alarming without affecting investment and output adversely.

4. Credit control: Credit control Credit control is an important tool used by Reserve Bank of India, a major weapon of the monetary policy used to control the demand and supply of money (liquidity) in the economy. Central Bank administers control over the credit that the commercial banks grant. Such a method is used by RBI to bring “Economic Development with Stability”. It means that banks will not only control inflationary trends in the economy but also boost economic growth which would ultimately lead to increase in real national income stability. In view of its functions such as issuing notes and custodian of cash reserves, credit not being controlled by RBI would lead to Social and Economic instability in the country.

2.3 NEED FOR CREDIT CONTROL

Controlling credit in the economy is amongst the most important functions of the Reserve Bank of India. The basic and important needs of credit control in the economy are:

- To encourage the overall growth of the “priority sector” i.e., those sectors of the economy which is recognized by the government as “prioritized” depending upon their economic condition or government interest. These sectors broadly totals to around 15 in number.
- To keep a check over the channelization of credit so that credit is not delivered for undesirable purposes.

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- To achieve the objective of controlling inflation as well as deflation.
- To boost the economy by facilitating the flow of adequate volume of bank credit to different sectors.
- To develop the economy.

Quantitative Credit Control: Methods of Credit Control

There are two methods that the RBI uses to control the money supply in the economy:

1. Qualitative method
2. Quantitative method

During the period of inflation Reserve Bank of India tightens its policies to restrict the money supply, whereas during deflation it allows the commercial bank to pump money in the economy.

1. Qualitative Method

By Quality we mean the uses to which bank credit is directed.

For instance: the bank may feel that spectators or the big capitalists are getting a disproportionately large share in the total credit, causing various disturbances and inequality in the economy, while the small-scale industries, consumer goods industries and agriculture are starved of credit.

Correcting this type of discrepancy is a matter of qualitative credit control.

Qualitative method controls the manner of channelizing of cash and credit in the economy. It is a 'selective method' of control as it restricts credit for certain section where as expands for the other known as the 'priority sector' depending on the situation.

Tools used under this method are:

(i) Marginal requirement: The marginal requirement of a loan is the current value of security offered for a loan or the value in totality of the loans granted. The marginal requirement is increased for those business activities, whose flow of credit is to be restricted in the economy. E.g.,: A person mortgages his property worth ₹ 1,00,000 against loan. The bank will give loan of ₹ 80,000 only. The marginal requirement here is 20 per cent.

In case the flow of credit has to be increased, the marginal requirement will be lowered.

The Reserve Bank of India has been using this method since 1956. If margin per cent is more, then fewer loans will be given for a certain value of security. If margin per cent is less , more loans will be given.

(ii) Rationing of credit: Under this method there is a maximum limit to loans and advances that can be made, which the commercial banks cannot exceed. RBI fixes ceiling for specific categories. Such rationing is used for situations when credit flow is to be checked, particularly for speculative activities.This is all fake Minimum of "CAPITAL: total assets" (ratio between capital and total asset) can also be prescribed by Reserve Bank of India.

(iii) Publicity: RBI uses media for the publicity of its views on the current market condition and its directions that will be required to be implemented by the commercial banks to control the unrest. Though this method is not very successful in developing nations due to high illiteracy existing making it difficult for people to understand such policies and its implications.

(iv) Direct Action: Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by Reserve Bank of India. There can be a restriction on advancing of loans imposed by Reserve Bank of India on such banks. E.g. – RBI had put up certain restrictions on the working of the Metropolitan co-operative banks. Also the 'Bank of Karad' had to come to an end in 1992.

(v) Moral Suasion: This method is also known as "moral persuasion" as the method that the Reserve Bank of India, being the apex bank uses here, is that of persuading the commercial banks to follow its directions/orders on the flow of credit. It also be part of meetings between RBI and Commercial Banks. RBI persuades the commercial bank to follow their policies. RBI puts a pressure on the commercial banks to put a ceiling on credit flow during inflation and be liberal in lending during deflation.

2. Quantitative method

By quantitative credit control we mean the control of the total quantity of credit.

For Example: Let us consider that the Central Bank, on the basis of its calculations, considers that ₹ 50,000 is the maximum safe limit for the expansion of credit. But the actual credit at that given point of time is ₹ 55,000 (say). Thus it then becomes necessary for the central bank to bring it down to 50,000 by tightening its policies. Similarly if the actual credit is less, say 45,000, then the apex bank regulates its policies in favor of pumping credit into the economy.

Different tools used under this method are:

(i) Bank rate: Bank rate also known as the discount rate is the official minimum rate at which the central bank of the country is ready to re-discount approved bills of exchange or lend on approved securities.

Section 49 of the Reserve Bank of India Act 1934, defines Bank Rate as "the standard rate at which it (RBI) is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under this Act"..

When the commercial bank for instance, has lent or invested all its available funds and has little or no cash over and above the prescribed minimum, it may ask the central bank for funds. It may either re-discount some of its bills with the central bank or it may borrow from the central bank against the collateral of its own promissory notes.

In either case, the central bank accommodates the commercial bank and increases the latter's cash reserves. This Rate is increased during the times of inflation when the money supply in the economy has to be controlled.

At any time there are various rates of interest ruling at the market, like the deposit rate, lending rate of commercial banks, market discount rate and so on. But, since the central bank is the leader of the money market and the lender of the last resort, all other rates are closely related to the bank rate. The changes in the bank rate are, therefore, followed by changes in all other rates as the money market.

The graph on the right hand side shows variations in the bank rate since 1935-2011.

(ii) Debt Management: Debt management refers to the government borrowing, its regulation and control. It aims at proper timing and issuing of government bonds and securities stabilizing their prices and minimizing the cost of servicing the public debt. It is the

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monetary authority or the central bank of a country that undertakes the selling and buying of government bonds and securities. Management of public debt is an important function of monetary policy in an underdeveloped country. According to Dr. J.D. Sethi, the primary aim of debt management is to create condition in which public borrowing can increase from year to year and on a big scale without giving any jolt to the system.

ADMINISTRATIVE ISSUE OF NATIONALIZATION

Nationalization (or nationalisation) is the process of transforming private assets into public assets by bringing them under the public ownership of a national government or state. Nationalization usually refers to private assets or assets owned by lower levels of government, such as municipalities, being transferred to the state. The opposites of nationalization are privatization and demutualization. When previously nationalized assets are privatized and subsequently returned to public ownership by a later government, they are said to have undergone renationalization. Industries that are usually subject to nationalization include transport, communications, energy, banking and natural resources.

Nationalization may occur with or without compensation to the former owners. Nationalization is distinguished from property redistribution in that the government retains control of nationalized property. Some nationalizations take place when a government seizes property acquired illegally Nationalization is to be distinguished from "socialization", which refers to the process of restructuring the economic framework, organizational structure, and institutions of an economy on a socialist basis. By contrast, nationalization does not necessarily imply social ownership and the restructuring of the economic system. By itself, nationalization has nothing to do with socialism, having been historically carried out for various different purposes under a wide variety of different political system and economic system. However, nationalization is, in most cases, opposed by *laissez faire* as it is perceived as excessive government interference in, and control of, economic affairs of individual citizens.

2.4 SUMMARY

1. The formulation of the development plan is the first stage of the economic planning.
2. Sometimes economists use the term model instead of theory. Strictly speaking, a theory is a more abstract representation, while a model is more applied or empirical representation. Models are used to test theories, but for this course we will use the terms interchangeably.
3. Linear programming (LP, also called linear optimization) is a method to achieve the best outcome (such as maximum profit or lowest cost) in a mathematical model whose requirements are represented by linear relationships. Linear programming is a special case of mathematical programming (also known as mathematical optimization).
4. n mathematics, nonlinear programming is the process of solving an optimization problem where some of the constraints or the objective function are nonlinear. An optimization problem is one of calculation of the extrema (maxima, minima or stationary points) of an objective function over a set of unknown real variables and conditional to the satisfaction of a system of equalities and inequalities, collectively termed constraints. It is the sub-field of mathematical optimization that deals with problems that are not linear.

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5. One of the most interesting developments in the field of modern economics is the model of industrial interdependence known as input-output tableau. It owes its origin to Prof. Wassily Leontief. Input-output analysis is of special interest to the national-income economist because it provides a very detailed breakdown of the macro-aggregates and money flows. This model is widely used in planning and forecasting.

2.5 SELF ASSESSMENT QUESTIONS

1. Explain in detail of the four main stages in the economic planning process in India.
2. Critically explain the concept 'linear programming'.
3. Critically explain the concept 'non-linear programming'.
4. Critically explain the concept 'Input- output analysis'.
5. Elucidate about 'Prospective planning investment criteria'

UNIT – II

Chapter

3

FORMULATION OF DEVELOPMENT PLANS

Learning Objectives

The objectives of this lesson are to:

Structure:

3.1 Formulation of Development Plans

3.2 Input-output Analysis

3.3 Prospective Planning Investment Criteria

3.4 Optional Level of Investment Choice of Investment Choice of Sectors, Techniques and Regions

3.5 Allocation of Resources

3.6 Pricing in Planning

3.7 Summary

3.8 Self-Assessment Questions

3.1 FORMULATION OF DEVELOPMENT PLANS

Stage 1: Formulation of Plan

The formulation of the development plan is the first stage of the economic planning.

At the top, the Planning Commission formulates a draft plan in consultation with the various ministries or economic councils.

Similarly, at the bottom, individual perspective plan on the basis of past experience and future requirements is prepared.

The Planning Commission assesses the balances of technical possibilities, recommendations, suggestions and requirements in the light of reports given by two agencies—one from the top and the other from the bottom. The final draft is comprehensive, coherent and well knit document.

First of all, Planning Commission lays down tentatively certain general goals for the long time, i.e., for fifteen or twenty years, after making a careful analysis of technical possibilities, the basic and non-basic needs of the economy and various methods of development.

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In the second stage, the Commission formulates a short memorandum which is placed before the cabinet and the National Development Council. In the third stage, a draft outline of the Five Year Plan is prepared keeping in view observations made by the National Development Council and is published several months before the plan is to come into force.

This is presented before the Parliament for discussion and later on sent to different Central Ministries, State bodies and State Governments. In short, these proposals are discussed widely in the press, universities and other institutions. Then, final report is prepared and presented before the cabinet, National Development Council and finally before the Parliament for approval.

The Planning Commission, even after its final approval, examines the various aspects from time to time and modifies the plan as and when required. The Five Year Plan, then is broken into annual plans.

During the months of November or December of each year, there is series of consultations between the Commission and the Central and State Ministries for reviewing the progress and making further reassessment of resources and technical possibilities of adjustment and readjustment of targets and requirements of the annual plan for the next year.

Stage 2: Execution or Implementation of the Plan

In most of the planned economies, the Central Planning Commission is merely an advisory body and the execution of the plan is entrusted to the central administration which involves the various agencies and departments of the government. In the initial stages, there is greater possibility of centralisation but in the later stage, decentralisation brings effective control and administration.

Even the most planned countries like Soviet Union and East-European countries are tending to establish democratic decentralisation.

This tendency is also being followed in India as well. Proper execution is really a difficult task and unfortunately this has happened in the case of Indian planning. In the words of Prof. Lewis, “Indians are better planners than doers.”

Stage 3: Supervision of the Plan

The supervision of the plan is one of the essentials of successful planning. Supervision must be separated from their execution and done by some special body. Therefore, execution of plans necessitates constant supervision as it helps to detect failures and shortcomings from time to time.

Constant supervision improves the conditions of successful implementation of the plan. In India, supervision is done by the planning agency or a special agency. The programme evaluation organisation which is an impartial body, supervises the plans.

Stage 4: Programme Evaluation Organisation (PEO)

Evaluation is also another pre-requisite of the successful planning. Every programme should always be assessed in a systematic way. With the assistance from the Ford Foundation, Programme Evaluation Organization was set up in 1952.

The organisation is independent organisation working under the guidance and direction of the Planning Commission. Now, there are seven Regional Evaluation offices at Bombay, Calcutta, Madras, Lucknow, Chandigarh, Jaipur and Hyderabad, working at different places.

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Use of Models

Economists see the world through a different lens than anthropologists, biologists, classicists, or practitioners of any other discipline. They analyze issues and problems with economic theories that are based on particular assumptions about human behavior, that are different than the assumptions an anthropologist or psychologist might use. A theory is a simplified representation of how two or more variables interact with each other. The purpose of a theory is to take a complex, real-world issue and simplify it down to its essentials. If done well, this enables the analyst to understand the issue and any problems around it. A good theory is simple enough to be understood, while complex enough to capture the key features of the object or situation being studied.

Sometimes economists use the term model instead of theory. Strictly speaking, a theory is a more abstract representation, while a model is more applied or empirical representation. Models are used to test theories, but for this course we will use the terms interchangeably.

Linear Programming

Linear Programming (LP, also called linear optimization) is a method to achieve the best outcome (such as maximum profit or lowest cost) in a mathematical model whose requirements are represented by linear relationships. Linear programming is a special case of mathematical programming (also known as mathematical optimization).

More formally, linear programming is a technique for the optimization of a linear objective function, subject to linear equality and linear inequality constraints. Its feasible region is a convex polytope, which is a set defined as the intersection of finitely many half spaces, each of which is defined by a linear inequality. Its objective function is a real-valued affine (linear) function defined on this polyhedron. A linear programming algorithm finds a point in the polyhedron where this function has the smallest (or largest) value if such a point exists.

Linear programs are problems that can be expressed in canonical form as,

Minimize $c^T x$

Subject to $Ax \leq b$

And $x \geq 0$

where x represents the vector of variables (to be determined), c and b are vectors of (known) coefficients, A is a (known) matrix of coefficients, and is the matrix transpose. The expression to be maximized or minimized is called the objective function ($c^T x$ in this case). The inequalities $Ax \leq b$ and $x \geq 0$ are the constraints which specify a convex polytope over which the objective function is to be optimized. In this context, two vectors are comparable when they have the same dimensions. If every entry in the first is less-than or equal-to the corresponding entry in the second, then it can be said that the first vector is less-than or equal-to the second vector.

Linear programming can be applied to various fields of study. It is widely used in mathematics, and to a lesser extent in business, economics, and for some engineering problems. Industries that use linear programming models include transportation, energy, telecommunications, and manufacturing. It has proven useful in modeling diverse types of problems in planning, routing, scheduling, assignment, and design.

Non-linear Programming

In mathematics, nonlinear programming is the process of solving an optimization problem where some of the constraints or the objective function are nonlinear. An optimization problem is one of calculation of the extrema (maxima, minima or stationary points) of an objective function over a set of unknown real variables and conditional to the satisfaction of a system of equalities and inequalities, collectively termed constraints. It is the sub-field of mathematical optimization that deals with problems that are not linear.

Applicability

A typical non-convex problem is that of optimizing transportation costs by selection from a set of transportation methods, one or more of which exhibit economies of scale, with various connectivities and capacity constraints. An example would be petroleum product transport given a selection or combination of pipeline, rail tanker, road tanker, river barge, or coastal tankship. Owing to economic batch size the cost functions may have discontinuities in addition to smooth changes.

In experimental science, some simple data analysis (such as fitting a spectrum with a sum of peaks of known location and shape but unknown magnitude) can be done with linear methods, but in general these problems, also, are nonlinear. Typically, one has a theoretical model of the system under study with variable parameters in it and a model the experiment or experiments, which may also have unknown parameters. One tries to find a best fit numerically. In this case one often wants a measure of the precision of the result, as well as the best fit itself.

Possible Types of Constraint Set

There are several possibilities for the nature of the constraint set, also known as the feasible set or feasible region.

An infeasible problem is one for which no set of values for the choice variables satisfies all the constraints. That is, the constraints are mutually contradictory, and no solution exists; the feasible set is the empty set.

A feasible problem is one for which there exists at least one set of values for the choice variables satisfying all the constraints.

An unbounded problem is a feasible problem for which the objective function can be made to be better than any given finite value. Thus there is no optimal solution, because there is always a feasible solution that gives a better objective function value than does any given proposed solution.

Methods for Solving the Problem

If the objective function if is linear and the constrained space is a polytope, the problem is a linear programming problem, which may be solved using well-known linear programming techniques such as the simplex method.

If the objective function is concave (maximization problem), or convex (minimization problem) and the constraint set is convex, then the program is called convex and general methods from convex optimization can be used in most cases.

If the objective function is quadratic and the constraints are linear, quadratic programming techniques are used.

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If the objective function is a ratio of a concave and a convex function (in the maximization case) and the constraints are convex, then the problem can be transformed to a convex optimization problem using fractional programming techniques.

Several methods are available for solving non-convex problems. One approach is to use special formulations of linear programming problems. Another method involves the use of branch and bound techniques, where the program is divided into sub classes to be solved with convex (minimization problem) or linear approximations that form a lower bound on the overall cost within the subdivision. With subsequent divisions, at some point an actual solution will be obtained whose cost is equal to the best lower bound obtained for any of the approximate solutions. This solution is optimal, although possibly not unique. The algorithm may also be stopped early, with the assurance that the best possible solution is within a tolerance from the best point found; such points are called ε-optimal. Terminating to ε-optimal points is typically necessary to ensure finite termination. This is especially useful for large, difficult problems and problems with uncertain costs or values where the uncertainty can be estimated with an appropriate reliability estimation.

3.2 INPUT-OUTPUT ANALYSIS

Input-Output Analysis in Economics

One of the most interesting developments in the field of modern economics is the model of industrial interdependence known as input-output tableau. It owes its origin to Prof. Wassily Leontief. Input-output analysis is of special interest to the national-income economist because it provides a very detailed breakdown of the macro-aggregates and money flows. This model is widely used in planning and forecasting.

Input-Output Flow Tables

Leontief imagines an economy in which goods like iron, coal, alcohol, etc. are produced in their respective industries by means of a primary factor, *viz.*, labour, and by means of other inputs such as iron, coal, alcohol, etc. For the production of iron, coal is required.

A Two-Industry Example

Let us imagine, following Leontief, a simple economy in which there are two industries—agriculture and manufacturing. Each directly requires the use of a primary factor called labour in its production process, and each requires in its productive process inputs which are output of the other industry.

Table 3.1 provides a simplified picture of such an economy. Agriculture and manufacturing are the first two entries, and each of their rows will show what happens to their total output. The third row is given to the primary factor, labour, of which the community has a total of 50 units (thousands of man-years) per year. These 50 units of labour are allocated as inputs to the two industries in the respective amounts 10 and 40.

The first row total shows that the agricultural output totals 250 units (million of tons) per year. Of this total, 50 units go directly to final consumption, i.e., to households and government, as shown in the third column of row 1. What happens to the remaining 200 units of agricultural output?

They are required as inputs to help make possible the community's production of manufactured and agricultural goods. Thus 175 units of agricultural output is required as material inputs in order to make possible manufacturing production: this is shown in the second column of the first row.

The remainder of agricultural output, 25 units, is required in agriculture itself, e.g., that used to feed cows that turn out wheat, and is shown in column 1 of row h Similarly, row 2 shows the allocation of the total output of manufacturing industries, 120 units (thousand of dozens) per year, among final consumption and intermediate inputs needed in two industries.

In row 2, columns 1, 2 and 3 show allocations of 40, 20 and 60 units of manufactured goods per year to agriculture manufacturing and final consumption (households and governments). All the items in Table 1 are flows, i.e., physical units to per year (and not stocks like capital or intangibles).

Table 3.1: Inter-Industry Transactions

Industries	Inputs to Agriculture	Inputs to Manufacture	Final demand	Total Outputs
Agriculture	25	175	50	250
Manufacturing	40	20	60	120
Labour Services	10	40	10	50

The 'total outputs' column gives the overall input of labour and output of each commodity. The first column describes the input or cost structure of the agricultural industry: the 250-unit agricultural output was produced with the use of 25 units of agricultural goods, 40 units of manufacturing goods, and 10 units of labour.

Similarly, the second column details the observed input structure of the manufacturing industry. The 'final demand' column shows the commodity breakdown of what is available for consumption and government expenditure. Labour is assumed not to be directly consumed.

Suppose, however, that we had deliberately chosen the physical units in which each commodity is measured so that at some given base prices, one unit costs Re. 1. Then each entry in Table 3.1 becomes a rupee value and the columns can be measured virtually (literally) as cost figures. If we add down the columns, the sum gives the total cost of producing the industry's output.

Since the output is also measured in terms of rupee values, total output is the same as total revenue. Thus agricultural revenue (at the base prices) is ₹ 250 million, and cost of production is ₹ 75 mn. In manufacturing, revenue is ₹ 120 mn, and cost ₹ 235 mn. Thus in agriculture there was a profit of ₹ 175 million, and in manufacturing there was a loss of ₹ 115 mn.

These items in Table 1 show that the sales of the two industries to themselves and to each other might be described as **"non-GNP"** items. The 'final demand' column represents the output side of GNP, and the labour row represents the factor-cost side.

The economy can be thought of as a machine that uses up labour (and has 50 units of labour per year at its disposal) and produces final consumption. With its 50 units of labour the economy is capable of producing an annual flow of 50 units of agricultural goods and 60 units of manufactures.

In Table 3.2 the sum of the rows shows the total value that has been sold or allocated to consumption and all industrial uses. The sum of any column is the same as the sum of the corresponding row. In its 'static' version, Leontief's input-output analysis deals with a particular question- what level of output should each of the industries in an economy produce, in order that it will just be sufficient to satisfy the total demand for the product?

The rationale for the term input-output is quite plain to see. The output of any industry (say, the steel industry) is needed as an input in many other industries, or even for that industry itself; therefore, the 'correct' level of steel output will depend on the input requirements of all the n industries.

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In turn, the output of many other industries will enter into the steel industry as inputs and, consequently, the 'correct' levels of other products will depend partly upon the input requirements of the steel industry. In view of this inter-industry dependence, any set of 'correct' output levels for the n industries must be one that is consistent with all the input requirements in the economy, so that no bottlenecks can arise anywhere.

In this light, it is clear that input-output analysis should be of great use in production planning, such as in planning for the economic development of a country or for a programme of national defence.

Table 3.2

Purchases by Sales of	Industry 1	Industry 2	Industry n	Total Sales
Industry 1	X_{11}	X_{12}	X_{1n}	$X_1 = \sum_j x_{1j}$
Industry 2	X_{21}	X_{22}	X_{2n}	$X2 = \sum_j x_{2j}$
……..	……..	……..	……..	……..
Industry n	X_{n1}	X_{n2}	X_{nn}	$Xn = \sum_j x_{nj}$
Total purchases	X_1	X_2	X_n	

Let us Assume

(i) Each industry produces only one homogeneous commodity. (Broadly interpreted, this does permit the case of two or more jointly produced commodities, provided they are produced in a fixed proportion to one another.)

(ii) Each industry uses a fixed input ratio (or factor combination) for the production of its output.

(iii) Production in every industry is subject to constant returns to scale so that a k-fold change in every input will result in an exactly k-fold change in the output.

In order to produce each unit of the j-th commodity, the input need for the i-th commodity must be a fixed amount, which we shall denote by a_{1j}. Specifically, the production of each unit of the j-th commodity will require a_{1j} (amount) of the first commodity, a_{2j} of the second commodity,…., and a_{nj} of the nth commodity. (The first subscript refers to the input, and the second to the output, so that a_{1j} indicates how much of the i-th commodity is used for the production of each unit of the j-th commodity.) We may also assume prices to be given and, thus, adopt "a rupee's worth" of each commodity as its unit.

Then the statement $a_{22} = 0.35$ will mean that 35 paise's worth of the third commodity is required as an input for producing a rupee's worth of the second commodity. The a_{1j} symbol is referred to as an input coefficient.

For an n-industry economy, the input coefficient can be arranged into a matrix $A = [a_{1j}]$ as in Table 3.3, in which each column specifies the input requirements for the production of one unit of the output of a particular industry.

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The second column, for example, states that to produce a unit (a rupee's worth) of commodity 2, the inputs required are- a_{12} units of commodity 1, a_{22} units of commodity 2, etc. If no industry uses its own product as an input, then the elements in the principal diagonal of matrix A will be all zero.

Table 3.3 : The Open Model Case

			Output		
Input	1	2	3	……	n
1	a_{11}	a_{12}	a_{13}		a_{1n}
2	a_{21}	a_{22}	a_{23}		a_{2n}
3	a_{31}	a_{32}	a_{33}		a_{3n}
…					
…					
n	a_{nn}	a_{n2}	a_{n3}	……	a_{nn}

The Open Model

If, besides the n industries, the model contains an **"open"** sector (say, households) which exogenously determines a final demand (non-input demand) for the product of each industry and which supplies a primary input (say, labour service) not produced by the n industries themselves, then the model is an open one (Table 3.3).

In view of the presence of the open sector, the sum of the elements in each column of the input-coefficient matrix A (or input matrix A, for short) must be less than 1. Each column sum represents the partial input cost (not including the cost of the primary input) incurred in producing a rupee's worth of some commodity; if this sum is greater than Re. 1, production will not be economically justifiable. Symbolically, this fact may be stated thus:

$$\sum_{i=1}^{n} a_{ij} < 1 \qquad j = 1,2,\ldots\ldots,n$$

Carrying this line of thought a step further, it may also be stated that, since the value of output (Re. 1) must be fully absorbed by the payment to all factors of production, the amount by which the column sum falls short of Re. 1 must represent the payment to the primary input (labour here) of the open sector. Thus the value of the primary input needed in producing a unit of the j-th commodity should be

$$1 - \sum_{i=1}^{n} a_{ij}$$

If industry 1 is to produce an output just sufficient to meet the input requirements of the n industries as well as the final demand of the open sector, its output level x_1 must satisfy the following equation:

$$X_1 = a_{11}\,x_1 + a_{12}\,x_2 + \ldots + a_{1n}\,x_n + d_1$$

$$= \sum_{j=1}^{n} a_{1j}\,x_j + d_1$$

Notes

where d_l denotes the final demand for its output and $a_{lj} x_j$ represents the input requirement of the j-th industry.

The equation may also be written as:

$(1\text{-}a_{11})x_1 - a_{12}x_2 - a_{13}x_3 \ldots\ldots - a_{1n} x_n = d_1$

Note that aside from the first coefficient, $(1 - \alpha_{11})$, the remaining coefficients in the above equation can be transplanted directly from the first row of Table 3.3, except that they are now prefixed with minus signs.

Similarly, the corresponding equation for industry 2 will have the same coefficients as in the second row of Table 3.3 (again with minus signs added), except that the variable x_2 will have the coefficient $(1 - \alpha_{22})$.

For the entire set of n industries, the 'correct' output levels can, therefore, be summarised by the following system of n linear equations:

$(1 - a_{11})x_1 - a_{12} x_2 \ldots\ldots\ldots\ldots\ldots\ldots - a_{1n} x_n = d_1$

$- A_{21} x_1 + (1 - a_{22}) x_2 \ldots\ldots\ldots\ldots\ldots\ldots A_{2n}x_n = d_2$

$- a_{n1} x_1 - a_{n2} x_2 \ldots\ldots\ldots\ldots\ldots\ldots + (1 - a_{nn})x_n = d_n$

In matrix notation, this may be written as:

$$\begin{bmatrix} (1-a_{11}) & -a_{12} & -a_{1x} \\ -a_{21} & (1-a_{22}) & -a_{2n} \\ \ldots & \ldots & \ldots \\ -a_{n1} & -a_{n2} & (1-a_{nn}) \end{bmatrix} \begin{bmatrix} x_1 \\ x_2 \\ \ldots \\ x_n \end{bmatrix} = \begin{bmatrix} d_1 \\ d_2 \\ \ldots \\ d_n \end{bmatrix}$$

If the 1's in the principal diagonal of the matrix are ignored, the new matrix is simply $-A = [-a1j]$, As it is, on the other hand, the matrix is the sum of the identity matrix I_n (with 1's in its principal diagonal and with O's everywhere else) and the matrix – A. Thus the above matrix can also be written

$(I - A)\, x = d$

where x and d are, respectively, the output vector and the final demand (constant-term) vector. The matrix (I – A) is called the technology matrix. If (I – A) is non-singular — and there is no a priori reason why it should not be — then the inverse (I – A) can be found, and the system will have the unique solution:

$x = (I - A)^{-1} d$

The Closed Model

If the exogenous sector of the open input-output model is absorbed into the system as just another industry, the model will become a closed one. In such a model, final demand and primary input do not appear; in their place will be the input requirements and the output of the newly conceived industry. All goods will now be intermediate in nature, because everything is produced only for the sake of satisfying the input requirements of the (n + 1) sectors in the model.

At first glance, the conversion of the open sector into an additional industry would not seem to create any significant change in the analysis. Actually, however, since the new industry is assumed to have a fixed input requirement it must now bear a fixed proportion to the labour service they supply. This constitutes a significant change in the analytical framework of the model.

Mathematically, the disappearance of the final demands means that we will now have a homogeneous equation system.

Assuming four industries only (including the new one, designated by the 0 subscript), the 'correct' output levels will be, by analogy of the above matrix, those which satisfy the following equation systems:

$$\begin{bmatrix} (1-a_{00}) & -a_{01} & -a_{02} & -a_{05} \\ -a_{10} & (1-a_{11}) & -a_{12} & -a_{13} \\ -a_{20} & -a_{21} & (1-a_{22}) & -a_{23} \\ -a_{30} & -a_{31} & a_{33} & (1-a_{33}) \end{bmatrix} \begin{bmatrix} x_0 \\ x_1 \\ x_2 \\ x_3 \end{bmatrix} = \begin{bmatrix} 0 \\ 0 \\ 0 \\ 0 \end{bmatrix}$$

Being homogeneous, this equation system can have a non-trivial solution if and only if the 4 × 4 technology matrix (I – A) has a vanishing determinant. The latter condition is indeed always fulfilled : In a closed model, there is no more primary input; hence the column sum in the input-coefficient matrix A must now be exactly equal to (rather than less than) l; that is,

$a_{0j} + a_{1j} + a_{2j} + a_{3j} = 1$

or $a_{0j} = 1 - a_{1j} - a_{2j} - a_{3j}$

But this implies that, in every column of the matrix (I – A) above, the top element is always equal to the negative of the sum of the other three elements. Consequently, the four rows are linearly dependent, and we must find |I – A| = 0. This guarantees that the system does possess non-trivial solutions; in fact, it has an infinite number of them.

This means that in a closed model, with a homogeneous-linear equation system, no unique 'correct' output mix exists. We can determine the output levels x_1……………….. x_3 in proportion to one another, but cannot fix their absolute levels unless additional restrictions are imposed on the model.

Mathematical Interpretation

The simple input-output model can well be presented in terms of a few mathematical equations and symbols and on the basis of certain technological assumptions.

If we call agriculture industry 1, manufacturing industry 2 and give labour the subscript 0, then the previous table can be presented as:

Table 3.4: An alternative way of Presenting Table 3.3

	Inputs to Industry 1	Inputs to Industry 2	Final Consumption	Total Outputs of Industries
Industry 1	X_{11}	X_{12}	C_1	X_1
Industry2	X_{21}	X_{22}	C_2	X_2
Labour Services	X_{01}	X_{02}	….	X_0

Thus we can write production functions:

$X_1 = F_1 (x_{11},x_{21},x_{01})$ ... (1)

$X_2 = F_2 (x_{12},x_{22}, x_{02})$

Notes

Since X_1 and X_2 are the total outputs. In addition, we can always add across the rows, so we know that

$X_{11} + x_{12} + C_1 = X_1$

$X_{21} + x_{22} + C_2 = X_2$ ... (2)

$X_{01} + x_{02} = X_0$

Leontief Assumes

1. There exist constant returns to scale.
2. There exists fixed coefficients of production, i.e., he supposes that it takes a certain minimal input of each commodity per unit of output of each commodity. The word **"minimal"** is of some importance- if it takes 2 tonnes of iron ore to produce 1 tonne of iron, no doubt the same iron could be produced from even more ore, but as long as iron has value, nobody will be silly enough to use more than the absolutely required 2 tonnes.

This special Leontief production function can be written in the usual form (1). Let a_{1j} be the required minimal input of commodity i per unit of output of commodity j (here i = 0, 1, or 2, and j = 1 or 2). Then

$$x_1 \quad \min \quad \frac{x_{11}}{a_{11}}, \frac{x_{21}}{a_{21}}, \frac{x_{01}}{a_{01}}$$

...(3) Limitational Production function

$$x_2 \quad \min \quad \frac{x_{12}}{a_{12}}, \frac{x_{21}}{a_{22}}, \frac{x_{02}}{a_{02}}$$

The Leontief system can be written as

$$\begin{array}{llll} x_1 & a_{11}x_1 & a_{12}x_2 & c_1 \\ x_2 & a_{12}x_1 & a_{22}x_2 & c_2 \\ L & a_{01}x_1 & a_{02}x_2 & \end{array} \qquad \text{...(4)}$$

Or we can write:

$$\begin{array}{llll} x_{11} & x_{12} & c_1 & x_1 \\ x_{21} & x_{22} & c_2 & x_2 \\ x_{01} & x_{02} & & x_1 \end{array} \qquad \text{...(4')}$$

The available output certainly cannot be less than the sum of its alternative uses, but it could, physically, be greater.

We can account for the output X_1 as follows; $a_{11}X_1$ will be used up in industry 1 itself, and $a_{12}X_2$ in industry 2. What is left will be used up for final consumption C_1, *viz*.,

$C_1 = X_1 - a_{11}X_1 - a_{12}X_2$

Similarly for X_2, i.e., $C_2 = X_2 - a_{21}Xx - a_{22}X_2$. Labour is not produced but is available in amounts up to X_0; the use of labour is $a_{01}X_1$ in industry 1 and $a_{02}X_2$ in industry 2.

Thus we get:

$$\begin{array}{l} (1 \quad a_{11})x_1 \quad a_{12}x_2 \quad c_1 \\ \quad a_{21}x_1 \quad (1 \quad a_{22})x^2 \quad c_2 \end{array} \qquad ...(5)$$

$a_{01}x_1 + a_{02}x_2 \leq x_0$

In fig. 3.1 the line $(1 - a_{11})x_1 - a_{12}x_2 = c_1$ is drawn as L_1. The slope of L_1 is $\frac{dx_2}{dx_1} \quad \frac{1 \quad a_{11}}{a_{12}}$ is positive (if a_{12} # 0). The line L_2 is where $-a_{21}x_1 + (1 - a_{22})\, x_2 = c_2$ and the slope of L_2 is $\frac{a_{21}}{1 \quad a_{22}}$.

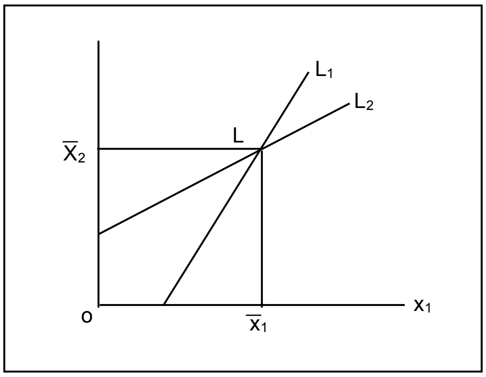

Fig. 3.1: The Hawkins-Simon Condition

L_1 and L_2 intersect at L. If L_1 and L_2 were parallel, i.e., if they had equal slopes, there would be no such point as 1. Any gross-output levels in this region will enable society to consume C_1 and C_2 of the two commodities. In fact, if L_2 had a bigger slope than L1 there would also be no point L. What is the condition that L should exist or that some bill of goods should be producible? It is that the slope of L_2 must be less than the slope of L_1 i.e.,

$$\frac{a_{21}}{1 \quad a_{22}} \quad \frac{1 \quad a_{11}}{a_{12}} \qquad ...(7)$$

Or, $(1 - a_{11})\,(1 - a_{22}) - a_{12}a_{21} > 0$

Another way to write this is in determinant form:

$$\begin{vmatrix} 1 \quad a_{11} & a_{12} \\ a_{21} & 1 \quad a_{12} \end{vmatrix} \quad 0 \qquad ...(8)$$

$$\bar{x}_1 \quad \frac{1 \quad a_2}{(1 \quad a_{22})(1 \quad a_{11}) \quad a_{12}a_{21}} c_1 \quad \frac{a_{12}}{(1 \quad a_{11})(1 \quad a_{22}) \quad a_{12}a_{21}} c_2$$

These two equations show that the output are built up lenearly out of the dimands c_1 and c_2.

As we earlier required that we should not take a direct input of more than one ton of coal to make one tonne of coal, inequalities (7) or (8) assure us that if we add up the direct and indirect inputs of coal that go into a ton of output (coal to make coal) that this will be less than one tonne.

Clearly if a tonne of coal "contains", directly and indirectly, more than a ton of coal, self-contained production is not viable. If a technology is to be viable at all, each of the **"own"** input

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coefficients, a11 and a22 must be less than unity. Otherwise, there would be negative net outputs (1 – a_{11} and 1 – a_{22}).

The inequality (7) together with earlier 1 – a_{11} > 0 and 1 – a_{22} > 0 comprise what are called the Hawkins-Simon conditions.

Multiply the first equation in (4) above by 1 – a_{22}, the second by a_{22} and add to get

$$\bar{x}_1 \quad \frac{1 \quad a_{22}}{(1 \quad a_{22})(1 \quad a_{11}) \quad a_{12}a_{21}}c_1 \quad \frac{a_{12}}{(1 \quad a_{11})(1 \quad a_{12}) \quad a_{12}a_{21}}c_2$$

Then multiply the first equation by a_{21}, this second by 1-a_{11}, and add to get,

$$\bar{x}_2 \quad \frac{a_{21}}{(1 \quad a_{11})(1 \quad a_{22}) \quad a_{12}a_{21}}c_1 \quad \frac{a_{11}}{(1 \quad a_{11})(1 \quad a_{22}) \quad a_{12}a_{21}}c_2$$

These two equations shows that the outputs are built up binearly out of the final demands c_1 and c_2.

Inequality (6) i.e. $a_{01}x_1 + a_{02}x_2 \leq x_0$ provides us with a gross-output possibility frontier:

$A_0x_1 + a_0x_2 = x_0$

The gross output can be expressed a linear functions of the final demands:

$X_1 = A_{11}C_1 + A_{12}C_2$

$X_2 = A_{21}C_1 + A_{22}C_2$

We can substitute for x_1 and x_2 to get

$a_{01}(A_{11}C_1 + A_{12}C_2) + a_{02}\ (A_{21}C_1 + A_{22}C_2) = X_0$

Or calculating like terms

$(a_0A_{11} + a_{02}\ A_{21})\ C_1 + (a_{01}A_{12} + a_{01}A_{12} + a_{02}A_{22})\ C_2 = X_0$

Or, $A_{01}C_1 + A_{02}(C_2) = x_0$ (a)

This explicity, is the comsumption possiblity frontier.

Here, $\frac{X_0}{A_{01}}$ = input-output ratio for commodity 1.

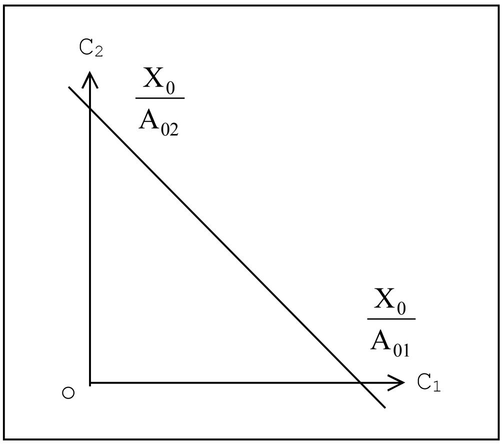

Fig. 3.2: Consumption Possibility Frentire

Now A_{01} is the direct labour input not into a unit of C_1 but into the gross direct and indirect X_1 and X_2 needed to support a unit of C_1. In other words, A_{01} represents the total direct and indirect labour embodied in a unit of final consumption of commodity and A_{02} is the same for a unit of final consumption of commodity 2. The schedule in (9) simply says that only those bill of final demand are producible and efficient which require X_0 units of labour to support them.

A consumption possibility schedule (9), drawn in Fig. 2, can be thought of as a social transformation curve. If it is desired to consume only C1an amount X_0/A_{01} can be produced, given the available resources and technology.

If it is desired to give up some C_1 in favour of C_2, such substitutions are possible along the transformation curve. Because the frontier is a straight line, substitution of C_2 for C_1 takes place at constant costs. The MRS is constant, *viz.*,

$$\frac{dc_2}{dc_1} \quad \frac{A_{01}}{A_{02}}$$

Giving up one unit of C_1 sets free (directly and indirectly) A_{0i} units of labour. To get 1 more unit of C_2 requires A_{02} units of labour. By giving up 1 unit of C_1 society can, therefore, procure for itself A_{01}/A_{02} units of C_2. The straight line constant cost nature of the transformation curve reflects not only the linearity of the technology, but also the presence of only one primary factor and the absence of joint production.

Prices in the Leontief Model

The constant MRS was shown to be A01/A02. This must determine the relative price of the two commodities:

$$\frac{P_1}{P_2} \quad \frac{A_{01}}{A_{02}}$$

We have interpreted A0i as the total labour content of 1 unit of final output of commodity 1. If we designate the wage rate by W, this tells us that

$P_1 = A_{01}\ W = (a_{01}A_{11} + a_{02}\ A_{21})W$

$P_2 = A_{02}\ W = (a_{01}\ A_{12} + a_{02}\ A_{22})W$

since labour is the only cost-generating element in the system. A real system like Leontief's can only hope to determine relative prices. The absolute level of prices remains completely indeterminate.

3.3 PROSPECTIVE PLANNING INVESTMENT CRITERIA

Investment planning needs a long-term perspective. To avoid the pitfalls that can arise from poor investment decisions, you now need to start thinking about how you should go about the business of effective investment management. Let's build the foundations of an investment strategy.

Looking ahead – investment planning is a long-term activity.

Investment planning means looking ahead – often a great many years ahead. Whether it is for a future major purchase or for retirement, the process of building up investments may take several years or even decades. This long-term time horizon requires us to assess a number of things.

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First, it requires a forecast to be made of how inflation will affect the future cost of the item to be acquired or the level of income needed for retirement. When planning investments, it is crucial that inflation is taken into account (planning is done in 'real terms'). This means that forecasts of future values should all be in terms of today's money, so that you're looking at what the money invested might buy after taking into account the possibility of price rises between now and cashing in the investment.

Second, the time horizon is vital in determining the structure of investments. If the horizon is the near future, there is little sense in investing in products that may fall in nominal value. The longer the time horizon, the greater the capacity to ride out periods when investments don't perform well, in order to benefit from their gains over the medium to longer term.

Review and recalibration are also vital. Checking regularly (at the very least annually) that your investments are on track to achieve your goals is vital. If they are going off track then decisions may need to be made, including increasing the amount of current income diverted into investments (increasing the sacrifice of today's spending to benefit from greater income in the future). Alternatively, the structure of the investment portfolio may need to be revised to improve expected performance over the chosen time horizon.

Even if you invest passively and let others (i.e. fund managers) look after the management of your assets, the responsibility for monitoring and managing the investment portfolio ultimately lies with yourself.

Filling the Blank Canvas

The planning process should involve:

Starting with a blank canvas by not letting previous investment experiences and plans dictate what you plan to do now.

Linking your investment plans to your life's goals and the timing of these goals – for example, the time you expect your children to go to university and, consequently, require substantial financial support to ensure that they do not become over-indebted with student loans.

Prioritising your goals. You cannot necessarily achieve all goals, particularly simultaneously, but you can have a list that comprises of 'must haves', 'would like to haves' and 'would like to haves, if possible'.

Taking into account that your investment planning is not a fixed plan that is set in stone. Rather, it is a living document that needs to be reviewed as circumstances change (which may increase or reduce both the need and ability to invest for the future).

Embedding investment activities into your life's routines – for example, by setting up direct debits to make contributions to your investment funds monthly. This will avoid putting off, and perhaps ultimately not undertaking, investments that need to be made for the future. The default should be that you have to take action to stop investing, rather than having to take action to invest.

We can summarise this planning process through the four stage financial management model – a model that can be deployed for making all personal financial decisions including those relating to personal investments.

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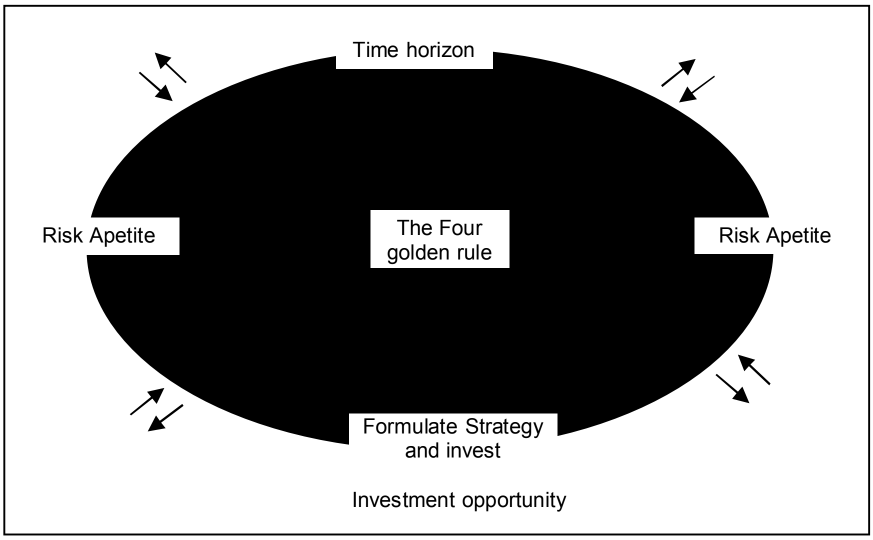

Fig. 3.3: Four Golden Rule of Investment

3.4 OPTIONAL LEVEL OF INVESTMENT CHOICE OF INVESTMENT CHOICE OF SECTORS, TECHNIQUES AND REGIONS

Since the indigestible resources in the low-income countries are very much limited in face of growing and urgent needs for them, the problem of choosing be tween alternative employment of these resources assumes great importance. Given the total investment and its distribution over different sectors and given the alternative technical and localisation possibilities, the question is how to rank alternative projects so that some of them are preferred to others. For the same level of output, it may be possible to use several alternative techniques or different factor combinations and we have to discover the most economical technique in a given situation. Obviously, for a planned unbalanced growth we must explore suitable criteria for investment, i.e., to discover the main bases on which to determine the distribution of limited vestibule funds and skills 'among the homologous claimant fields of investment. We have discussed above the investment criteria of total linkage effects as recommended by Scotchman, which form a part and parcel of his theory of planned unbalance growth. Now we shall discuss other, investment criteria which have been put forward.

Cost-Benefit Analysis

While selecting projects for investments out of a number of technically feasible alternatives, the most important consideration seems to be to weigh their costs and benefits and to select those which maximize the difference be. There are lots of Investment projects to choose from tween costs and benefits. The costs include the cost of capital, i.e., interest, cost of raw materials, rent, salaries, wages and other expenses and benefits refer to the return on the capital invested based on the size of the output resulting from the investment. "The aim is to maxi miss the present value of all benefits less that of all costs." The purpose of the cost-benefit analysis is to indicate whether a particular project is worthwhile or which is economically the best of the several alternative projects that can be undertaken subject to specified constraints.

The alternative projects which present themselves for our choice differ in the type and the number of workers required. the nature and the quantity of raw non criminals and equipment required, the period involved in cirri completion and the life of the project and in the resultant output from that

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particular investment. These differences affect the and benefits of these projects and we have to attempt a social valuation of these costs and benefits so as to determine the choice of a particular alternative in preference to others, The weighing of costs and benefits seems to be a simple affair but in its application several ticklish questions crop up:

(a) Which costs and which benefits arc to be considered?

(b) How arc the costs and benefits to be evaluated?

(c) Since we have to find the present values of costs still to be incurred and benefits Stilton accrue, at what rate of interest are they to be discounted? and

(d) What arc the relevant constraints?

What Costs and Benefits'! Now let us see what costs and benefits are to be included in the cost benefit analysis, As mentioned earlier, in the cost-benefit analysis of a project, we should not merely confine ourselves to the consideration of direct costs and benefits but we should also consider the external or side effects and secondary benefits, That is, the costs and benefits have to be taken in a wider sense which means that we must take into account costs and benefits which accrue to the bodies other than the one sponsoring the project. This is necessary because investment in a particular project alters the physical production possibilities of the other producers or the consumption possibilities of other consumers thus affecting their satisfaction from given resources For instance, con traction of a reservoir upstream will necessitate more dredging by the downstream authority, or improvement of a certain road increases the incomes of garage aim restaurants on that road. But it has to he offset by the losses incurred hey those on the other roads owing to diversion of traffic. In order to avoid double counting, we have to ignore purely transfer or distributional items from cost benefit evaluation.IS we have to take toilet account the value of the increment of output resulting from a given investment and not the increment in the value of existing asset Then there arc the secondary effects. An irrigation project will not only increase output in the area it command but also confer other benefits. The primary benefit is the increase in the value of agricultural output less the costs incurred by the farmers concerned.

But increased output will result in increased bu me: s activity, and hence profits. of the grain merchants. millers, transporters, banks, bakers, ell'. The arc the secondary benefits. In case the output has a market value, then this value plus the consumer's surplus, if any, will constitute the benefit. In case the output IS not sold in the market in a normal way but it is supplied to the' consumers at a price based on welfare con iterations.

There is still another cause of divergence between social cost and private cost, viz., unemployment. When at the prevailing price there is excess supply of any input or factor of production. (e.g., labor in the case of unemployment). the price exaggerates the social cost of a project using that input. The utilization of unemployed labor in investment projects involves no social cost since it docs not reduce output anywhere. because the unemployed labor is not supposed to make any contribution to output. In this case, the society as a whole does 'lot forego anything. Hence. in such cases. the use of market values to ascertain direct costs and benefits of a project overstates its social cost and understates its total benefit

Rate of Discount. Now we come to the question of ascertaining the present value of the future costs and benefits, i.e., discounting process. Which rate of interest is to be used for the purpose? There is a large number of interest rates prevailing in the private sector and there seems to be no ground for selecting any of them. It is not clear whether any market-determined rate would be sufficient for community investment decisions. It is said that social time preference rate attaches greater importance to the future than private time preference. It seems best to use the government borrowing rate since it is easily applicable and is also a risk-free rate of interest. Usually. the interest rate is selected on the basis of observed rates ruling at the time for calculating present values Social cost of time has also to be determined. Projects differ in their gestation period and in the durability of construction. On what basis are we to impute social value of time? Take first the gestation period. Tile social cost in gestation is the value of the output that could alternatively be obtained in the meanwhile with the same resources. the maximum that could be obtained within the shortest possible time, Projects with shorter gestation period but with higher output have, of course, to be preferred. But if the rate of output in a shorter gestation period is lower, as is generally the case, then we have to balance the advantage of having a higher rate of output in the longer period against the disadvantage of having to forego the output which could be had in the shorter period even if it be at the lower rate, in the interviewing period.

Appropriate rate of discount must be applied on account of time preference. Tile individuals value the volume of output future than in the present. But in the case of the society. which is a continuing entity, there is no justification for applying this rate of discount. It is. therefore, necessary to confine calculations about future streams of output Alabamian of discount on account of time preference to be zero, the social cost of time would be the maximum rate of output realizable per annul through the alternative with the shortest gestation period. In case, the assets

As [or the durability of the assets created by an investment, it affects current costs via the raise if depreciation. Less durable project is subjected to a higher rate of depreciation. and vice-avers and hence a larger deduction must be made from its gross output arrive at the net addition per annul of the project. But the society calculates the rates of depreciation in a different manner from private accounting. The community values capital equipment on the basis of what it can produce relatively to the use of labor involved. Hence. if the same equipment can be produced at less cost owing to improvement in labor productivity. the value of the equipment installed earlier will depreciate in terms of its output.

Cash Flow

Techniques and methods for evaluating investments are used for assessing whether and how fast the invested funds return. Investing is always in some way about investing funds (directly or indirectly) and the aim is either a financial income, interest or some their positive effect, which leads to the increased competitiveness, market position or to the future returns (investment into educated people leads to the future success). Evaluation is simpler for direct financial investment which leads into clearly measured outcome - the profit. In practice however we have kind of investment where a direct financial result may not be clear at first sight or in the short-term. For example investments into educating people, into quality or security improvement is difficult to assess.

For the financial evaluation there is a large number of investment evaluation techniques. They can be distinguished into two groups - statistical methods and dynamic methods.

Static Evaluation Methods

They focus especially on monitoring of cash benefits or measuring of the initial expenditures. They don’t include a risk factor and take the time into account only in a limited extent.

Average Annual Return

Average Annual Return (AAR) is a ratio of all cash flow related to investment and number of years of lifetime of the investment.

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Average Payback Period

Average Payback Period is a method that indicates in what time the initial investment should be repaid (at a uniform implementation of cash flows).

Average Percentage Return

Average Percentage Return is a method that indicates the percentage of invested capital that average annualy returns.

Payback Period

Payback Period is the number of years that are needed to make the cumulative cash flows from the year 1 offset the investment, thus it is the number of years, after which the investment will return.

Dynamic Evaluation Methods

They take into account the time and risk factor, the basis is discounting of input parameters.

Net Present Value

Net Present Value (NPV) is one of the best and most widely used financial criteria. It is included in it the whole life of the project, also the possibility to invest in another equally risk project.

Internal Rate of Return

Internal Rate of Return (IRR) is an indicator for relative yield (profitability) that the project provides during its lifecycle.

Profitability Index

Profitability Index (PI) expresses the ratio of benefits to initial capital expenditures.

Payback Period

Payback Period is the number of years that are needed to make the cumulative cash flows from the year 1 offset the investment, thus it is the number of years, after which the investment will return

Accounting-Based Profitability Measures

Accounting-Based Profitability Measures (ABPM) is calculated as the ratio of the estimated profits and the average net book value of the investment.

ABPM = Estimated profit/Average net book value of investment

3.5 ALLOCATION OF RESOURCES

In economics, resource allocation is the assignment of available resources to various uses. In the context of an entire economy, resources can be allocated by various means, such as markets or central planning.

In project management, resource allocation or resource management is the scheduling of activities and the resources required by those activities while taking into consideration both the resource availability and the project time.

Economics

In economics, the area of public finance deals with three broad areas: macroeconomic stabilization, the distribution of income and wealth, and the allocation of resources. Much of the

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study of the allocation of resources is devoted to finding the conditions under which particular mechanisms of resource allocation lead to Pareto efficient outcomes, in which no party's situation can be improved without hurting that of another party.

Strategic Planning

In strategic planning, resource allocation is a plan for using available resources, for example human resources, especially in the near term, to achieve goals for the future. It is the process of allocating scarce resources among the various projects or business units.

There are a number of approaches to solving resource allocation problems e.g. resources can be allocated using a manual approach an algorithmic approach (see below), or a combination of both.

There may be contingency mechanisms such as a priority ranking of items excluded from the plan, showing which items to fund if more resources should become available and a priority ranking of some items included in the plan, showing which items should be sacrificed if total funding must be reduced.

Algorithms

Resource allocation may be decided by using computer programs applied to a specific domain to automatically and dynamically distribute resources to applicants.

This is especially common in electronic devices dedicated to routing and communication. For example, channel allocation in wireless communication may be decided by a base transceiver station using an appropriate algorithm.

3.6 PRICING IN PLANNING

1. Price is the pivot of an economy: In the economic system, price is the mechanism for allocating resources and reflecting the degrees of both risk and competition. In an economy particularly free market economy and to a less extent in controlled economy, the resources can be allocated and reallocated by the process of price reduction and price increase.

Price policy is a weapon to realize the goals of planned economy where resources can be allocated as per planned priorities.

Price is the prime mover of the wheels of the economy namely, production, consumption, distribution and exchange. As price is a sacrifice of purchasing power, it affects the living standards of the society; it regulates business profits and, hence, allocates the resources for the optimum output and distribution. Thus, it acts as powerful agent of sustained economic development.

2. Price regulates demand: The power of price to produce results in the market place is not equalled by any other component in the product-mix.

It is the greatest and the strongest ‘P’ of the four ‘Ps’ of the mix. Marketing manager can regulate the product demand through this powerful instrument. Price increases or decreases the demand for the products. To increase the demand, reduce the price and increase the price to reduce the demand.

Price has a special role to play in developing countries where the marginal value of money is high than those of advanced nations. De-marketing strategy can be easily implemented to meet the rising demand for goods and services.

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As an instrument, it is a big gun and it should be triggered exclusively by those who are familiar with its possibilities and the dangers involved.

It is so because; the damage done by improper pricing may completely sap the effectiveness of the well-conceived marketing programme. It may defame even a good product and fame well a bad product too.

3. Price is competitive weapon: Price as a competitive weapon is of paramount importance. Any company whether it is selling high or medium or low priced merchandise will have to decide as to whether its prices will be above or equal to or below its competitors. This is a basic policy issue that affects the entire marketing planning process. Secondly, price does not stand alone as a device for achieving a competitive advantage.

In fact, indirect and non-price competitive techniques often are more desirable because, they are more difficult for the competitors to copy. Better results are the outcome of a fine blend of price and non-price strategies. Thirdly, there is close relationship between the product life-cycle and such pricing for competition.

There are notable differences in the kinds of pricing strategies that should be used in different stages. Since the product life span is directly related to the product's competitiveness, pricing at any point in the life-cycle should reflect prevailing competitive conditions.

4. Price is the determinant of profitability: Price of a product or products determines the profitability of a firm, in the final analysis by influencing the sales revenue. In the firm, price is the basis for generating profits. Price reflects corporate objectives and policies and it is an important ingredient of marketing mix. Price is often used to off-set the weaknesses in other elements of the marketing-mix.

Price changes can be made more quickly than any other changes in the product, channel, and personal selling and sales-promotion includes advertising. It is because; price change is easily understood and communicating to the buyer in a precise way. That is why, price changes are used frequently for defensive and offensive strategies. The impact of price rise or fall is reflected instantly in the rise or fall of the product profitability, thinking that other variables are unaffected.

5. Price is a decision input: In the areas of marketing management, countless and crucial decisions are to be made. Comparatively marketing decisions are more crucial because, they have bearing on the other branches of business and more difficult as the decision-maker is to shoot the flying game in the changing marketing environment.

Normally, profit or contribution is taken as a base for pay-off conditions. Price can be a better criterion for arriving at cut-off point because; price is the determinant of profit or contribution.

As pointed earlier, price as an indicator has a special role in the decision-making process in developing countries because, consumer response to price changes will be more quick and tangible as people have higher marginal value of money at their disposal. For instance, if it is a decision regarding selecting product improvement possibilities, select that possibility which gives the highest price as compared to the cost.

These five points make product pricing an important and major function of marketing manager. However, until recently, it has been one of the most neglected areas of marketing management.

In fact, we must have a specialist in pricing as we do have in other functions of marketing. This negligence is quite evident from the fact that even the well-known companies in the world price their

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products on simple concepts of costs market position competition and desired profit. Scientific pricing is much more than this easy exercise.

3.7 SUMMARY

3.8 SELF ASSESSMENT QUESTIONS

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UNIT – III

Chapter 4

FEDERALISM AND PLANNING

Learning Objectives

The objectives of this lesson are to:

- Legislative powers
- Economic federalism
- The Concept of Federal Finance
- Principles of Federal Finance
- Transfer of resources from centre to states

Structure:

4.1 Federalism in India

4.2 Resource Allocation

4.3 Financial Adjustments

4.4 States' Complaint on Financial Arrangements

4.5 Regional Imbalances as a Source of Conflict

4.6 Rajamannar Committee on Centrestate Relations

4.7 Regional Balances Planning Agency and Perfect Preparation (for Balanced Regional Development)

4.8 Summary

4.9 Self Assessment Questions

4.1 FEDERALISM IN INDIA

Federalism in India describes the distribution of legal authority across national, state and local governments in the nation of India.

The Consttitution of india establishes a federal structure to the Indian government, declaring it to be a "Union of States". Part XI of the indian Constitution specifies the distribution of legislative, administrative and executive powers between the Union/Federal/Central government and the States of India. The legislative powers are categorised under a Union List, a State List and a Concurrent List, representing, respectively, the powers conferred upon the Union government, those conferred upon the State governments and powers shared among them.

This federalism is asymmetric in that the devolved powers of the constituent units are not all the same. The state of Jammu and Kashmir was accorded a higher degree of autonomy than other States under Article 370. Union Territories are unitary type, directly governed by the Union government. Article 1 (1) of the constitution stipulates two tier-governance with an additional local elected government. Delhi and Puducherry were accorded legislatures under Article 239AA and 239A, respectively.

Legislative Powers

The divsion of powers are defined by the constitution and the legislative powers are divided into three lists:

Union List

Union List consists of 100 items (earlier 97) on which the parliament has exclusive power to legislate including: defence, armed forces, arms and ammunition, atomic energy, foreign affairs, war and peace, citizenship, extradition, railways, shipping and navigation, airways, posts and telegraphs, telephones, wireless and broadcasting, currency, foreign trade, inter-state trade and commerce, banking, insurance, control of industries, regulation and development of mines, mineral and oil resources, elections, audit of Government accounts, constitution and organisation of the Supreme Court, High Courts and union public service commission, income tax, custom duties and export duties, duties of excise, corporation tax, taxes on capital value of assets, estate duty and terminal taxes.

State List

State List consists of 61 items (earlier 66 items). Uniformity is desirable but not essential on items in this list: maintaining law and order, police forces, healthcare, transport, land policies, electricity in the state, village administration, etc. The state legislature has exclusive power to make laws on these subjects. In certain circumstances, the parliament can make laws on subjects mentioned in the State List, but to do so the Council of States (Rajya Sabha) must pass a resolution with a two-thirds majority that it is expedient to legislate in the national interest. Though states have exclusive powers to legislate with regards to items on the State List, articles 249, 250, 252, and 253 mention situations in which the Union government can legislate.

Concurrent List

Concurrent List consists of 52 (earlier 47) items. Uniformity is desirable but not essential on items in this list. The list mentions: marriage and divorce, transfer of property other than agricultural land, education, contracts, bankruptcy and insolvency, trustees and trusts, civil procedure, contempt of court, adulteration of foodstuffs, drugs and poisons, economic and social planning, trade unions, labour welfare, electricity, newspapers, books and printing press NS stamp duties.

Other (Residuary) Subjects

Subjects not mentioned in any of the three lists are known as residuary subjects. However, many provisions in the constitution outside these lists permit parliament or state legislative assembly to legislate. Excluding the provisions of the constitution outside these lists per Article 245, the power to legislate on such subjects, rests with the parliament exclusively per Article 248. Parliament shall legislate on residuary subjects following the Article 368 procedure as constitutional amendments.

In case the above lists are to be expanded or amended, the legislation should be done by the Parliament under its constituent power per Article 368 with ratification by the majority of the states.

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Federalism is part of the basic structure of the Indian constitution which cannot be altered or destroyed through constitutional amendments under the constituent powers of the Parliament without undergoing judicial review by the Supreme Court.

Executive Powers

The Union and States have independent executive staffs controlled by their respective governments. In legislative and administrative matters, the Central government cannot overrule the constitutional rights/powers of a state government except when presidential rule is declared in a State. The Union's duty is to ensure that the government of every State is carried on in accordance with the provisions of the Constitution as per Article 355 and Article 256. The State governments cannot violate the Central laws in administrative matters. When a State violates the Constitution, Presidential rule is imposed under Article 356 and the President takes over the State's administration with ex post facto consent of the Parliament per Article 357.

Financial Powers

Article 282 accords financial autonomy in spending financial resources available to the states for public purpose. Article 293 allows States to borrow without limit without consent from the Union government. However, the Union government can insist upon compliance with its loan-terms when a state has outstanding loans charged to the consolidated fund of India or a federally-guaranteed loan.

The President of India constitutes a Finance Commission every five years to recommend devolution of Union revenues to State governments.

Under Article 360, the President can proclaim a financial emergency when the financial stability or credit of the nation or of any part of its territory is threatened. However, no guidelines define "financial emergency" for the country or a state or a union territory or a panchayat or a municipality or a corporation.

Such an emergency must be approved by the Parliament within two months by a simple majority and has never been declared. A state of financial emergency remains in force indefinitely until revoked by the President. The President can reduce the salaries of all government officials, including judges of the Supreme Court and High courts, in cases of a financial emergency. All money bills passed by the State legislatures are submitted to the President for approval. He can direct the state to observe economy measures.

Disputes

States can make agreements among themselves. When a dispute arises with other states or a Union Territory or the central government, the Supreme Court adjudicates per Article 141. However, Article 262 excludes Supreme Court jurisdiction with respect to adjudication of disputes in the use, distribution or control of interstate river waters.

Under Article 263 the President can establish an interstate council to co-ordinate/resolve disputes between states and the Union.

Economic Federalism

States are at liberty to manage their finances as long as that does not lead to financial emergency as per Article 360. The Government of India is trying to impose uniform taxation throughout India and to take over states tax collection mechanisms without regard to the impacts on individual states. Recently the Supreme Court upheld the constitutional right of states to impose an Entry Tax which is against the principle of GST.

Control of industries, which was a subject in the concurrent list in the 1935 act, was transferred to the Union List. The Union government in 1952 introduced the freight equalization policy that damaged many Indian states, including West Bengal, Bihar (including present-day Jharkhand), Madhya Pradesh (including present-day Chhattisgarh) and Orissa. These states lost their competitive advantage of holding mineral resources, as factories could now operate anywhere in India. This was not the case in the pre-independence era when business houses such as the Tatas and the Dalmias set up industries in these states, and most of the engineering industry was located in West Bengal. Following the end of the policy in the early 1990s, these states did not catch up with more industrialised states. In 1996, the Commerce & Industry Minister of West Bengal complained that the removal of the freight equalisation and licensing policies cannot compensate for the ill that has already been done.

National laws permit a private/public limited company to raise loans internally and externally to its capacity. The Fiscal Responsibility and Budget Management Act, 2003 limits state borrowing even when they have not defaulted/faced a financial emergency. The employees' salary and pension expenditure of many state governments exceed their total revenue, without the President declaring a financial emergency. Article 47 of Directive Principles of the State Policy prohibits intoxicating drinks that are injurious to health but is not enforced. Instead many states promote and tax liquor sales.

Political Economy

The government is devolving central funds to the states under specific schemes (NREGA, etc.) whose implementation by the states is controversially subject to government approval, which violates Article 282. The controversy arises from the fact that the grants for centrally sponsored schemes and central plan schemes are under the ruling party's control and discretion. In 2017, the ruling party was accused of ignoring states in need or where poor people are concentrated, in order to pursue partisan goals. This was described as pork-barrel politics. The party's nomenclature is designed to convey that the central government is the source of these policies.

Federal Finance: Concept, Principles and Problems

The Concept of Federal Finance

In usual parlance federation is defined as an association of two or more states. The federal setup is characterized by the existence of a union government (Central government) on the one hand and state government for different constituent units.

It is a form of political association in which two or more states constitute a political unity with a common government, but in which the member states retain a measures of internal autonomy. Encyclopedia Britannica defines federation "as a form of government in which the essential principle is that there is a union of two or more States under the central body for certain permanent objectives."

Sir Robert Garran defined federation as a foam of government in which Sovereignty or political power is divided between the central and the local governments, so that each of them within its own sphere is independent of the other.

As far as functions and resources are concerned the two sets of government are independent. Actual federations are however of different forms. For example India is more a unitary than federal type, where there is large concentration of power in the hands of central government.

Whereas USA is more of a federal than unitary type Country, Where there is lesser concentration of power with centre and larger exercise of power by provincial and local governments.

Thus depending on the type of federation fiscal responsibilities is shared between central, state and local governments. Therefore federal finance means divisions and co-ordination of different items of income and expenditure between central, state and local governments. This multilevel decentralized fiscal system is known as fiscal federalism.

In this context Dr. R.N. Bhargava opines "federal finance refers to the finance of the federal as well as of the state governments and the relationship between the two." However the concept and definition of federal principles is still a controversial issue.

Prof. K. C. Wheare states: "by the federal principle I mean the method of dividing power so that the general and regional governments are each, within a sphere, Co- ordinate and independent."

Therefore federation is characterized by certain basic principles like:

(a) Division of power and functions,

(b) Supremacy of the constitutions,

(c) Constitutional independence of the constituent units, and

(d) Federal predominance.

Principles of Federal Finance

In a federation functions are distributed among different layers of government. Since each government is responsible for its own sphere of activity there should be adequate provision for source of revenue and its efficient administration for discharging the assigned functions independently and satisfactory.

Therefore the pool of total revenue source should be divided between the centre, state and local governments scientifically and reasonably. This warrants some mutually beneficial and sound principles, for the division of revenue source.

What should be the guiding principle regarding the division of functions and resources among different layers of government.

A host of economist provided an array of guiding principles in determining the resource allocation. Prof. Seligman prescribed three principles on the basis of which revenue sources i.e., taxes should be divided between the different layers of government.

These fundamental principles governing resource allocation are:

(a) Efficiency,

(b) Suitability, and

(c) Adequacy.

Efficiency norms insist that tax allocation among different layers of government should be decided by the capacity of feasibility to administer the tax effectively. There will be taxes, which can be best administered by the centre. Such taxes should be assigned to the central government. For example income tax in India.

Likewise there are some taxes which can be administered by the state government. Such taxes should be assigned to the state government. Best example is agricultural income tax. Suitability criterion insists that the nature of tax is an important aspect determining allocation.

Taxes will possess wider or narrow jurisdiction. Taxes with narrow jurisdiction should be allocated to regional or local governments rather than central government. The adequacy norms insist that revenue assigned to a particular layer of government should be sufficient to carry out the functions and responsibilities assigned to them.

The non-co-ordination between functions of government and revenue allocated to discharge the functions generate crucial problem in federal finance. Prof. Seligman in his Essays in Taxation observes" no matter how well intentioned a scheme may be or how completely it may harmonies with the abstract principles of Justice, if the tax does not work administratively, it is doomed to failure".

Therefore as a matter of fact there are no uniform principles which determine the resource allocation in federal finance.

Prof. B.P. Adarkar in his master piece "Principles and Problems of Federal Finance." laid down three principles governing the working of Federal Finance. Later economists added a few more principles based on certain practical situations.

These Principles

These principles are briefly explained below:

1. Independence and Responsibilities: The success of fiscal federalism is conditioned by the two fundamental requisites- Financial independence and financial responsibility. It means that the central and state government must be financially independent within their own spheres.

Each government should possess separate and independent sources of revenue. Government at different layers should have full power to tax, to incur expenditure and to borrow to perform the assigned functions effectively.

Prof. Adarkar observes, "Taxing autonomy and spending autonomy should go hand in hand. In the broader interest of the nation the centralization of revenue in the hands of the central government seems to be good. However too much dependence of state government on central government for resources is not a healthy practice in federal finance."

Prof. Adaekar Says, "full freedom of financial operations must be extended to both federal as well as state governments in-order that they may not suffer from a feeling of Cramp in the discharge of their normal activities and in the achievements of their legitimate aspirations for the promotion of social and economic advancement."

Therefore the centre and state government should be financially independent and autonomous in respect of taxing with in their own spheres.

2. Adequacy and Elasticity: Adequacy implies that allocation of resources should be based on distribution of functions. The sources of revenue assigned to each layer of government, should be sufficient enough to discharge the functions efficiently and effectively.

For achieving this financial structure should be elastic, flexible and adaptable to the changing conditions of economy. The resources should be capable of expression in response to the rapidly growing needs and responsibilities of government otherwise the federal finance system will create rigidities during times of economic stress and strain.

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As John Athan Says "if a federal system with real independence in the states is to continue, the state must have financial resources under their own control reasonably adequate to meet their responsibilities." Justifying the principle of adequacy and elasticity.

Dr. R.N. Bhargawa observes "the scheme of resources must be set up on elastic system because no scheme, howsoever good, can be final for all times to come; under changing conditions, any argument is bound to become out of date in course of time. The scheme of division must, therefore, incorporate provisions for such changes when they become necessary in the national interest."

3. Administrative Efficiency and Economy: Tax resources should be assigned to different layers of government considering efficiency and economy in administration. The administrative Cost should be minimized. There should be no scope for fraud and evasion.

While allocating resources the administrative efficiency should be adhered. For example it is better and economical to allocate land tax to local bodies, excise tax on alcohol to state government and income tax to central government.

Here each layer of government is assigned such sources of revenue which it can administer efficiently. As point out by prof. Seligman, the nature of tax and character of administration determine the effectiveness of different taxes. This will ensure optimum utilization of revenue potential and help to prevent corruption and evasion in revenue mobilization and realization.

4. Other Important Principles:

(a) Principle of Uniformity and Equity: In a federation there may be regional variation in the level of economic development, owing to a number of economic and non-economic factors. Therefore contribution of each state in federal resources structure should be based according to its ability or economic condition.

Hence the principles of equality in the distribution of tax burden are another guiding principle of federal finance. Principles of uniformity insist that there should be no discrimination between citizens of different states in a federation.

Adequate provision should be there to protect the interest of backward regions and states and even weaker sections of the community, under conditions of difference in resource endowments, tax burden should be distributed on the basis of marginal sacrifice principle.

For the success of fiscal federalism there should be proper integration and co-ordinations of the financial system of different layers of government. Judicious uses of scarce resources are affected by well co-ordinated and integrated intergovernmental fiscal policy.

(b) Principles of Accountability: In a federal form of political set up federation and democracy are considered as sister institutions. So in a federation each layer of government should be accountable to its own legislature for its taxing and spending decisions.

Utmost transparency should be retained in all financial and administrative matters. Each government spending and taxing decisions should be done with regard to their effect on other governments.

(c) Principle of Financial Access: This principle implies that there should be no bar on centre and state governments in exploring new source of resources, to meet the growing financial requirements. In a sense resource should grow along with growth in responsibilities.

Moreover in order to develop healthy financial relation between different units in a federation each government unit will have to work under certain self-imposed discipline. Moreover division of resources should be subject to flexibility.

It is a reality that a number of problems arises and exist in federal finance. We should not try to overshadow these problems by putting certain rigid norms and principles.

A pragmatic approach towards finding solutions to problem is needed. Since socio-economic conditions differ from time to time and from state to state the division of resources should be subjected to flexibility and adaptability. In a federal fiscal system, there is only scope for adjustment in the light of changing circumstances

Problems of Federal Finance

Federalism whereby two or more sovereign units of government Coexist within the same political environment, provides the primary basis for the intergovernmental fiscal problems. It is very difficult to decide which level of government will perform the specific functions as per community preference.

In addition the revenue sources necessary to finance these expenditure functions must be allocated among the various levels of government in a specified manner. A considerable divergence exist between the sources of revenue and functional expenditure obligations among the government of a federation.

Therefore some government may find it easier to than others to meet their expenditure responsibilities from their own revenue source. This situation is a form of imbalance between revenue and expenditure, that too between different levels of government.

The problems of a decentralized fiscal system in fiscal federalism, as it is called, have received much attention, in public finance literatures during the past 3 decades. This is partly due to the fact that there are different sovereign levels in the political system and because of the extension of the theory of public goods, at the national, state and local levels.

It has also been partly due to certain development in federal fiscal structure including the imbalance in the distribution of resources and needs among different levels of government. This has called forth a reconsideration of the fiscal rules to be performed by various levels of government and there relations to one another. In this context it is worth to analyses some of the important problems in federal fiscal system.

For the smooth functioning of a federation division of functions and resources is imperative. However for the last several years, there is a growing conflict between centre and state in matters regarding the distribution of financial resources, between the units in a federation, owing to political and ideological grounds.

There is multiplicity of taxing and spending activities in a federation. The allocation of functions between the centre and the state government differ from country to country. Generally the functions which are of national importance like defence, foreign affairs interstate activities etc. is usually shouldered by the central government.

Whereas matters which are of regional interest remain in the hands of regional government. Performance efficiency is the basis criteria for allocating functions among different constituent units in a federation.

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As such functions like defence, foreign trade foreign affairs, post and telegraph etc. are put under the jurisdiction of central government. Subjects of regional interest like education, health service, public works, internal law and order etc. are assigned to the local government. This necessitates a proper co-ordination of the policies and activities of the centre and state governments.

Vertical Fiscal Imbalance

In many democratic countries a large divergence exists between the revenue source and expenditure obligations among the governments of a federation. Some constituent governments in a federation many find it easier than others to manage their expenditure responsibilities from their own revenue source.

Whereas some others find it difficult to manage the revenue-expenditure programme in a balanced manner. Nowadays there is a continuous and persistent increase in the expenditure programmes of the state and local governments due to increasing welfare oriented programmes.

Expenditures on activities like education public health, social welfare, urban management, welfare schemes for weaker sections rural development activities etc. are on a continuous increase.

Whereas majority of revenue source under the control of state and local governments is inelastic in nature. This creates a situation of imbalance between growing expenditure requirements and poor yield of revenue source for state and local governments.

Contrary to this, the central government always possesses surplus revenue owing to control over more elastic sources of revenue. There occurs a situation of greater expansion of financial resources of central government, and shrinking of resources bases of state and local governments, coupled with increasing responsibilities of state and local governments due to growth of welfare activities.

This type of resource gap between the centre states is called vertical fiscal imbalance. The situation of imbalance of revenue and expenditures vertically between levels of government is referred to as the problem of non-correspondence or vertical fiscal imbalance.

Fiscal federalism tries to bridge this gap and attain a balance through vertical co-ordinations between the centre, state and local level public expenditure and resources needed to finance them.

The important methods adopted to achieve vertical fiscal equality between the centre and regional governments in a federation are:

1. Tax sharing,
2. Tax credit,
3. Tax deductibility,
4. Tax denial,
5. General grants-in-add, and
6. Selective grants-in-aid.

Under tax sharing arrangement a tax is levied and collected by single administration. But the proceeds are shared either wholly or partly with two or more units.

The allocation of the share to constituent units require some criteria which may be either within in the constitution or left to be determined by the national government or it may be determined by periodical agreement between the centre government and constituent units.

Under the tax credit, a superior government unit allows a credit against its tax to anyone who pays the same kind of tax to subordinate units. This method eliminates tax competition problem and thereby increases the capacity of the subordinate units.

Tax deductibility is another method to correct vertical imbalance. Under the method permission is granted by one government to deduct tax paid from the tax payers upon which another government levies taxes.

Under the tax denial the government may put restrictions on state and local government taxing powers. It includes denial of power to subordinate jurisdictions to levy certain taxes, putting a ceiling on the tax rule used by the lower level governmental units; Any upward change in the tax rate requires the approval of the central legislature. These methods of tax co-ordination are known as tax denial or tax restrictions.

In order to avoid overlapping of taxes and duplication of administration and to ensure uniformity of the base of taxation, the method of tax supplement must be used. The higher level government collects the tax with an additional duty imposed by the lower level governments.

Another method of collecting vertical imbalance in fiscal resources transfer is grants-in-aid. Three types of grants are used to transfer revenue to lower level of government *viz*. General (Block or unconditional) grant, or selective grant (restrictive or conditional grant and matching or non-matching grants.

Horizontal Fiscal Imbalance

Horizontal imbalance exists between units at the same level of sovereignty. When fiscal imbalance occurs between different units of government at the same level of government in a federation, it is known as problem of equalization or horizontal fiscal imbalance.

In a federation differences exist in the per capita distribution of income and wealth and the volume of trade among different states. Regional difference in resource endowment among different communities leads to variation in per capita revenue potential among communities.

Horizontal fiscal imbalance is corrected and the principle of fiscal equity is achieved through equalization of fiscal residue. Prof. J. M. Buchanan defines fiscal residue as "net benefits from tax-expenditure programme i.e., benefit from expenditures minus disutility from tax payment."

Due to difference in resource endowment, level of development and variation in the implementation of tax expenditure programmes among different states in a federation, the central and state taxes generate unequal fiscal residue for their citizens. Thus a gap in fiscal residue arises and the some must be equalized to achieve, what is called horizontal fiscal balance.

This gap in fiscal residue can be filled by interstate transfer of resources. That is there should be a federal arrangement for transferring resources from richer states to poor states.

This will help to reduce interpersonal fiscal inequality. Musgrave put it as realization of horizontal equality however it is unlikely that rich states within a country will voluntarily agree to transfer adequate resources to the resource deficient poor states. Foe affecting such a transfer a strong political set up at the centre is needed.

Another problem in federal set up is the tax competition, In order to attract more capital and trade from other parts of the country, one state government may reduce or abolish certain type of taxes, this policy may sometimes benefit backward states. However this type of competitive tax reduction may hinder the smooth flow of interstate trade.

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It may again generate regional disparities in development, and income endowments among communities. This is a practical problem in federal fiscal system in modern period.

4.2 RESOURCE ALLOCATION

Distribution of resources in all federations aims at providing fiscal independence to all governments. Central and state authorities are given sources of income to fulfill their needs. Government should manage its resources efficiently to make its optimum utilization. Along with this, it should also maintain expenditure at a specific level so that it remains within the mean available to it. It shows a sense of responsibility at the hand of units which is inevitable for effective operations of federal system.

Financial arrangement in most federation in fact desirable from both economic and political point of view. It makes units dependent upon centre and reduces fiscal autonomy which is difficult to achieve. Therefore, various adjustments are required besides mere distribution of revenue resources have to be in financial relations between centre and the units.

4.3 FINANCIAL ADJUSTMENTS

Some of the essential methods of adjustments of Federal Finance are: 1. Tax Sharing 2. Reallocation of Functions 3. State Contribution 4. Supplementary Levies 5. Grants-in-aid!

1. Tax Sharing: Under this method, the proceeds of certain selected taxes, imposed and realised by the Centre, are apportioned between the Centre and the different states. In India, the income tax and some union excise duties are taxes which are shared.

This method of sharing the tax yield is, however, confronted with various difficulties such as, what should be the criteria for determining the share of states out of the total tax yield of the Centre? What portion of the total national share should be assigned to each state? Basically, the share of the Centre should be reasonably large to meet its nationwide functions.

The share of each state can, however, be determined on the basis of actual yield from a particular state, its population, total revenue and its total expenditure needs.

Nevertheless, adjustments to the complete satisfaction of the different states may not be possible and states are bound to feel a sense of frustration. Arbitrary decisions are thus inevitable. In India, for instance, a Finance Commission is appointed every five years by the President to determine the share of each state in the division of taxes.

2. Reallocation of Functions: Sometimes, when it is found that certain functions, though assigned to the state government, can very well be carried out by the central government with the same efficiency, it is desirable for the Centre itself to take over such functions, thus, relieving the state governments of the administrative burden.

3. State Contribution: There may be a provision for contribution or payment from state governments to the Centre, when the latter is in need of large resources. This was practised in the U.S.A., at the time of its first Constitution when the national government had no powers of taxation and was solely dependent on the states' assistance.

Such a system had been discarded in modern times, for it will not only make the Centre weak and subordinate to the states, but hinder the progress of national wellbeing and create immense difficulties for the Centre in meeting emergencies.

4. Supplementary Levies: Supplementary levies may be of two types: (i) imposition of additional levies by the Centre on state taxes. However, as the states have their own rates of taxation, the latter method may not be a practicable proposition. The first method is more desirable and practicable, because in all federations, it is the states which need additional revenues to meet their growing commitments and as such, they should be authorised to impose supplementary levies on federal taxes.

5. Grants-in-aid: For making the necessary adjustments in state resources, the central government has the constitutional power to make grants to the state governments in most federations of today. Undoubtedly the grants-in-aid from the Centre constitute a more definite and dependable source of revenue to the state governments than the method of sharing tax yields of the Centre.

Further, the grant may be regarded as an effective instrument for bridging the gap between fiscal capacity and financial needs of the state governments. While allocating grants, the Centre takes into account the economy and need of the states. It generally decides to give more financial help to backward states as compared to the rich and advanced states.

Federal grants should not be arbitrarily determined. They must be based on some specific criteria as suggested above. In India, a finance commission is appointed every five years to recommend to the Centre the allocation of grants.

Moreover, the allocation of federal grants should be determined well in advance and should be valid for a period of time; otherwise, a great deal of uncertainty and dissatisfaction may be caused to the states.

Conditional and Unconditional Grants

Federal grants may be conditional or unconditional. Conditional grants are made for certain specific purposes. Therefore, the state governments have perforce to use such funds only for the purposes for which they are allocated.

Conditional grants are provided on the basis of expenditure needs of each state, irrespective of its financial capacity. For instance, educational grants may be made according to the number of students in school-going age in each state.

Although, under conditional grants, the states lose their freedom of action, such grants are justified on the grounds that the receiving states are made conscious of their financial responsibilities and functions and observe financial discipline and check unwise spending.

Unconditional grants are generally made on the basis of per capita income and relative poverty of the different states. They are devised to bridge the gap between revenues and expenditures of the state governments.

Such grants are also known as equalising grants. Since under unconditional grants, there is no check or supervision by the Centre, the receiving states have full authority to use them in any way they like. However, the state governments do not use them for projects which benefit the nation as a whole; they are used only for local purposes.

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It will be observed from what has just been said that conditional and unconditional grants have their own merits and demerits. However, a combination of both the systems seems to be desirable and practical.

Transfer of Resources from Centre to States

Inter-Governmental Resource Transfer: 1. Tax Sharing

It is mode a in which a tax (or taxes) is levied by one agency and the proceeds distributed between different agencies. Generally the tax is collected by the central government and the proceeds are shared among the states. The collection and administration of tax by a single layer of government is justified on the basis of economy, uniformity and reduced tax evasion.

In India, for example income tax, and excise duty are collected by the union government but the proceeds are distributed between the centre and the states. Another form of tax sharing is one in which the central government collects the tax, but distributes all the proceeds without retaining anything for its own use.

The sharing of tax proceeds are determined by the nature or form of tax to be shared, determination of the share of each state and the total divisible pool. The divisible pool is obtained by subtracting the cost of collection from the gross proceeds.

The share of taxes to the state government from the divisible pool depends upon the percentage share assigned to it which again is determined by factors like population, economic and social backwardness and contribution by each unit to the divisible pool.

Inter-Governmental Resource Transfer: 2. Loans

In federal finance loans play a special role in regional development. State government usually borrows extensively from central government to tide over financial difficulties.

At other times the state government undertakes a number of development projects, the financing of which cannot be met from revenue resources alone. In such a situation central government provides loans to finance such projects of state governments.

In the case of loan financed projects, the state government becomes more careful and tries to retain economy in spending, since capital and interest have to be returned back. Further some times, loans may be utilized by the state governments to overcome natural calamities and to meet short falls in revenue collection.

Inter-Governmental Resource Transfer: 3. Supplementary Levies

In this method the principle tax is levied by the central government and supplementary tax is levied by the state government or vice versa. Usually principle tax is levied by the central government and the supplementary tax levied by the state government. However utmost care should be taken to ensure the supplementary levy may not be very large or may not be more than the principle tax.

Inter-Governmental Resource Transfer: 4. Grants-in-Aid

Another method of transferring revenue to the lower level of government in a federation is the system of grants. This fiscal tool of resource transfer is widely used in all most all federations.

Prof. Herman Finer defines grants-in-aid as “a sum of money assigned by a superior to an inferior governmental authority either out of the exchequer of the former or out of source of revenue specially designated”.

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In this definition the word superior and inferior is interpreted not in terms of political states, but in terms of command of resources.

Grant in aid is provided:

(a) To meet additional resource needs of state governments,

(b) For providing certain services without increasing the tax burden on the people,

(c) For reducing regional imbalances, and

(d) For bringing the possible uniformity and balance between functions and resources among the various states.

Grants may be general (block grant or unconditional grant) or selective grant (restrictive grants or conditional grant), Grants may also be matching or nonmatching, Grants given to the states, provide the centre a certain measures of influence on the policies and schemes adopted by the states:

(i) Conditional Grants: These types of grants are provided for fulfilling certain specific expenditure programmes, for which it is allocated. In this case the authority transferring resources may retain the responsibility for its proper use.

A conditional grant involves specific applications of restrictions by the disbursing government regarding the use of funds by the recipient government; usually conditional grants are apportioned for certain specific projects undertaken by the states.

For example Central grant for the provision of higher education requirements of schedule caste and schedule Tribe population in a particular state is a conditional grant. This type of grant is also called selective or categorical grants.

Conditional grants are provided under matching or non-matching formula. In the case of the matching conditional grants, the aid receiving government must spend, from its own fund, some proportion of the fund received from the aid disbursing country. In non-matching conditional grant the aid fund is provided without matching requirements on the part of the recipient of the fund.

(ii) Unconditional Grants: An unconditional grant is usually spent by the states without any central control or supervision in any manner. Only general conditions may be governing the provisions of such grants. In such grants no conditionality is attached to the use of the funds.

Unconditional grants are usually given to bridge the gap between revenue and expenditure of the resources deficient states. This is also called equalizing grants or block grants.

Conditional and unconditional grants possess merits and demerits. Conditional grants are considered to be based on the doctrine of financial responsibility.

Whereas unconditional grants is based on the principle of state autonomy. The state can utilize such grants to meet its growing and diverse expenditure requirements. However in a federal Set up there should be a combination of both system of aid disbursement.

Inter-Governmental Resource Transfer: 5. Inter-Government Financial Institutions

In modern times most of the federations have established inter-governmental financial institutions for consultation between two layers of government and to evolve a regular process of financial adjustment between them.

These institutions deal with problems concerning tax sharing, determination of grants. Co-ordination's and settlement of financial dispute between centre and state governments etc. For example in India there is a constitutional provision for the appointment of Finance Commission once in five years. Finance commission is a statutory body and it recommends changes in the inter-governmental financial transfers.

Problems of Centre-state Financial Relations in India

1. Mounting Vertical Imbalance: Vertical imbalance emerges because of disproportionate alignment of revenue sources in relation to increasing expenditure obligations by level of government. There is a situation of growing expenditure requirements and poor yield of revenue source for states in India.

The process of assigning highly elastic revenue to the center and inelastic taxes to the states, led to a high degree of concentration in revenue collection. For example in India the centre collects 59% of total revenue whereas state and local bodies collect 41% only. Lack of accountability and implementation of populist policies are the major cause for imbalance in state budgets.

2. Horizontal Imbalance: Various regions and states in India differ in resources endowment, level of development and per capital income. Therefore horizontal imbalance occurs between different units of government at the same level of government in Indian federation.

The resources transfer affected through planning commission and Finance Commission has miserably failed in correcting the horizontal imbalance. As a result disparities in per-capita income are increasing.

Very often the discretionary grants provided by the centre to the states are influenced by political considerations rather than resource requirement. As a result states are not able to bridge there resource expenditure gap in fiscal operations effectively.

3. Excessive Dependence on Centre: This situation mainly emerges owing to the existence of vertical imbalance in resources source and transfer. Very often in Indian federation the taxes which are assigned to states are generally less elastic and less productive.

More over the centre has virtual monopoly in two sources of revenue like foreign aid and deficit financing. These sources are not accessible to states. Coupled with this in as per constitutional provision, highly elastic revenue source are under the jurisdiction of the centre.

As a result, with the passage of time states in India have become more and more dependent on centre for financial help. The matter sometimes becomes worse for states ruled by a particular political party different from the one in the centre.

4. Eroded State Autonomy: It is usually argued that the framers of our constitution were guided by the mistaken notion of "strong centre and weak states". The single party rule at the centre for the early decades of independence hardened this notion.

In addition to this the interference of the centre in the functioning of the state governments has been patronized by the concurrent list which contained around 57 items. Together with this the continued financial dependence of states on centre has increasingly eroded the autonomy of states.

In a federation a strong centre without strong states is not feasible. The growing influence of regional partners and there active participation in central government coupled with the introduction of structural adjustment programmers, since 1990, has changed the situation. At present we can find qualitative change in the concept of state autonomy.

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5. Overlapping of Functions: A study report of R. Venkataraman shows that a dualism in the central assistance has developed and there has been certain overlapping of functions of finance commission and the planning commission.

The revenue gap grant is to be made by the finance commission, the plan assistance by planning commission and relief grants by the central government. This in practice revealed that the planning commission encroached in the area of the others in regard to grants.

There has been duplication and overlapping of functions of these institutions. The role and functions of the finance commission as per the provisions of the constitutions can no longer be fully realized, due to emergence of planning commission.

The role of finance commission has been marginalized and reduced to the status of filling revenue gaps of states. For the healthy growth and stability of a federation, this is not a positive trend.

6. Increasing Debt Burden of States: Our federal financial system has developed a situation in which the states cannot survive without the central assistance. The use of loans and grants by the state has resulted in financial dependency and indiscipline on the part of the states. This also led to a situation of inevitable debt burden on the part of states.

7. Failure to Reduce Regional Imbalance: The mechanism of central resource transfer has failed to correct horizontal imbalance among states. The disparity in per-capita income has been on an increase. The major part of the central transfer of resources, owing to irrational criteria of devolution, went to richer states.

Irrespective of concrete efforts by central government, the regional economic disparity among states could not be removed and inequality of income as between individuals could not be reduced to a significant extend.

Another important factor affecting the decentralized provision of resource transfer is the unsatisfactory status of fiscal tiers below the state level. Constitutionally local bodies (Panchayet Raj Institutions and Municipal Bodies set up recently under and the 73rd and 74thamendment of the constitutions) are not autonomous. They derive their powers and resources from state governments.

Suggestions for Balanced Fiscal Federalism

1. Some Scholars suggest that all current transfers should be affected through a permanent Finance Commission and responsibility of all central transfers should devolve upon the planning commission.

   Prof. V.K.R.V. Rao has argued for placing both the planning commission and Finance commission on a firm statutory footing with a clear division of functions and the establishment of National Loan Organisation on the lines of Australian Loan Council to effectively administer market borrowing and central loan to states.

2. To effect purposive and effective transfer of resources a proper co-ordination between the various agencies making transfers i.e., Finance Commission and Planning Commission is to be done. In order to streamline and strengthen Central State Financial relations, these commissions should function in a unified manner with proper understanding.

3. The number of divisible taxes should be increased to enlarge the resource base of the state government.

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4. Adequate steps should be undertaken to narrow down the interstate disparities by adopting a deliberate pro-stand in favour of backward states. In the provision of financial assistance due weightage should be given for social and economic backwardness.
5. The state should be given more autonomy in financial matters. It is high time that states be allowed to function without interference from the centre at least in the areas originally specified by the constitution.

The central pillars of federal finance are efficiency, uniformity, economy, autonomy, sufficiency. The central state relations are crucial in the preservation and the very existence of federal system. In a Country like India, having linguistic diversity. Cultural Variation, economic disparity etc., a strong centre patronized by rich and developed states is imperative, for the development of a strong federal state.

The National Development Council, Planning Commission and Finance Commission should be streamlined with objectively and efficiency to strengthen the impulse of Indian fiscal federal relations.

Responsibility and Resources of the Centre and of the States

In Indian constitution, there is a dual polity with a vibrant division of powers between the Union and the States, each being best within the sphere allocated to it. The States in India are not the formation of the Centre nor do they draw their authority from the Union Government. Conversely, like the Union Government, they draw their authority directly from the Constitution and are free to operate in the field allotted to them by the Constitution. In the beginning, the Constitution of India has made most extravagant provisions about relationship between the Union and the States. This was done to reduce the conflicts between the Centre and the States. But the actual operation of the Centre-State relations for all these years has given rise to a disagreement about the understanding of arrangements made under the Indian Constitution. Knockers have expressed doubts about the existing arrangements and demanded re-allocation and adjustment of the Centre-State relations.

The centre government has control over the states through different agencies and varied techniques is mentioned below:

- Governor,
- Directions to the State Government,
- Delegation of Union functions,
- All-India services,
- Grants-in-aid,
- Inter-State Councils,
- Inter- State Commerce Commission,
- Immunity from mutual taxation.

The Constitution of India deals with Union and State executive distinctly but the provisions follow a common pattern for the Union and the States. The system of distribution of administrative powers between union and states followed in the Constitution of India in various administrative fields. In addition to the array of subject allotted in the VII schedule of Constitution, even in normal time parliament can under certain circumstances, assume legislative power over a subject falling with in the sphere exclusively reserved for the states. Beside the power to legislate on a very wide field, the

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Constitution confers in the Union Parliament, the constituent power or the power to initiate amendment of the Constitution.

With reference to Indian Federation, administration is primarily furnished by the state agencies. Dissimilar to the other federations where both the federal and state government create their own agencies for the administration of their laws and the subjects allocated to them in the constitution, even the laws of the union are left to be administered by the state authorities is order to avoid duplication of administrative machinery. In every federal constitution, the central and state governments are firmly enclosed and the jurisdiction of the one excludes the other. The centre is concerned with problems of the union list. The states are with matters on the state list. There is also provision for the allocation of the powers by the union to the states and *vice versa.*

The forte and success of such scheme requires co-operation and co-ordination between Centre and States. In India, the central government or the union is responsible for the governance of the whole country. There should be effective administrative norms between the union and States. The Supreme Court has demarcated that the executive power of the union is coexistence with power of the parliament, with this limitation that the executive cannot act against the provisions of the constitution or of any law made by the parliament.

The Union Government is dependent on the States to give effect to its programmes. The scheme of distribution of administrative powers has some major objectives. It arms, the union government with powers to have effective control over administration of the state and espouses several advices for intergovernmental co-operation and co-ordination. The executive powers in relation to any treaty or agreement has been discussed on the union by the Constitution, Parliament has also vested executive functions in union over concurrent list matters under several acts. The executive powers of the Union are assigned by the President who can exercise it directly or through officers subordinate to him in accordance with Constitution. The President has power to appoint and remove certain dignitaries in the states. He appoints the Governor of a State who holds his office during the rule of the President (Article 155 and Article 156). He also appoints judges of the high courts (Article 217) and plays a significant role in the removal of High Court Judges as also members of state public service Commission (Article 317).

The principle of federalism lies not in the constitutional as institutional structure but in the society itself. Federal Government is scheme by which the federal qualities of the society are expressed and protected. In the impact of federalizing drifts, the one party dominant system has given way to a multi Party system and elections have unfavourably affected the fortunes of major national parties, bringing to the fore some regional parties to critical separates threshold giving them heavy electoral edge. Presently, regional Political Parties have great dominance in administrative relations.

In order to form state governments by many regional parties, major national parties are under pressure to adjust their organizational structures to suit the demands of regionalization making required adjustments to the federal imperatives of the Indian polity and society.

Legislative Relations: The Union State relations in the legislative domain have been dealt by Articles 245 to 254. The Constitution evidently provides that the Parliament shall have special authority to make law for the whole or any part of the terrain of India with regard to subjects mentioned in the Union List. This list contains topics like defence, foreign affairs, currency, union duties, and communication. On the other hand, the State has exclusive power over the 66 items enumerated in the State List. This List comprises of topics like public order, health, sanitation, agriculture etc. Additionally, there is a Concurrent list containing 47 subjects like criminal law and procedure, marriage, contracts, trust, social insurance etc. over which both the Union and the State Governments can legislate.

If the law of the Union Government and the State Government clash with each other, the former succeeds. However, a State law on the Simultaneous List shall prevail over the Central law if the same had been reserved for the consideration of the President and his consent had been received before the representation of the Central law on the same subject. This clearly gives some flexibility to the States. The constitution also vests the residuary powers (*viz*., the enumerated in any of the three Lists) with the Central Government. It is established that in this distribution of powers, the Union Government has positively been given a preferred treatment. It has not only been granted more extensive powers than the States, even the residuary powers have been granted to it contrary to the convention in other federations of the world, where the residuary powers are given to the States.

Functions of Union

Central executive body of the government, the cabinet performs array of functions, there its role is critical and pivotal.

These functions can be mentioned as under:

- Formulation, execution, evaluation and revision of public policy in various spheres which the party in power seeks to progress and practice.
- Co-ordination among various ministries and other organs of the government which might indulge in conflicts, wastefulness, duplication of functions and empire building.
- Preparation and monitoring of the legislative agenda which translated the policies of the government in action through statutory enactments.
- Executive control over administration through appointments, rule making powers and handling of crises and disasters, natural as well as political.
- Financial management through fiscal control and operation of funds like Consolidated Fund and Contingency Funds of India.
- Review the work of planning and Planning Commission.

Functions of State

The state government is defined as the government of a country's subdivisions and shares political power with the national government. In India, the state governments are the level of government below the central government. Each state of the country is governed by the state government.

Following are the roles and responsibilities of the state governments:

1. **State governments:** Have separate departments for efficient functioning of the state. States have jurisdiction over education, agriculture, public health, sanitation, hospitals and dispensaries and many other departments.
2. **Internal security:** The state governments have to maintain the internal security, law and order in the state. Internal security is managed through state police.
3. **Public order:** States have jurisdiction over police and public order.

4. **Education:** Providing a public education system, maintaining school buildings and colleges, employment of teachers, providing help to under privileged students all come under the education department of the state.
5. **Agriculture:** The state governments have to provide support for farmers, funds for best farming practices, disease prevention and aid during disasters such as floods or droughts.
6. **Finances:** State legislature handles the financial powers of the state, which include authorisation of all expenditure, taxation and borrowing by the state government. It has the power to originate money bills. It has control over taxes on entertainment and wealth, and sales tax.
7. **Reservation of bills:** The state governor may reserve any bill for the consideration of the President.
8. **Transport:** State government runs the trains, trams, bus and ferry services and other public transportation in the cities and towns of the States.
9. **Water supply:** Water supply to cities and towns for drinking, including irrigation for farmers, is the responsibility of the State governments.
10. **Budget:** State governments make budget for state.

Issues and Challenges Pertaining to the Federal Structure

Federalism is a Dynamic theory of nation and state building. Political systems are categorized into federal and unitary forms of governance based on the distribution or concentration of powers between the centre and the state or in the centre respectively. The term federalism is derived from the Latin word Foedus, which according to Lewis' Latin Dictionary means League or treaty or compact or alliance or contract or marriage contract. Federalism was first devised by the Theologians in the seventeenth century to define the system of holy enduring covenant between god and man. But later on it became related to the theories of social contract and was associated with the desire to build political society. Thus, federalism is a notion applied to a political system characterized by two levels of government deriving powers and functions from an authority which is not controlled by either level of government. The upper level of government is the national or central government and the lower level of government may be called a province or state or canton. Federalism requires understanding and negotiations between the centre and state governments in the making and implementation of strategies.

India's political system has vast diversity through the application of the federal principle, and is broadly considered a robust parliamentary democracy. The sources of the federal idea were already present in the Government of India Act 1935, which attempted to contain rising national sentiment with the grant of limited provincial independence.

In contemporary period, federalism is a principle of understanding between two divergent tendencies, *viz*, the need for local autonomy and the widening range of common interests, Lord Acton. Indian federalism is unique, Unity while permitting diversity, oneness, while providing for division, a modern federalism. Federalism removes friction, stops disintegration, suppress jealousy, checks wars, and creates powerful and peace-loving nations out of a heterogeneous mass of human beings living apart and in different parts of the world.

It is recognized in studies that Federalism is based on two powers one is regional and one is central power. Regional power is related with a particular region and it has its well defined list of

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powers. Central power is linked with whole country and it also has its own list of powers which in case of India is more powerful. In India, Federalism is based on the co-operation between States and Union. In Indian context, concept of federalism is that each region has its own demand which needs to be better fulfilled by the regional government but there are many areas which are common for whole country which needs to be governed by union government. Most notable feature of the Indian Constitution is its federal structure, together with a form of unitary government with a dual polity and a single set of rights and obligations. Basu stated that "Indian Constitution is partly rigid and largely flexible".

Issues between the Centre and the States

1. Dominance of the Congress Party
2. The Role of the Governor (Discretionary Power and Appointment Issues)
3. Reservation of Bills for Consideration of President
4. Misuse of Article 356
5. The Maintenance of Law and Order in States
6. Encroachment by the Centre on State List
7. The Financial weakness of the State
8. Taxation Powers
9. Issue of Grants
10. Role of Planning Commission
11. Question of Autonomy Issue

1. Dominance of the Congress Party: There were two phases in history so far as the Union-States conflicts are concerned. The first phase which finished with the Fourth General Elections in 1967, was marked by the supremacy of Congress party in Centre as well as on the States. Consequently, the Union-State conflicts were a matter of internal problem of Congress Party and resolved at that level only. The post 1967 political situation witnessed as the emergence of non-Congress Governments in the States as well as in the Centre. Now the internal mechanism of the Congress party could not resolve the conflicts and they not only came to the surface but also became progressively intensive.

2. The Role of Governor and Discretionary Powers of Governor: The Governor is appointed by the President of India for five years. But he remains in the office till the pleasure of the President. It means, he can be recalled any time and his continuation in the office depends at the will of the Centre. The Supreme Court has held that the Governor's office is an independent office and neither it is under control nor subordinate to the Government of India. However, a study of Governors in the States clearly exposes that most of them have been active politicians before becoming Governor and the rest were bureaucrats. They are appointed on political basis and therefore hardly expected to play a non-partisan role. It is the Governor's biased role that has been the centre point in Union-State skirmishes. The Governors have advanced the political interests of the ruling party of the Centre in the States. This has been done most remarkably in the appointment of Chief Ministers, summoning, proroguing and dissolving the State Assemblies and in recommending President's rule.

Besides the normal functions which Governor exercises as a constitutional head, he exercises certain discretionary powers. Some of them have been particularly conferred on him while some others flow by necessary implication. These are significant particularly in this matters. One is with regard to the appointment of Chief Minister when neither a single party nor a combination of parties emerges from the election with a clear majority. In this situation, there is a question of dismissal of Chief Minister on the loss of majority support or otherwise. The second matter is with regard to making a report to President under Article 356 about this satisfaction that a situation has risen in which the Government of the State cannot be carried according to the provisions of the Constitution. Thereby recommending the imposition of President's rule, the issue of declaration of President's rule itself has become a matter of serious tension between union and state governments.

3. Reservation of Bills for Consideration of President: According to the Article 200 of the Constitution, certain types of bills passed by the State legislature may be reserved by the Governor for the consideration of the President. The President may either give his acceptance or may direct the Governor to send it back for reconsideration by the State legislature along with his comments. But even after the bill has been passed by the State legislature for the second time, the President is not bound to give his assent. The main purpose of this provision is that the Centre can observe the legislation in the national interest. But Governors, and through them the central Government have used this provision to serve the partisan interests. The opposition reigned States have from time to time raised a tone and shout against the misuse of these provisions. This has specially been in case where the Governor has reserved a bill against the advice of the State Ministry. Presumably under the direction of the Central Government. In its memorandum to Sarkaria Commission, the Bharatiya Janata Party alleged that the bills have been reserved for consideration of the President in order to create difficulties for the State governments. The West Bengal government in its reply to the Sarkaria Commission 's questionnaire felt that Articles 200 and 201 either should be deleted or Constitution should clarify that the Governor would not act in his discretion but only on the advice of the State Council Ministers.

4. Misuse of Article 356: Article 356 is the most contentious article of the Constitution. It offers for State emergency or President's rule in State if the President, on receipt of report from the Governor of a State or otherwise, is satisfied that a situation has risen in which the Government of the State cannot be carried on in accordance with the provisions of the Constitution. The duration of such emergency is six months and it can be extended further. In the Constituent Assembly, Ambedkar had made it clear that the Article 356 would be applied as a last option. He also hoped that "such articles will never be called into operation and that they would remain a dead letter."

5. Emergency Provision: Article 356 should be used very carefully, in extreme cases, as a matter of last resort. A warning should be issued to the disturbed State in specific terms, alternatives must not ordinarily be dispensed with. It should be provided through proper amendment that nevertheless anything in clause (2) of Article 74 of the Constitution, the material facts and grounds on which Article 356 (1) is appealed, should be made an integral part of the proclamation issued under the Article. This will also assure the control of the Parliament over exercise of this power by the Union Executive, more effective.

Devolution of Powers and Finances up to Local Levels and Challenges therein

Formation of self-governance at the local level can only be accomplished by meaningful and effective devolution of functions, funds and functionaries (3Fs) to the PRIs. Progress in this direction was in fits and starts. There was inequality in the devolutions made between States and within States in sectors of development. The transfer of funds and functionaries did not match decentralizations.

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Government of India Ministries did not also reorient their Centrally Sponsored Schemes to provide a dissimilar role for local bodies. However, gradually these inadequacies are being attended to.

To observe this matter which is slow pace and prevalence of wide disparities, attempts are being made to build agreement and a series of conferences and round tables with the Centre and States participating have been organized. Major objectives are, to ensure that there is role clarity between various levels of Government including local bodies through 'activity mapping, to match funds with functions and to show them clearly in the budget, to ensure that plans are prepared at each level which are then consolidated at the district level, to strengthen the capabilities of local bodies to enable them to manage their affairs and to deepen the accountability of local bodies to citizens and review of their activities by Gram Sabhas.

In the present development situation, the local self-governing institutions in rural India has a crucial role in the implementation of development programmes. These institutions have become instrumental in designing development plans for rural areas and implementing such programmes in keeping the available fiscal and human resources in mind. The 73rd Amendment Act of the Indian Constitution has extensively purveyed a set of legitimate powers to these institutions, with a stately objective to develop them as institutions of self-government. Therefore, the powers and functions categorised for these institutions under the purview of the Indian Constitution have clearly pronounced the significance of these institutions. However, the current trend of functioning of rural local self-governing institutions in India provides a miserable scenario because of their failure to handle critical human development issues.

Despite the presence of a advanced governance system such as the Panchayati Raj, the rural provinces in India still face severe human development challenges. It is contended that the decentralised governing institutions can provide a responsible and transparent administration only when certain internal and external conditions like accountability, transparency, participation and fiscal transfers will be taken into consideration. The Indian Constitution under its federal character has provided plentiful provision for sharing the powers between the centre and the states as well as between the states and the local governing institutions (both at rural and urban level). Centre-State economic relation has provided range of the sharing powers for revenue generation, taxation and expenditure of revenue under the framework of the Indian Constitution. However, the legitimate progression of the local self- governing institutions since 1992 (73rd Amendment) has forced the policy makers to re-examine the constant power sharing mechanism between the centre and the states in India.

It is believed that, the local self-governing institutions under the Indian federal polity enjoying such residual powers which are discussed by the state legislatures. The power sharing exercise between the states and the local level of governments in India provide a dissenting situation. Especially the fiscal power conferred to the PRIs, often question the issue of rationalisation in power devolution ground, and thereby provide a platform for the academic robustness. The local self-governing institutions in India have evolved through a series of historical events, rules, regulations, acts and commissions, and have finally reached a revival stage in the form of the 73rd Amendment Act (1992) and the PESA Act (1996). It is debated that the political and economic theories of decentralisation have developed over a period of time, and have paved the way for institutionalisation of decentralised governing institutions in India. However, the functioning of the local self-governing institutions in India has faced challenges, which are acute in the case of the financial transfers. Such challenges troubled the functioning of these institutions. Further, Politicisation of local democracy and the existence of structural impediments to the effective functioning of local self-governing institutions emboldens the supremacy of the local elite in these institutions. Therefore, devolution of fiscal powers to the PRIs has provided unproductive results. The issues of fiscal independence of these institutions can be seen writ large, notwithstanding the recommendations of the central and the state finance commissions in that regard. Such situation has hindered the spirit of "self-governing institutions" by decreasing their functions as "implementing agencies" of government. In the framework of the shifting political scenario, party system and appearance of structural readjustment since 1991, the macro-economic scenario has been going through a changeover phase. This scenario also paved the way for a fresh analysis of fiscal devolution to the PRIs.

Local Self-Governing Institutions and Fiscal Devolution in India-A Historical Analysis

Democratic decentralisation in India has a robust historical background, the stages of evolution, revival and growth starting from the ancient Vedic civilisation (1200 BC) to modern India. The notion of "self -rule" in rural India succeeded during the ancient period in the name of "sabhas" which were the strong grounds for making "participatory community based decisions of self-rule" by the designated traditional village head or a group of heads. The Panchayats had both executive and judicial powers, including the power to decide land revenue, village administration and providing taxes to higher administrative bodies. According to Mathew (1994), the important characteristics of these Panchayats were (during ancient period) that they had been the hinge of administration, the centre of social life, an important economic force and a focus of social solidarity.

Nonetheless, when the British rule was dominated, the government's policy towards uplifting the panchayatiraj institutions in India, to institutions of self-government, was not impressive and commendable. During this period, administrative and fiscal centralisation was a colonial requirement. At the same time, the difficulty of administering a large country with a number of principalities, different languages, cultures and traditions did force the central government to devolve some powers to regional units (Rao, 2000). Conversely, till the country's freedom, several policy measures were introduced by the British Government, including the government of India Acts 1919 and 1929, which paved the way for strengthening decentralised Governance in pre-independent India. The Government of India Act, 1935 pronounced the period of federalism by adding the conception of "Quasi -Federalism" (Rao, 2000).

Local Self-Governance and Fiscal Decentralisation during Post-Independence Period

In the era of the post-independence, the Indian constitution embraced the Panchayat Raj system as a part of the "directive principles of state policy" in an effort to decentralise the administrative powers to the grassroots. However, at the same time, the constituent assembly adopted a federal structure with an intention to create a strong centre. Johnson (2003) stated that the most permanent image of decentralisation in India has been Gandhi's vision of village swaraj, in which universal education, economic self-sufficiency, and village democracy would take the place of caste, untouchability and other forms of rural exploitation. But till 1992, the Panchayati Raj Institutions in India had no authentic powers because of centralised character of the Indian federalism, which called for strong union, centralised planning and programs for economic development. Rao (2000) stated that Indian federalism officially evolved as a two-tier structure until 1992. However, local government units existed both in rural and urban areas, which basically acted as agencies of the state government. In spite of the presence of state specific initiatives in states such as Kerala, West Bengal, Karnataka and Odisha, the Panchayati Raj institutions continued in a dormant stage till 1992. This was due to different factors like insufficient powers, poor finances and lack of political determination.

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The important constituent of federalism i.e., fiscal federalism which is based on assignment of satisfactory revenue powers to local level of governments scarcely existed in many states.

The 73rd Amendment Act: The 73rd Constitution Amendment Act offered push to the LSGs in India by devolving requisite powers & functions, which are political and economic in nature. Proponents of decentralised governance in India contended that the 73rd Constitution Amendment Act has ushered a greater degree of uniformity in structure(Three-tier), Composition (reservation for SCs, STs and women), powers and functions(financial and planning), of these institutions with an objective to achieve faster social and economic development.

The important features of the act which pronounced the greater financial autonomy to the PRIs in India:

Devolution of powers including fiscal power: Devolution of powers including fiscal power to the PRIs is the most noteworthy aspect that mirrored through the 73rd Constitution Amendment Act. It was advocated that the functions of 29 subjects under the 11th Schedule of the Indian Constitution will be devolved to the PRIs to ensure effectiveness in functional aspects. Nonetheless, the current trend of power devolution to the PRIs has provided a gloomy scenario because of the failure of different states in this regard, particularly with respect to the devolution of fiscal powers.

It is assessed that the 73rd Amendment to the Indian Constitution has appropriately provided fiscal powers to the local self-governing institutions to make them more efficient and responsible. The act has also provisioned for the constitution of State Finance Commissions in the states to scrutinize the fiscal scenario of the local governments and suggest suitable recommendations to the state to that extent. However, after two decades of enactment of 73rd Amendment, the fiscal positions of PRIs in different States highly frenzy and unbalanced in nature. The problem of fiscal decentralisation presents two broad situations, policy failure or failure of state governments and failure of the local governments.

It is contended that fiscal decentralisation is the fiscal empowerment of the lower tiers of the government and involves the devolution of their taxing and spending powers along with the arrangements for remedying mismatches in resources & responsibilities (Oommen, 2006). However, the current fiscal power devolution to PRIs in India has been providing two broad areas in which the problems are predominant.

Policy failure: Rao (2011) contended that vital feature of a successful system of fiscal federalism is the task of adequate revenue powers to sub-national governments that forge a strong link between revenue and expenditures at the margin. However, experience from different states exposes that, the fiscal devolution process has been more or less confined to the mere delegation of authority without devolving powers of taxation and revenue generation. Failure of the states to decentralise the desired fiscal powers to the local-level governments slowly turned these institutions to extended wing of the state governments. It has been observed in the case of fiscal devolution, that there was fiscal delegation in different states, without devolving powers; this has severely affected the fiscal position of the PRIs. There is no tool devised to assess the potential source of revenue of the PRIs, and therefore no mandatory targets have been set in this regard.

Failure of the Local Governments: The 73rd and 74th amendments (for urban local bodies) have made India the largest democratic establishment with huge representative base in the world. There are 2.5 lakhs local governments in India with 3 million representatives, which itself demonstrations the massiveness of the Indian Democratic setup (Oommen, 2010). Nevertheless, the extent of fiscal autonomy enjoyed by these institutions, in the context of spending and generating revenues, clearly establish their role in the current development scenario. The PRIs in major Indian states, have been unsuccessful to utilise the potential revenue generation source, because of their over dependent nature and the serious capacity gap. Additionally, improving the revenue is mainly linked to two major factors that include appropriate redesigning of fiscal transfer system and proper institutional arrangements; both are lacking in the case of PRIs.

Major Challenges

Confusing power devolution schedule: The critical factor that crippled the fiscal autonomy of the PRIs is the imperfect process of power devolution to the PRIs by different state governments. While states such as Kerala, West Bengal, Karnataka and Madhya Pradesh have devolved the desired powers to the PRIs, other states such as Odisha and Jharkhand are lagging behind in the process. A study conducted across Andhra Pradesh, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Tamil Nadu, Odisha, Punjab, Haryana, Assam and Goa also revealed that most states granted several functional responsibilities but there was no executive follow-up of granting passable powers, staff and additional financial resources (Fernandes, 2003).

Poor budgetary allocation: Fiscal devolution depends on the expenditure responsibilities and revenue assignments devolved to the lower tiers. However, experiences from different States shows that, the fiscal allocations to the PRIs have deteriorated severely which has restricted their development agendas (Oommen, 2006).

Tax Decentralisation and the role of SFCs: In most states, the reports regarding the recommendations of the SFCs were not taken into account which is another grey area in fiscal decentralisation. Economic intellectual argued that the PRIs should have the right to collect taxes from private taxpayers (Marjeet, 1999) which is not reflected in States' tax decentralisation agenda.

Fiscal Dependency: It is debated that financial decentralisation leads to fiscal dependency of the PRIs over central and state hierarchies. This scenario has led to the fiscal inadequacy of the PRIs by reducing their role as mere implementer of government programs. For the implementation of different programs the PRIs have to wait for "sanction orders" from upper level government departments, which hamper the timely and effective implementation of development programs.

Gap in co-ordination: One of the most important requirements for efficient fiscal federalism is clarity in the assignment system. Not only should the assignment system be clear as far as possible, but when there is coinciding, there should be systems and institutions in place to resolve it (Rao, 2011). However, in the case of PRIs, the intra and inter institutional co-ordination gap is also seen in the process of transferring funds to the PRIs, which is another challenging part in fiscal decentralisation. The flow of funds from higher to lower tiers has become burdensome affair because of unnecessary delay, technical incompetency and an attitude of arrogance.

To summarize, the Structure of Indian constitution deals with Union and State executive distinctly but the provisions follow a common pattern for the Union and the States. The system of distribution of administrative powers between union and states followed in the Constitution of India in various administrative fields. The Union Government is reliant on the States to give effect to its programmes. The system of distribution of administrative powers has two objectives. It enables the union government with powers to control over administration of the state and at the same time it espouses several advices for intergovernmental co-operation and co-ordination

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Sources of Conflict Listed by the States

In the last few decades, there has always been growing conflict and tension between the Union and the States on finance matters. 'The use of grants and loan in the last forty years has resulted in the complete domination and control of the States by the Centre.

The enormous increase in transferred resources from the Centre to States, the political pressure by the Centre through the instrument of. Grants or loans have frightened the States.

Thus a comprehensive review is needed for Centre-State relations in general and Centre-State financial relations in particular. Various committees constituted so far on Centre-State financial relations have demanded political and financial autonomy for the States and drastic restriction of power and financial resources of the Centre. The sources of conflict as listed by States are as follows:

(a) The basic assumption of the constitution in favour of a strong Centre and weak dependent States is no longer acceptable to States. So, they insist that a strong Centre requires equally strong and autonomous States.

(b) The Centre, with too little to do, is entrusted with too much financial resources while the State Governments with so many vital functions to perform are starved of financial resources.

(c) Unlike the States, financial resources of the Centre are highly elastic. Thus, they have to depend upon Centre to a large extent for their financial requirements.

(d) Another complaint by the States is that Centre has neither used its fiscal dominance nor instruments at disposal to narrow down the uneveness in regional imbalances. In fact regional disparities have worsened during the plans.

(e) The Centre has been duplicating a number of departments, viz., education, public health, etc which all State subjects are. These subjects should be put on the concurrent list.

(f) The Centre has been interfering in the affairs of the State even in the field of law and order by setting up the Central Reserve Police, the Border Security Force, the Industrial Security Force etc.

4.4 STATES' COMPLAI NT ON FI NANCI AL ARRANGEMENTS

As share of taxes and duties was inadequate to meet growing revenue and capital expenditure (especially before the Seventh Plan award) states had to resort more and more to grants-in-aid and loans from Centre. There was a growing feeling of uncertainty and indecision, loss of initiative as well as irritation on the part of the States. States have become further suspicious regarding behaviour and motives of Centre so far as question of raising and sharing of tax revenues with the States are concerned:

1. Centre has not taken sufficient initiative to impose all taxes under Article 269 whose proceeds would go to States.
2. Corporation tax was excluded from the scope of sharing with the States from the very beginning. States feel sore because their contribution to the development of the corporate sector is quite large, i.e., they incur considerable expenditure in providing direct infra-structural facilities, e.g., power, water, raw materials, lands, etc. Apart from that they

provide considerable financial incentives for setting up of industries. It is, therefore, fair and appropriate that States should have a share in the proceeds of corporation tax as well.

3. Central excise duties have been expanded by including under it a growing number of items previously taxed by States.
4. Divisible pool of excise duties has been limited to basic duties and additional excise duties; special and auxiliary duties have been kept out of the divisible pool. Rates of additional excise duties which have to be shared with States were kept low, while raising steadily the rates of excise duties and of special and auxiliary duties which are not to be shared with States or to be shared only in smaller proportions.
5. Railway passenger tax whose proceeds were to go to States was abolished and Centre fixed arbitrarily a grant in lieu of railway passenger tax. This grant is much less than what railway passenger tax would have brought to States.
6. Surcharges on income tax were imposed by Central Government but proceeds were not shared with States. Central Government raised the exemption limit of income tax gradually now ₹ 60,000 and reduced the divisible pool. Central Government, now ever, did not suffer much loss, as loss was more than offset by the increase in surcharge.
7. Main source of revenue of the States is sales tax which accounts for 60 per cent of States' own tax revenue. Centre wants to abolish sales tax also. There are also proposals to abolish octroi duties and state excises. Again, the Planning Commission had asked the states to raise resources by enhancing electricity charges. But in 1978-79 budget, Centre decided to tap this source also by imposing excise duties on electricity, thereby removing scope for raising electricity tariff by States (this was given up later). States are therefore left with no proper resources to raise their revenues. By depending upon the Centre, States are running risk of losing their economic independence.

While revenues of States are increasing only gradually, expenses of the States are increasing at a fast rate. For instance, state plan outlays are increasing with every five year plan. Besides, various policies of the Central Government (monetary, fiscal and general economic policies) affect price situation in any country. While there is an increase in prices demand for increased D.A. arises from the Government as well as semi-government employees. As the Central Government has vast financial resources to fulfill such demands, but for State Governments it becomes difficult to fulfill such periodical demands from their staff. Therefore, Centre should consult states before agreeing to the grant of additional D.A. and also provide adequate resources to the States for this purpose.

Too much dependence of States upon Centre in the form of grants-in-aid and loans has four serious adverse consequences. Firstly, Centre could be generous or mean to different States. Some of the States have felt it humiliating to make frequent visits to New Delhi for funds. Second difficulty is uncertainty in budgeting of States. For example, in the absence of firm commitments of Central Government about grants-in-aid, it is difficult for States to decide about the various projects of development they have to undertake. Third difficulty is that States are not able to fulfil various electoral promises because of inadequacy of financial resources. Finally, mostly States resort to unauthorised overdrafts to finance plan projects.

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4.5 REGI ONAL I MBALANCES AS A SOURCE OF CONFLI CT

A serious complaint of some of the States like Kerala is about regional imbalance in industrial development. The complaint is that Centre has not used its fiscal dominance over States to correct regional imbalances. Nor has the Centre used other instruments at its disposal to narrow down the unevenness in regional development. In the absence of integrated approach for the development of the backward regions, location of the Central sector projects and even location of private industries through licensing policy have not created much of an impression on the problem of regional imbalances. In fact, regional disparities have worsened during the plans. When the Planning Commission was set up, it was thought that it would bring about a closer economic integration of the country by rapid increase in national income, higher standards of living of the masses, reduction of inequalities between regions, expansion of agriculture, industry, power and transport. While some degree of economic development has been achieved in every direction, yet from the point of view of balanced regional development, planning may be said to be a dismal failure.

Now, with the acceleration of planning process responsibilities and commitments of States, have increased more than that of their financial resources. The result was a kind of centralisation at the federal level bringing the economic functioning of State Governments under Central directive and control through the mechanism of grants and loans. Correspondingly, the financial powers of States are far too meagre in relation to their clearly defined responsibilities. It was really unfortunate that framers of the Indian Constitution could not visualise financial implications of large scale programmes of planned development.

The States' Demand

The Rajamannar Committee on Centre-State relations (it submitted its report in May 1971) and the West Bengal Memorandum have come out with a string of suggestions and recommendations aiming at autonomy of the states, consistent with the integrity of the country. Suggestions of the West Bengal Memorandum; which have revived the controversy on the question, are as follows:

1. Powers and functions of the Centre and the States should be clearly marked and specified, and if necessary, the Constitution should be amended suitably.
2. Centre’s jurisdiction should be restricted to defence, foreign affairs and foreign trade, communications, currency and economic co-ordination. All other powers should be exclusively reserved for the States. There should be no interference or control by the Centre in the exercise of its powers by the States.
3. Present instrument of Centre’s control and interference in the affairs of the States *viz.*, the Indian Administrative and Police Services, the Central Reserve Police, the Border Security Force, the Industrial Security Force etc., should be removed forthwith.
4. The Planning Commission and the National Development Council which have an important role in planning and economic co-ordination should be specifically referred to in the Constitution.
5. 75 per cent of central revenues should be automatically transferred by Centre to divisible pool of States and the Finance Commission should have power only to the extent of recommending principles for distribution of this divisible pool among States.

Other important suggestions made by the West Bengal Memorandum and the Rajamannar Committee on Centre-State relations include equal representation for all States in the Rajya Sabha, maintenance of the special status of Kashmir in the Indian Union, retention of English as link language between Centre and States. The right to use mother tongue at all levels, industrial licensing to be vested with the States, except for large companies of national importance, inter-state water disputes to be settled by the Supreme Court, etc.

Problem of Centre-State financial relations is thus a part of the general and more important problem of Centre-State relations. Let us now consider the problem from the angle of the Central Government.

The Centre's Case

All those, who are in favour of a strong Centre, reject the case of States for more functions and for more financial resources. The West Bengal Memorandum would allow the Centre to perform only three or four functions and leave rest of the functions to the States. States also would like to have a say, at least indirectly, even in the limited powers and functions of the Centre. For example, the States would like to influence the location and distribution of defence industries, use of foreign exchange reserves, allocation for projects of communication and also monetary and fiscal policies, etc. At the same time, Centre should be left with only 25 per cent of revenue raised while 75 per cent of revenue should go to the States automatically. All these things clearly indicate that ultimate intention is to have strong states and a weak and emaciated Centre.

Danger to national integrity: There is also the fear that some of the States ideologically different from others might like to break away from the federation on some pretext or the other. The DMK ideology at one time, the Khalistan movement in Punjab and Assam agitation all these have separatist tendencies. Supporters of strong states cite the example of USSR. It was the presence of a common political ideology and Supreme Central authority which held together the culturally diverse autonomous states in the USSR when the common political ideology and the strong Central authority disappeared, USSR disintegrated. State autonomy can thus be dangerous to the national integrity. India cannot be allowed to go the USSR way.

The argument that 'State autonomy' would liberate creative energies at present inhibited by constant central interference and domination and that state autonomy would promote rapid economic growth is highly questionable in the Indian context. It is the Centre's case that except for communist parties who are wedded to an economic ideology, other regional political parties are very parochial in their outlook. Most of them are financed by big business in industry, trade, transport, films, etc. They are corrupt to the core and destinies of these states are controlled by men, among whom some have very close links with smugglers and antisocial elements. These politicians cannot see beyond their noses and want to use state autonomy to further their selfish ends so as to remain in power. In any case there is no positive correlation between state autonomy and the rapid development of different states.

In this connection it should be emphasized that the States do already enjoy considerable autonomy. They have exclusive control over such key sectors as agriculture, irrigation and power, administration, social welfare, law and order etc. But not all States have performed these functions properly in any appreciable degree. The advanced states have continued to march ahead and the backward states have remained backward.

States complaint about inadequate financial resources and their demand for large taxation powers would sound more reasonable if they had fully exploited the resources they command. They are not only reluctant to tax agricultural incomes but have been abolishing land levies despite the gaping deficits in their budgets. The financial difficulties thus arise in part from their own lack of

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political courage. It is also an accepted fact, State tax administration is hopelessly corrupt and inefficient. Still the Centre has been sympathetic to their pleas for assistance and their share of the divisible pool of Central taxes has progressively increased over the years.

States generally resort to alternative methods for overcoming their budgetary gaps and this was mostly done through grants-in-aid and loans from the Centre before 1967. After 1967, the non-Congress dominated States and even the Congress-controlled States were in a rebellious mood and they resorted to unauthorised overdrafts on the Reserve Bank, which they insisted should be converted into regular loans. In spite of pressure from the Reserve Bank, these overdrafts continued to create inflationary pressure in the economy and constituted serious financial indiscipline.

Inadequacy of financial resources was sought to be made up by the use of Central grantsin- aid. Grants-in-aid were also meant to help backward States to come up to the level of others. Besides grants, the States approach the Centre for loans and advances. Resources transferred from the Centre have accounted for over 45 per cent of total expenditure of the States.

It is thus clear that States have become increasingly dependent on the Centre for their expenditure. Such dependence is natural consequence of the enormous command enjoyed by the Centre over relatively larger and expanding revenue resources. Massive indebtedness of States had led to a kind of creditor-debtor relationship between Centre and States breeding a sense of irresponsibility among the borrowing States. In a sense, the position of dependence on the Centre has suited the States well. It has enabled them to avoid taking unpopular tax measures and to attribute their inefficiency and failure to the Centre.

By 1983, Centre-State relations were almost at a breaking point — with Khalistan demand for a separate Sikh state, and Southern States forming a regional council, and so on. It was to settle this problem once and for all that Central Government appointed the Sarkaria Commission, with comprehensive terms of reference covering constitutional, legislative, financial and administrative aspects of Centre-State relations.

The Sarkaria Commission submitted its report to the Government in January 1988. According to the Commission, it is necessary to preserve unity and integrity of country and accordingly, the Commission has rejected various suggestions made before it either to reduce the functions of the Centre or else modify them. The Commission has rejected the suggestion of transfer of subjects like preventive detention, education, labour and electricity to the state list or concurrent list on the ground that it would disturb basic scheme of the Constitution. The Commission has called for a process of consultation by Centre of all concurrent subjects. It has also made a strong case for inter-state councils, for retention of National Development Council (NDC) and for activisation of zonal councils.

In the financial sphere, the Sarkaria Commission has favoured the amendment of the Constitution to provide for sharing of corporation tax between the Centre and the States but has rejected all other suggestions for enlarging the divisible pool. The Commission has also rejected suggestion that devolution of funds from Centre to States should be automatic. The Commission recommended setting up of expert committees to scrutinise taxation reforms and resource mobilisation to study in depth the agricultural income tax and to review the loangrant pattern. The Commission has accepted that present division of functions between the

Finance Commissions and the Planning Commission as reasonable and that it should continue.

However, it has suggested that the terms of reference of the Finance Commission should be drawn up in consultation with the State Governments. Finally, the Commission has recommended legislation to levy consignment tax and constitutional amendment to enable levy of tax on advertisements in broadcasting.

The Central Government has not accepted all the recommendations of the Sarkaria Commission. In any case, the Sarkaria Commission's recommendations are not last word on the question of Centre-State relations. The question is still wide-open. However, on the question of Centre-States financial relations, States welcome one recommendation of the Sarkaria Commission — *viz*., the inclusion of corporation tax in the divisible pool. This has been a long standing demand of the States before every Finance Commission till now. The Central Government has not accepted this important recommendation because of its own heavy revenue deficits in the last few years.

The Tenth Finance commission (1995) has suggested a vertical devolution of all control taxes and has recommended constitutional amendment to that effect. If this recommendation was accepted, much of the conflict between centre and states would disappear.

4.6 RAJAMANNAR COMMI TTEE ON CENTRE- STATE RELATI ONS

The DMK Government of Tamil Nadu appointed a Committee under the Chairmanship of Dr.P.V. Rajamannar (former Chief justice of Madras High Court and Chairman of the Fourth Finance Commission) to go into the whole gamut of Centre-State relations and to suggest measures to make State autonomy real and purposive. The Rajamannar Committee submitting its report in May 1971 came out with a string of far-reaching recommendations aiming at autonomy of the State consistent with the integrity of the country.

The Rajamannar Committee recommended that the base of devolution of revenues to States need be widened by including corporation tax, customs and export duties and a tax on the capital value of assets in the divisible pool to be shared by Centre and States. In other words, 80 per cent of the Centre's tax revenue were recommended to be brought into the divisible pool.

The Committee suggested that surcharge on income tax should be merged with basic rate of income tax so that it could be shared with the States. In future, the Committee opined that no surcharge should be levied except with the consent of a substantial majority of the States. All excise duties and cesses (special, regulatory or otherwise) which were shareable at the option of the Union should be made compulsorily divisible. Additional excise duties should be continued only with the concurrence of the States. Even if States abolish the additional duties of excise and replace them by sales tax, restrictions imposed on the levy of sales tax by Sections 14 and 15 of the Central Sales Tax Act, 1956, regarding rate and stage of levy should be totally repealed. The Committee recommended that Article 87 of the Constitution which restricted power of the States to levy taxes on electric power consumed by or sold to the Union Government and the Railways should also be omitted. Regarding Central grants to the States, the Committee recommended that such grants should be made only on the recommendation of an independent and impartial body like the Finance Commission or a similar statutory body.

Though recommendations relating to financial relations were most important of the Committee's report there were other equally important recommendations such as:

1. Abolition of the Planning Commission and its reconstitution as a statutory body.
2. Setting-up of a permanent Finance Commission with its own secretariat.
3. English to function as a link language between the Centre and the States.

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4. Industrial licensing to be vested with States except for large companies of national importance.
5. Inter-State water disputes to be settled by the Supreme Court.
6. Representation to all regions in the Central Cabinet.
7. Setting up of an Inter-State Council with the Prime Minister as Chairman and all Chief Ministers as members to take all important decisions affecting more than one State.

The Committee's recommendations amounted to a demand for rewriting many of the basic provisions of the Constitution. The Committee claimed that the fantastically large measure of autonomy suggested by it for the States is consistent with the integrity of the country and will make India an ideal federation. The Committee's argument seems to be that an ideal federal system is one which provides for a weak Centre. This is not true and for a country like India a strong Centre is necessary in the interests of national unity.

As it is, the States already enjoy considerable autonomy. They have exclusive control over such key sectors as agriculture, irrigation and power, education, social welfare, and law and order. The State Governments complaint about inadequate financial resources and their demand for larger taxation powers would sound more reasonable if they had fully exploited the resources they command. They are not only reluctant to tax agricultural incomes but have been abolishing land levies despite the gaping deficits in their budgets. Their financial difficulties thus arise in part from their own lack of political courage. Still the Centre has been sympathetic to their pleas for assistance, and their share of the divisive pool of central taxes has progressively increased over the years. The Rajamannar Committee's suggestion that divisible pool should be enlarged to include in it revenue from export duties, customs and such levies as the corporation tax takes no account of the large financial needs of the Centre. The D.M.K. Government of Tamil Nadu obviously wanted a weak Centre. The Rajamannar Report could not be treated as a prescription for an ideal federal set-up.

Problem of Centre-State financial relations has to be solved keeping in mind certain fundamental facts. In the first place, the unity of the country is of a paramount importance and a strong Centre is absolutely essential. *Secondly;* financial resources must be compatible with administrative responsibilities. States have, therefore, to be provided with more financial resources to enable them to meet their commitments. *Thirdly,* Centre should give up those functions which strictly belong to the states the parallel empires which have been built up in the Centre in agriculture, health, education, police and so on must be removed.

Similarly useless and unproductive expenditures upon democratic institutions, viz., the legislatures, ministries, etc., should be severely curtailed by the States. Fourthly, number of divisible taxes should be increased. *Finally* principles should be worked out for Central assistance in the form of grants.

By 1983, the Centre-State relations were almost at a breaking point with Khalistan demand for a separate Sikh State and Southern States forming a regional council, and so on. It was to settle this problem once and for all that the Central Government appointed the Sarkaria Commission even when the Eighth Finance Commission was functioning. The Sarkaria Commission was given comprehensive terms of reference covering constitutional, legislative, financial and administrative aspects of Centre-State relations.

It is necessary to emphasise that the Union Government cannot function on the usual assumption of a very strong Centre and highly dependent States. Simultaneously, States may not be so correct in

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demanding complete financial autonomy and independence. This, in fact, may not be possible for a number of States. A compromise will have to be worked out so that there is a powerful Centre on the one side and more or less fully autonomous States which do not depend upon the generosity of the Centre, on contray. It may be that the Constitution will have to be amended to this effect.

4.7 REGIONAL BALANCES PLANNING AGENCY AND PERFECT PREPARATION (FOR BALANCED REGIONAL DEVELOPMENT)

Settlement Pattern Objective

A key objective of the Government's strategy is the maintenance of the rural population, not just in terms of aggregate numbers but also in a balanced spatial distribution.

As already indicated, a key finding of the Report of the National Economic and Social Council “Population Distribution and Economic Development; Trends and Policy Implications” (1997), was the influence of urbanisation on settlement patterns in Ireland. The Report noted that there are some important possibilities emerging, mainly at the level of other larger urban centres in all regions, which can be fostered through enterprise policies, infrastructure development, education and training policies and regulatory measures. In terms of a functional hierarchy of towns and settlement, the redefinition of policies along these lines would be cutting with the grain of inevitable patterns of urban centred growth. These centres would stimulate economic activity in their hinterlands and counteract the diseconomies that arise from extremely polarised settlement patterns.

Trends identified in the Report suggest that regional development based on the distribution of a network of urban centres serving and, at the same time, dependent on a dispersed rural community in towns, villages and the countryside in their rural hinterlands, is an essential component of an effective rural development strategy which will facilitate the achievement of a more equitable society and improved social cohesion.

The Government is committed to developing a spatial development strategy which will be consistent with maximising national economic growth while ensuring that all regions benefit. The national spatial development strategy will have a long-term timeframe, will facilitate optimal investment in public infrastructure and will enable the Government to plan for the balanced sustainable development of the country as a whole. The National Development Plan, 2000-2006 will outline the strategy for spatial development.

Regional Planning

The Government will implement the regional approach to development through the following arrangements:

National Development Plan

The National Development Plan, 2000-2006 will enhance the economy’s productive potential contribute to continuing growth in sustainable employment, help the reintegration of the long-term unemployed, and those at risk of becoming so, into the economic mainstream, and contribute to a balanced geographic distribution of economic activity which is consistent with maximising national economic growth.

The Government’s commitment to ‘balanced geographic distribution of economic activity’ and the strategy for rural development outlined in the White Paper, demonstrate the need for policies to

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be linked to targets for population and job creation in rural areas. The National Development Plan, 2000-2006, and related Operational Programmes under the next 'round' of the Structural Funds will reflect the commitments contained in the White Paper. The National Development Plan and Operational Programmes will also provide for regional breakdowns of funding.

Regional Assemblies

The Government has secured the approval of Eurostat to Regionalisation. This involves a change in Ireland's status as a single Objective 1 Region to two regions - an Objective 1 Region comprising the current Regional Authority areas of the West, Border and Midlands and an Objective 1 Region in transition comprising the rest of the country. New Regional Assemblies in each region will be assigned the functions of promoting co-ordination of the provision of public services in their regions and, as specified by the Minister for Finance, manage Operational Programmes under the National Development Plan, 2000-2006. The Regional Assemblies will also retain a significant co-ordinating role in relation to the eight existing Regional Authorities which will remain in place. The Structural Funds allocation post 1999 for the Objective 1 Region and Objective I Region in transition will be ringfenced for spending within each region. In addition to the national Operational Programmes, there will be a separate regional Operational Programme for each of the two regions. `

The priorities in the national Operational Programmes will vary in each of the two new regions in order to reflect distinctive characteristics and the nature of the problems to be addressed. The diversity within rural areas, as well as between them, illustrates the difficulty in designing effective rural development policies at national level. The approach to regional development which is reflected in the establishment and functions of the Regional Assemblies will ensure a more appropriate integration between regional needs and national, sectoral policies.

Regional Authorities

The Regional Authorities have an important role in a collaborative planning process. This allows them to contribute to the regional strategy in the preparation of the National Development Plan, 2000-2006 and to the creation of a dynamic for confidence and growth on a regional basis.

By continuing to act to promote co-ordination of public services at regional level, in advising the Regional Assemblies and by acting as a consultative forum to the Regional Assemblies, the Regional Authorities will promote the design and delivery of national policies which are informed by the needs of rural areas and have a specific regional impact, the integration of national policies with specific regional development policies under the National Development Plan, 2000-2006, and the effective co-ordination of national and regional policies together with the local and area-based strategies drawn up by the County Development Boards in the region.

In the context of physical planning, the proposed Planning and Development Bill, 1999, which is currently being drafted, will give power to Regional Authorities, in co-operation with local planning authorities, to develop strategic planning policies for their regions and to draw up Regional Planning Guidelines to deal with issues which extend beyond the local level.

County Development Boards

The County Development Boards which are being established following the decision by Government to implement the recommendations of the Task Force on the Integration of Local Government and Local Development Systems (1998), will also make a substantial contribution to the integration of policies, in this case at county level. The Boards, when established, will comprise a

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partnership of local government, local development bodies, the social partners including the voluntary and community sector and representatives of relevant State Agencies at local level.

The key contribution which County Development Boards will make to the objectives will be through the preparation of a County Strategy for Economic, Social and Cultural Development. The Strategy, which will be developed by the County Development Boards in consultation with, and with the participation of, local authorities, State Agencies, Government Departments, local development bodies and the social partners, including the voluntary and community sector, will set out a comprehensive blueprint which will guide all public sector plans for the county. The Strategy will be an essential element in articulating and implementing the proposals in the White Paper.

Preparation of the County Strategy will facilitate more informed local decision making, maximise organisational effect and resources and exploit and build upon the strengths of the local government, the local development structures and the State Agencies operating locally in responding to local needs and in harnessing local effort. The exchange of information, ideas and experience and the identification of good practice through networking is an important feature of rural development. Networking arrangements will be introduced between County Development Boards and, where appropriate, within counties, at local authority Area Committee level.

State Agencies

The implementation of sectoral policies impacting on rural areas under the responsibility of a range of Government Departments and State Agencies will continue. The linking of local priorities with sources of funding is particularly important given that the predominant flow of public funds to rural areas follows a sectoral rather than an area-based route. However, economic and social conditions in rural areas vary and the strategy set out in the White Paper provides for a rural dimension to all Government policies to ensure that they are sensitive to regional and rural needs. It is vital that the important contribution of the State Agencies to economic and social development is incorporated into a coherent response to regional development.

In accordance with the strategy for regional development, State Agencies, as appropriate, will publish regional development plans. The plans will be based on the areas of the Regional Authorities and will set out targets and performance indicators for the programming period under the National Development Plan, 2000-2006. The regional development plans of the State Agencies will be integrated with the plans and strategies which are drawn up by the Regional Assemblies, the Regional Authorities and the County Development Boards to encourage and facilitate economic and social development.

Investment Incentive

As part of the policies to support regional development, the Government is committed to examining the role of tax incentives for rural renewal in attracting investment and in revitalising rural areas. There is also role for promoting Public Private Partnerships.

Consideration of proposals in the area of tax incentives will be carried out in the context of evaluation of the success of the Rural Renewal Scheme. The new Town Renewal Scheme will also help to attract investment and revitalise rural areas over the next three years. Any new regime will, of course, have to operate within the constraints imposed by compliance with EU requirements in relation to competition policy and State Aids.

A range of incentives in the form of grant aid and other supports to investment in rural areas will continue to apply under the National Development Plan, 2000-2006. Regional development policy

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constitutes a complex range of policies and interrelationships between urban and rural areas. The arrangements outlined above will operate within a framework for spatial development for economic growth, social cohesion and environmental sustainability which will be prepared in the context of the National Development Plan, 2000-2006, ensure cross-compliance between programme implementation and spatial planning objectives,ensure the integration of the plans and strategies of the State Agencies, County Development Boards, the Regional Authorities and the Regional Assemblies to facilitate coherent and consistent regional development, and allow rural and regional specific sustainable development options to be pursued in the context of national policies.

Infrastructure

The provision and maintenance of an adequate level of infrastructure is central to the economic and social development of rural areas and to the achievement of balanced regional development. A modern infrastructure is essential if rural areas are to compete effectively for inward investment and remain competitive for existing and new indigenous enterprise. It also contributes to making rural areas attractive places in which to live and work.

The Government is committed to providing, within a strategic framework, the range of modern infrastructure in rural areas which will promote sustainable economic growth and the maintenance of the rural population.The Government will support, through funding under the National Development Plan, 2000-2006 a programme of investment in infrastructure, including roads, rail, sewage, water, telecommunications and transport, in support of the regional development approach in the White Paper. All options for ensuring that investment in infrastructure takes place will be explored, including joint initiatives between the Government and the private sector.

The institutional arrangements outlined will ensure that investment in infrastructure provision and maintenance will be planned in a co-ordinated manner so as to create economies of scale and scope in rural areas.

Access to Services

Social justice demands that rural communities be treated equitably in the provision of public services. The Government is committed to providing essential public services in rural areas to ensure a proper environment for economic development, promote social inclusion and support dispersed, viable rural communities.

In "A Government Strategy for Services", (1997), the Government set out its objectives for the services sector as the establishment of a competitive business environment within which enterprise and innovation would be facilitated. The main elements of the strategy are an emphasis on competition policy, removal of unnecessary regulatory burdens, a more competitive telecommunications environment and enhancement of the skills base.

However, rural areas often present difficult problems in service delivery due to diseconomies of scale arising from dispersed or small populations. In more remote areas, in particular, innovative solutions must be found to the provision of essential services.

In 1996, arising out of the recommendation of the NESC contained in "New Approaches to Rural Development" (1994), the Government launched a Pilot Programme for the Delivery of Integrated Public Services in areas of declining and dispersed population. The object of the pilot programme was to develop models for the integrated delivery of public services and to test the hypothesis that public service delivery could promote rural renewal.

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The experience gained in the Pilot Programme for the Delivery of Integrated Public Services in relation to design and planning at the level of State agency or public body, integration and co-ordination by State Agencies at the delivery stage, and the possibilities afforded by co-operation between the public bodies and rural communities will be brought to the attention of all publicly funded bodies for examination in the design and delivery of all public services. In addition, a Code of Good Practice will be prepared for consideration by all State Agencies and public bodies and for application in the preparation of County Strategies by the County Development Boards in the context of public service delivery.

In recent years, the Department of Social, Community and Family Affairs has extended considerably the range of services which it provides. These services include Voluntary and Community services, Money Advice and Budgeting Service, Back to Work and Education initiatives. Along with the traditional services of the Department, these services are provided through an extensive network of local offices. The Department aims to foster a more integrated approach to service delivery and information provision which will ensure access to a wide range of services at the first point of contact. Closer working relationships have been developed at local level with the Health Boards, Revenue Commissioners, FÁS, local authorities and the network of Citizens Information Centres. Local initiatives to co-locate and co-ordinate services are currently being piloted in a number of locations.

Local authorities are also decentralising increasingly the delivery of their services to the main urban centres in their areas and are developing 'one-stop-shops' in these locations for the delivery of a range of public services. This trend is being encouraged by Government and is assisted by significant financial support by the Minister for the Environment and Local Government.

Insofar as local service provision is concerned, the preparation of the County Strategies by the County Development Boards will provide considerable opportunities to identify and assess local needs in a partnership approach between service providers and the local community, respond to priorities, establish close liaison between the public agencies and between the agencies and the community, and develop models for integrated public service delivery. These arrangements will ensure that quality, comprehensive State services will be available in rural areas.

In the context of the Government's overall commitment to investment in the provision of essential public services in support of rural communities, the following areas are highlighted

Information and Communications Technology (ICT)

Information and Communications Technology is opening up enormous possibilities for business, social and cultural interactions between enterprises, communities and people. The rapid development of Information and Communications Technology and increasing convergence with the telecommunications and broadcasting sectors hold short-term prospects of very positive benefits and can act as a catalyst for the development of rural areas. E-commerce is creating revolutionary change in how business is conducted.

Ireland's development as an Information Society in moving ahead rapidly. The provision of nation-wide access to new services such as the Internet means that those living in rural areas will be on an equal footing *vis-à-vis* their urban counterparts and will be able to participate fully in the Information Society. For the purposes of enterprise development, the disadvantages traditionally associated with a remote geographical location can be substantially redressed. However, without the necessary investment, rural areas will be at a serious disadvantage in availing of development opportunities.

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The provision of broadband or high speed telecommunications facilities, in particular, will facilitate the regional distribution of new services in the rapidly developing e-commerce sector. The enormous success which Ireland has enjoyed in the development of telemarketing can now be replicated in relation to e-commerce activities provided over the Internet both through the attraction of inward investment and in the development of new indigenous business activities. There is already evidence that indigenous businesses throughout the country are addressing a global market through an effective presence on the Internet.

The dispersal of Information and Communications Technology to rural areas and the exploitation of its potential will not happen without public support. The provision of services necessitates the development of the requisite infrastructure including fibre optic cable networks and structures for the development of wireless technologies. However, policy must recognise technology as an important contributor to development rather than as a factor which will lead rural development in its own right.

Liberalisation is generating keen competition with lower tariffs and greater investment in high-tech infrastructure. There is on-going development of Ireland's broadband 'backbone' network and investment in the enhancement and extension of the network in order to meet anticipated requirements.

The Government is committed, in the context of the overall policy framework, to ensure that the necessary physical and telecommunications infrastructure is provided to enable existing and new high growth business to thrive. Incentives will be provided for investment in Information and Communications Technology related enterprise activity and comprehensive responses to education and training needs will be developed in order to enable rural communities to avail of employment opportunities in new and existing enterprises and also in new forms of work.

One of the priorities of Enterprise Ireland and IDA Ireland is to encourage the development of e-commerce activities and the take-up of Information and Communications Technology. Enterprise Ireland offers a wide range of supports to firms in the software and international services sector while IDA Ireland is targeting overseas e-commerce, multimedia and other related sectors with a view to attracting suitable companies and establishing digital projects.

Over time new technologies and the industries they support will become increasingly important and sectors of the economy such as manufacturing, agriculture and aquaculture will benefit from the application of knowledge intensive production, processing and organisation.

Technology Foresight is a process for identifying technologies and the critical strategic decisions which are required to achieve the greatest economic and social benefit. Technology Foresight Ireland was carried out on the basis of analysis of eight sectors, many of which, including Natural Resources (Agri-food, Marine and Forestry), are of crucial importance to the future of rural communities. The ICSTI will be pursuing the recommendations and the strategic issues arising from each of the eight individual panel reports with the relevant Departments and State Agencies.

The Government remains committed to the retention of the post office network and to its use for the delivery of the most comprehensive range possible of State services to all citizens. Delivery of social welfare payments will continue to be a substantial element of the services provided by post offices in the future. The Government has decided also to develop the Post Office network to provide a "one-stop-shop" service and an Interdepartmental Committee has been established to further this programme.

Transport

While an extensive public transport system operates in Ireland, there are many areas where services are not available due to low population density. The absence of an adequate public transport service in all areas means that transport is a major contributing factor in marginalisation. Its availability plays an increasingly important role in accessing services such as healthcare and in the social integration of people living away from service centres. Given the low and dispersed population of many rural areas, innovative approaches to transport provision are required and a structured approach is necessary to apply solutions at a local level.

Considerable work has been undertaken in recent years by the Area Partnerships and the Community Groups funded by Area Development Management Ltd. (ADM) in operating pilot schemes for the provision of local transport services and in identifying community based responses to the provision of a transport service where public transport is not available. This work is being co-ordinated by Area Development Management Ltd. under the Local Development Programme under the Operational Programme for Local, Urban and Rural Development, 1994-1999, and a number of models have been identified which can be applied to most areas.

In the preparation of the County Development Strategy, each County Development Board will carry out an audit of local transport needs and services as a priority and will identify, with the relevant partners, the most appropriate co-ordination and delivery mechanism to ensure effective local transport provision in its area.

In the context of funding proposals under the National Development Plan, 2000-2006, to up-grade public transport, the Government will have specific regard to transport requirements to support rural development in order to reflect fully the “rural proofing” principles set out in the White Paper.

Housing

To achieve the aim of a balanced rural population, planning policy should, as far as possible, facilitate people willing to settle in rural areas, especially those wishing to remain in their own areas of origin. At the same time as respecting the aspirations of the rural community, planning policy must be sensitive to the conservation of the rural environment, including preservation of natural beauty spots and natural habitats.

Local authority development plans set out the physical planning framework for their areas. The Strategic Policy Committees which have been established within the local authority structure and the County Development Boards through the preparation of the County Strategies will facilitate linkages between the economic, social and physical planning processes. The new structures will assist in resolving conflicts and in ensuring a more sustainable and inclusive approach to planning, housing and other land use issues. The County Strategy will have regard to the land use and zoning objectives set out in the County Development Plan of the local authority which should facilitate integrated land use and zoning objectives through encouraging the location, for instance, of commercial and residential development around existing towns and villages where water and sewage facilities can be provided. By the same token, the County Development Plan should be informed by the Strategy.

To meet expanding needs and to help deliver local authority housing more efficiently, the Government has introduced a four year multi-annual local authority housing programme. This programme involving the provision of 22,000 additional local authority houses will be equivalent to an increase of over one fifth of the existing local authority housing stock. The Government is also committed to increasing voluntary housing output and is currently working towards achieving an output target of 4,000 to 5,000 houses per annum. This increase in social housing provision will have a substantial impact on lower income households in rural areas.

The Government recognises that there are areas where particular factors such as strong demand for holiday homes may be creating an affordability gap for house purchasers. The new Affordable Housing Scheme is targeted primarily at major urban centres and their hinterlands. However, provision has been made under the scheme to allow local authorities, where they are satisfied that an affordability gap exists in an area due to factors such as demand for holiday homes, to provide an affordable housing scheme in those areas.

The following key areas will also be addressed:

1. Local authority housing and support for social housing will encourage developments in villages and small towns which enable people to live in, or as close as possible to, their own areas; local authorities will continue the programmes currently available which are targeted at assisting low income and other households to secure necessary improvements in their housing and will continue also to develop strategies aimed at tackling social segregation in housing;
2. Planning for services and infrastructure provision such as investment in sewage treatment and water schemes and serviced land, will favour residential development in villages and small towns; the retention of traditional, vernacular buildings and architecture will be encouraged;
3. Support for rural resettlement programmes will continue on the basis of the evaluation of the outcome of nine pilot programmes being funded currently by ADM Ltd in Area Partnerships and Community Groups.

Childcare

The National Childcare Strategy, Report of the Partnership 2000 Expert Working Group on Childcare (1999), which was published by the Department of Justice, Equality and Law Reform includes a focus on childcare in disadvantaged urban and rural communities. The Report states that, in general, there is a low level of rural childcare service provision and that less choice is available than in urban areas. Rural services are less able, therefore, to meet the needs of particular groups including women, lone parents, the unemployed and children with disabilities and special needs.

The Government has established an Interdepartmental Committee, chaired by the Department of Justice, Equality and Law Reform, to evaluate, cost and prioritise the childcare proposals in three reports - The Report of the Commission on the Family “Strengthening families for life” (1998), the Report of the Forum on Early Childhood Education (1998) and the Report of the Partnership 2000 Expert Working Group on Childcare - together with the relevant proposals in the Government Programme, An Action Programme for the Millennium. The Interdepartmental Committee will submit recommendations to Government before the end of the year.

Healthcare

Provision of, and access to, healthcare is a key issue in securing the quality of life of rural communities and in the economic and social development of rural areas. At the same time, rural areas, especially those with dispersed population, pose unique challenges for the management and utilisation of services.

The Government is committed to continuing to meet the challenges of healthcare service provision in rural communities. The availability of health services at locations and in settings that are designed to meet the needs of local rural communities involves, in many instances, the upgrading of local health centres and, where appropriate, the provision of new facilities. Such projects will continue to attract priority support from Health Boards and the Department of Health and Children.

There is a need, also, to improve significantly community support structures for vulnerable groups, such as the elderly, particularly those living in isolated areas. These services include the provision of day care centres with adequate transport, home help services, paramedical services at home and in the community as well as improvements in community care nursing and social work services dedicated to vulnerable persons or special needs groups.

The provision of Primary Care Services is of key importance in rural communities given that general practitioners are most frequently the first point of contact between the rural community and healthcare providers. The provision of an appropriate general practitioner service to rural areas is a key issue that the Primary Care Units of Health Boards are required to address on an ongoing basis. Equally, grant aid will be targeted to ensure that such practitioners are wholly supported in terms of developing their premises and increasing, beyond general practice alone, the range of services they offer in their communities.Information and Communications Technology has the potential to make an enormous contribution to the delivery of the health services in rural areas. Accordingly, the role of information technology will be evaluated fully and utilised, on an on-going basis, to ensure that the effects of geographic isolation are minimised in terms of communication and consultation between healthcare professionals. The ultimate objective is in improving access to services both for the practitioner and the patient. In this regard, support and training for healthcare professionals in IT matters will be provided in rural areas.

Given their regional basis, the Health Boards are ideally positioned to have regard to the particular demographics of their areas and to manage the provision of services both in accordance with the needs of their population and in the context of overall national goals. The Boards will continue to build links with the communities they serve together with the voluntary and other groups that reflect the desires and concerns of those communities.The Government is also committed to developing multi-sectoral partnerships at local and national levels in the area of environmental health.

Information

Distance is measured in spatial terms but it also includes remoteness in terms of access to information, particularly among the marginalised sections of the community.A wide range of Government Departments, State Agencies, public bodies, local authorities and local development bodies contribute to the economic and social development of rural areas through the implementation of a wide range of programmes. Service provision at local level is an important resource in rural communities from the point of view of facilitating access and information. The Departments of Agriculture and Food and of Social, Community and Family Affairs, in particular, have extensive networks of local offices throughout the country while the delivery of healthcare and education also have a strong local presence. Decentralisation of administration and service provision, which has been an important element of Government policy over several years, also provides employment and generates economic activity in rural areas.

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4.8 SUMMARY

1. Federalism in India describes the distribution of legal authority across national, state and local governments in the nation of India.
2. The division of powers are defined by the constitution and the legislative powers are divided into three lists: Union list, State list and Concurrent list.
3. Central government always possesses surplus revenue owing to control over more elastic sources of revenue. There occurs a situation of greater expansion of financial resources of central government, and shrinking of resources bases of state and local governments, coupled with increasing responsibilities of state and local governments due to growth of welfare activities.This type of resource gap between the centre states is called vertical fiscal imbalance.
4. Distribution of resources in all federations aims at providing fiscal independence to all governments.
5. Some of the essential methods of adjustments of Federal Finance are: 1. Tax Sharing 2. Reallocation of Functions 3. State Contribution 4. Supplementary Levies 5. Grants-in-aid!

4.9 SELF ASSESSMENT QUESTIONS

1. Explain the term Federal Finance. Explain its importance and problems.
2. What are the fundamental principles governing resource allocation
3. Explain in detail about the important methods adopted to achieve vertical fiscal equality between the centre and regional governments in a federation.
4. Financial arrangement in most federation in fact desirable from both economic and political point of view. Comment.
5. Financial arrangement in most federation in fact desirable from both economic and political point of view

Chapter

5

REGIONAL PLANNING

Learning Objectives

The objectives of this lesson are to:

- Regional Planning
- Capital Formation,
- Capital Stock

Structure:

5.1 Regional Accounts

5.2 Linear Programming

5.3 Input-output Analysis

5.4 Area Planning

5.5 Comparative Cost Studies

5.6 Industrial Complex Analysis

5.7 Cost Benefit Analysis

5.8 System Analysis

5.9 Summary

5.10 Self Assessment Questions

Regional Planning

Regional planning deals with the efficient placement of land-use activities, infrastructure, and settlement growth across a larger area of land than an individual city or town. Regional planning is a sub-field of urban planning as it relates land use practices on a broader scale.it also includes formulating laws that will guide the efficient planning and management of such said regions.

Regions require various land uses; protection of farmland, cities, industrial space, transportation , hubs and infrastructure, military bases, and wilderness. Regional planning is the science of efficient placement of infrastructure and zoning for the sustainable growth of a region. Advocates for regional planning such as new urbanist Peter Calthorpe, promote the approach because it can address region-wide environmental, social, and economic issues which may necessarily require a regional focus.

A 'region' in planning terms can be administrative or at least partially functional, and is likely to include a network of settlements and character areas. In most European countries, regional and national plans are 'spatial' directing certain levels of development to specific cities and towns in

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order to support and manage the region depending on specific needs, for example supporting or resisting polycentrism.

5.1 REGIONAL ACCOUNTS

Brief Background on the Compilation of Regional Accounts

The State Accounts statistics are an extension of the system of National Accounts to the regional level. These comprise of various accounts indicating the flows of all transactions within a time period between the economic agents constituting the State economy and their stocks. These accounts include various items like total output of the economy, the intermediate expenditure, States domestic product, factor incomes, consumption expenditure, capital formation, capital stocks and CFC.

The most important aggregate of the States accounts is the States Domestic Product (SDP) (States income). The States income can conceptually be prepared by adopting two approaches namely, income originating and income accruing. In the income originating approach, the measurement corresponds to income originating to the factors of production physically located within the geographical boundaries of States and represents net value of goods and services produced within the State. The income accruing approach, which relates to the income accruing to the normal residents of a State, provides a better measure of the welfare of the residents of the State. Due to a non-availability of data on inter-State flows of goods and services, compilation of estimates of State income on income accruing concept is not possible. Compilation of other aggregates and State accounts is also problematic, due to the absence of requisite data, particularly on the inter-State flows of incomes. These issues had been gone through by the Committee on Regional Accounts (RAC), set up by the Government in May 1972. The RAC submitted its First Report in 1974 and the Final Report in 1976. In the first report, the RAC recommended a set of Standard Tables mainly to meet the immediate requirements of the policy makers at the regional level. The committee submitted its second and final report to the Government in September 1976. In the final report, the Committee recommended a System of Regional Accounts (SRA) consisting of three consolidated accounts, mentioned below. The reports also describe the concepts, coverage and method of estimation of various aggregates appearing in the Accounts and Standard Tables. Further the reports deal with major gaps in the existing data system and make recommendations for the collection of essential statistics required for satisfactory measurement of regional income and related aggregates and for the construction of the recommended SRA. The committee felt that an accounting framework for the States can be recommended, but there is little point in recommending one for regions smaller than States, like districts.

Consolidated Accounts of the Region

Production account

Income and outlay account

Capital finance account

Household Accounts

Income and outlay account

Total consumption and income of the population

Accounts of State and Local Governments

Production account of State Government Departmental enterprises

Production account of State Government non-departmental enterprises

Income and outlay account of State Government administrative departments and departmental enterprises

Income and outlay account of State Government non-departmental enterprises

Capital finance account of State Government non-departmental enterprises administrative departments and departmental enterprises

Capital finance account of State Government non-departmental enterprises

Status of Implementation of the Recommendations of RAC

The State DESs under the advice/guidance of CSO and Advisory Committee on National Accounts, have been trying to implement the recommendations to the extent that data is available. In brief the progress of implementation of the recommendations of the RAC as follows:

- All the States and UTs, with the exception of D and N Haveli, Daman and Diu and Lakshadweep, are preparing the estimates of GSDP and NSDP at current and constant prices.
- The State/UT of Andhra Pradesh, Assam, Bihar, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal are preparing the SDP estimates by areas (districts) by commodity producing sectors only and out of which the States/UTs of Andhra Pradesh, Bihar, Haryana, Karnataka, Kerala, Maharashtra, Rajasthan, Tamil Nadu, and West Bengal prepare the district estimates for all the sectors. The State of Arunachal Pradesh is in the process of preparing district-level estimates.
- The States/UT of Andhra Pradesh, Bihar, Goa, Gujarat, Himachal Pradesh, Karnataka, Kerala, Maharashtra, Orissa, Punjab, Tamil Nadu, Uttar Pradesh, West Bengal and Delhi are preparing the Economic and Purpose Classification of the Expenditure of Administrative Departments.
- None of the States/UT except Tamil Nadu (that too only at current prices) is known to have been prepared the Consumption Expenditure.
- None of the States are preparing input-out tables.
- The States of Andhra Pradesh, Assam, Gujarat, Haryana, H.P., Karnataka, Kerala, M.P., Maharashtra, Meghalaya, Orissa, Punjab, Rajasthan and Tamil Nadu are preparing the estimates of Gross Fixed capital Formation (GFCF). None of the UTs are preparing the GFCF estimates.
- None of the State/UTs appear to have been preparing the Consolidated Account of the Region and accounts for the Household sector. However, the States of Haryana, Himachal Pradesh, Kerala,
- Madhya Pradesh and Tamil Nadu are preparing the complete accounts of Public Adminstration and Local Bodies. Whereas the States/UT of Andhra Pradesh, Manipur and Rajasthan prepare the accounts of only Public Administration and the States/UT of Gujarat,

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Karnataka, Tripura and Pondicherry are preparing the Public Sector Accounts relating to administrative departments only.

Data Gaps in the Compilation of Regional Accounts

State Domestic Product

For the purpose of compiling the SDP estimates, the major data gaps appear to be the absence of certain key datasets at the State level namely,

Cost of Cultivation Studies for most crops

Index of Industrial Production

Wholesale Price Index

Consumer Price Index

Corporate Sector Statistics

Benchmark Surveys of Enterprises

Annual Surveys of Enterprises

Indicators to extrapolate the estimates based on five-yearly benchmark surveys

Local bodies

State Income, Disposable Income, Saving and Net Lending from Other Regions

The compilation of State income (following the income accruing approach) and other aggregates, requires data on inter-State flows of income and net lending from other regions, besides the estimates of consumption expenditure of households through the NSSO Quinquennial survey and non-profit institutions serving households (NPISH), which are not available even at the All-India level. At this juncture it may be difficult to collect the data on these items, with the exception of the consumption expenditure of households and NPISHs. Even for this aggregate, the approach followed for the All-India estimates (the commodity-flow) may not hold good at State level, as this approach again requires inter-State movement of goods and services.

Capital Formation, Capital Stock and Consumption of Fixed Capital

Currently, some States are compiling estimates of Gross Fixed Capital Formation (GFCF) by assets and industry for the public sector, while three States are also compiling the GFCF estimates for the Whole State economy. Since estimates of construction and machinery equipment are already compiled for the SDP estimates, it may not be difficult to compile GFCF estimates at State level, with certain assumptions. The CSO has provided necessary technical guidance from time to time on the compilation of GFCF at the State level. Once the States start compiling the GFCF estimates, a database on this could be developed, which in the long run, will be used for compiling the estimates of capital stock and CFC.

Guidelines for Bridging the Data Gaps in Regional Accounts:

Cost of Cultivation Studies: The Cost of Cultivation Studies (CCS) is conducted by the Directorate of Economics and Statistics, Ministry of Agriculture (DESMOA) through the agricultural universities. The number of crops covered in each State is very few and the sample size (about 10,000) is too small to give reliable estimates. The time lag in the release of the results of these studies is of the order of 3 years. For generating the input structure of different crops in each State and UT, it would be desirable to conduct large-scale sample surveys on inputs of agricultural crops, by State

Directorates of Economics and Statistics rather than the current practice of "studies". This would enable coverage of most crops in all the States, a manifold increase in the current sample size and a reduction of the time lag in releasing the estimates with the help of computerisation.

Index of Industrial Production: Most States and UTs do not have a database on the industrial production in their States. The Annual Survey of Industries (ASI) is the only source of data on industrial activity in the States. As the ASI is annual and the time lag in the availability of its results being about two years, there is no data on the current industrial production scenario at State level. While there is an Index of Industrial Production (IIP) at the National level, the absence of a corresponding index for the States is a major data gap. The development and maintenance of an IIP by each State and UT would lead to an enormous improvement in the State Domestic Product estimates. The State/UT IIP could be used to prepare the Advance and Quick Estimates of SDP and would also act as a crosscheck to the ASI results. The States could consider using the frame/database of Directorates of Industries or/and the Central Excise or Sales Tax authorities. While the weights for different industry/commodity groups at State level could be taken from the ASI results, the monthly production figures collected either directly or from the database of the Central excise authorities, from a fixed sample (with suitable adjustments for new units, information on which is available with the above mentioned two organisations) would enable the States to have an IIP for their States.

Consumer Price Index: Most States publish State-level Consumer Price Indices (CPI). All-India CPI for industrial workers and urban non-manual employees are based on CPI for various centres in the country from which price quotations are collected for this purpose. It is desirable for the States to review existing CPI or introduce State-level CPI (where none exists today) for the purpose of estimation of the State domestic product.

Corporate Sector Statistics: For most services sectors, the GDP estimates are derived separately for the corporate sector, on the basis of the RBI's company finance statistics. The same source is also used for generating domestic product estimates for the corporate sector segment at the State level. However, the size of the sample is considered too small even at the National level to give reliable estimates at industry-group level. At the State level, the estimates are not considered scientific even at the aggregate level, much less at the sectoral level. If States manage to compile corporate statistics (the number of corporations may not be many in a single State) on the basis of the frame available with the Regional Registrars of Companies, even once in five years, the quality of SDP estimates will considerably improve.

Benchmark Surveys of Enterprises: Benchmark sample surveys of enterprises have been conducted about once during five years by Central Statistical Organisation (for directory enterprises) and National Sample Survey Organisation (for non-directory enterprises). A decision has been taken that the NSSO will carry out sample surveys for both sets of (manufacturing and service) enterprises. The States participate in these surveys with a matching sample. The results generated by NSSO are not designed to yield estimates of the State/industry group at the State level. If the Central and State samples could be pooled (copies of the filled-up NSSO schedules could be obtained from the NSSO Regional Offices located in the States) and analysed by the States, there would be a significant improvement in the quality of the SDP estimates that are based on these benchmark surveys.

Annual Surveys of Enterprises: The major data-gap in the Gross Domestic Product or the State Domestic Product estimates is considered to be the absence of annual surveys of enterprises (with the exception of registered manufacturing). This has also been so identified by the Regional Accounts Committee (RAC) in 1970s. However, due to various reasons (particularly attributable to lack of resources), the annual surveys of enterprises have not found a place in the statistical system of the country. However, it would be desirable to conduct these annual surveys of enterprises by using a fixed sub-sample of the benchmark sample (such a recommendation was also made by the RAC) and collecting information on about five items namely, employment, production/total receipts, salaries and wages, capital expenditure and changes in stocks. The problem of exits of the enterprises could be overcome by assuming that the proportion of exits in the fixed sample and the population is the same. For the new enterprises, which come into existence, a correction factor could be applied on the basis of information on the number of enterprises (for any segment of the enterprises for which such information is available) starting economic activity in the State, from the State Directors of Industries or the District Industries Centres.

Indicators to Extrapolate the Estimates Based on Five-Yearly Benchmark Surveys: Currently, for the purpose of preparing annual Gross Domestic Product and State Domestic Product estimates on unorganised manufacturing and services sectors, various physical indicators of activity are used to extrapolate the benchmark estimates (for example, in the case of unregistered manufacturing, the Index of Industrial Production). However, it is essential to have a reliable set of proxy indicators and ensure that data are available on them on annual basis. The introduction of annual surveys on enterprises, stated in the above para, would generate the database required for extrapolating the benchmark estimates.

Local Bodies: There are a large number of local bodies in each State and since they get grants from the State budgets and also generate their own resources (for example, municipalities), it is necessary that their budgets/accounts are analysed and expenditures properly accounted for in the State Domestic Product/Gross Domestic Product estimates, as also under other expenditure categories of National Accounts. Currently the estimates of local bodies are prepared on the basis of grants shown in the State budgets, which implies that resources generated internally by these bodies are not covered. At the Central Statistical Organisation (CSO) level, it is not possible to analyse the annual budgets of these local bodies' and efforts have to be initiated only at the State level. Appropriate inclusion of local bodies' expenditures in the State accounts will reflect a correct picture of the public sector component.

Capital Formation, Capital Stock and Consumption of Fixed Capital: The State Directorate of Economics and Statistics should start compiling the estimates of Gross Fixed Capital Formation (GFCF), on the basis of the guidelines provided by the Central Statistical Organisation (CSO) from time to time. Once the States start compiling the GFCF estimates, a database on this could be developed, which in the long run, would be used for compiling the estimates of capital stock and CFC. State DES may examine the guidelines in consultation with CSO for the compilation of capital formation, capital stock and CFC.

Appointment of Expert Groups: For developing the State accounts as recommended by the Regional Accounts Committee (RAC), it is necessary that an Expert Group is appointed in each of the States. These Expert Groups would oversee the methodological aspects of the compilation of State accounts and make suitable recommendations to the State Governments and also the Advisory Committee on National Accounts, from time to time. The States of Karnataka and Rajasthan have recently constituted Expert Groups to look into various aspects relating to the improvement of estimates of SDP and expenditure aggregates. Such expert groups must be constituted by other States as well. At present, the CSO looks after these issues in consultation with the Advisory Committee on National Accounts in respect of both National and State Accounts.

Need for Resources: Improvement in the quality of SDP estimates and other aggregates requires the introduction of various surveys and the development of database, besides the availability

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of adequate trained personnel. All these require resources. Importance needs to be attached to State income estimates. Without providing adequate resources, it may not be feasible for the States to come up with improvements in the State income estimates. In most States, only a skeleton contingent of staff have been given the responsibility of compiling the SDP estimates, which barely manages to put together the annual estimates. The State Income Units in various States must be augmented with qualified personnel. This could be done by the DESs by re-deploying the staff appropriately.

District Domestic Product: There has been an increasing demand for the estimates of the District Domestic Product (DDP) below the State level in the context of calculating district level Human Development Index (HDI). The Commission would like to point out that: (a) the DDP estimates, wherever currently available, cover mostly major agricultural crops only or at best commodity producing sectors covering agriculture and industry because of problems of data availability at the district level; (b) that available DDP estimates are calculated by income-originating (by sector of origin) method; (c) that conceptually, for HDI, what are needed are DDP estimates by the income accruing method in order to reflect district-level living standards; and (d) that currently available data do not permit calculation of DDP by the income-accruing method. It would be desirable to develop some appropriate indicators of the living standards at the village/block/district level. Techniques of small area statistics may be used to estimate these indicators on the basis of State/regional level statistics capabilities.

5.2 LINEAR PROGRAMMING

Please refer chapter 2 of this book.

5.3 INPUT-OUTPUT ANALYSIS

Please refer chapter 2 of this book.

5.4 AREA PLANNING

The purpose of the Area Planning process is to implement the Department's Schools for the Future: A Policy for Sustainable Schools, known as the Sustainable Schoos Policy.

The SSP does not apply to pre-school or Special Education provision. However, Area Planning applies to primary, post-primary and special schools and ensures that provision is planned strategically to deliver sustainable, high quality education to all pupils.

The purpose of the policy is to ensure that children and young people have access to high quality education that is delivered in schools that are educationally and financially sustainable. The Education Authority, as statutory planning authority, has overall operational responsibility for planning of education provision and liaises with the Council for Catholic Maintained Schools (also having a statutory planning role) and representatives of other school sectors to embed a unified cross-sectoral approach to Area Planning.

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5.5 COMPARATIVE COST STUDIES

Comparative advantage is an economic term that refers to an economy's ability to produce goods and services at a lower opportunity cost than trade partners. A comparative advantage gives a company the ability to sell goods and services at a lower price than its competitors and realize stronger sales margins.The law of comparative advantage is popularly attributed to English political economist David Ricardo and his book "Principles of Political Economy and Taxation" in 1817, although it is likely that Ricardo's mentor James Mill originated the analysis.

5.6 INDUSTRIAL COMPLEX ANALYSIS

The objective of industrial complex analysis is to estimate the cost advantages of various combinations of industrial activities for a region in order to identify its most favorable development projects. this type of analysis has been carried out for Puerto Rico in which petroleum refining, petrochemical, fertilizer and synthetic fiber production are considered.

The method of analysis is an extension of input-output or interindustry analysis called activity analysis. In activity analysis a process may produce more than one output and there may be more than one process that produces a given output. In input-output or interindustry analysis there is a one-to-one correspondence between processes and products. In activity analysis, because there may be more than one technique for producing a good, there can be trade offs, such as between labor and capital, in producing a good.

5.7 COST BENEFIT ANALYSIS

Cost-benefit Analysis (CBA) is a technique used to compare the total costs of a programme/project with its benefits, using a common metric (most commonly monetary units). This enables the calculation of the net cost or benefit associated with the programme.

As a technique, it is used most often at the start of a programme or project when different options or courses of action are being appraised and compared, as an option for choosing the best approach. It can also be used, however, to evaluate the overall impact of a programme in quantifiable and monetised terms.

CBA adds up the total costs of a programme or activity and compares it against its total benefits. The technique assumes that a monetary value can be placed on all the costs and benefits of a programme, including tangible and intangible returns to other people and organisations in addition to those immediately impacted. As such, a major advantage of cost-benefit analysis lies in forcing people to explicitly and systematically consider the various factors which should influence strategic choice.

Decisions are made through CBA by comparing the Net Present Value (NPV) of the programme or project's costs with the net present value of its benefits. Decisions are based on whether there is a net benefit or cost to the approach, i.e. total benefits less total costs. Costs and benefits that occur in the future have less weight attached to them in a cost-benefit analysis. To account for this, it is necessary to 'discount' or reduce the value of future costs or benefits to place them on a par with costs and benefits incurred today. The 'discount rate' will vary depending on the sector or industry, but public sector activity generally uses a discount rate of 5-6%. The sum of the discounted benefits

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of an option minus the sum of the discounted costs, all discounted to the same base date, is the 'net present value' of the option.

5.8 SYSTEM ANALYSIS

System analysis as "the process of studying a procedure or business in order to identify its goals and purposes and create systems and procedures that will achieve them in an efficient way". Another view sees system analysis as a problem-solving technique that breaks down a system into its component pieces for the purpose of the studying how well those component parts work and interact to accomplish their purpose.

The field of system analysis relates closely to requirements analysis or to operations research. It is also "an explicit formal inquiry carried out to help a decision maker identify a better course of action and make a better decision than she might otherwise have made.

The terms analysis and synthesis stem from Greek, meaning "to take apart" and "to put together," respectively. These terms are used in many scientific disciplines, from mathematics and logic to economics and psychology, to denote similar investigative procedures. Analysis is defined as "the procedure by which we break down an intellectual or substantial whole into parts," while synthesis means "the procedure by which we combine separate elements or components in order to form a coherent whole." System analysis researchers apply methodology to the systems involved, forming an overall picture.

System analysis is used in every field where something is developed. Analysis can also be a series of components that perform organic functions together, such as system engineering. System engineering is an interdisciplinary field of engineering that focuses on how complex engineering projects should be designed and managed.

5.9 SUMMARY

1. A 'region' in planning terms can be administrative or at least partially functional, and is likely to include a network of settlements and character areas.
2. The most important aggregate of the States accounts is the States Domestic Pproduct (SDP) (States income).
3. The State Directorate of Economics and Statistics should start compiling the estimates of Gross Fixed Capital Formation (GFCF), on the basis of the guidelines provided by the Central Statistical Organisation (CSO) from time to time.
4. Comparative advantage is an economic term that refers to an economy's ability to produce goods and services at a lower opportunity cost than trade partners.
5. Cost-benefit Analysis (CBA) is a technique used to compare the total costs of a programme/project with its benefits, using a common metric (most commonly monetary units). This enables the calculation of the net cost or benefit associated with the programme.

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5.10 SELF ASSESSMENT QUESTIONS

1. Regional planning deals with the efficient placement of land-use activities, infrastructure, and settlement growth across a larger area of land than an individual city or town. Elucidate.
2. The State Accounts statistics are an extension of the system of National Accounts to the regional level. Justify its contribution in regional planning.
3. Critically explain the concept 'Linear programming'.
4. Critically explain the concept 'Non-linear programming'.
5. Explain the concept in detail 'Input-output analysis'.

UNIT – IV

Chapter

6

PLAN MECHANISM AT NATIONAL AND REGIONAL LEVEL

Learning Objectives

The objectives of this lesson are to:

- Planning at national level:
- Objectives of national planning
- Importance of Planning

Structure:

6.1 Plan Mechanism at National and Regional Levels and their Co-ordination

6.2 Comparative Cost Studies

6.3 Industrial Complex Analysis

6.4 Summary

6.5 Self Assessment Questions

6.1 PLAN MECHANISM AT NATIONAL AND REGIONAL LEVELS AND THEIR CO-ORDINATION

Planning at National Level

In India following five stages of multi-level planning have been recognized. These include:

1. National Level-sectored cum inter-state/inter-regional planning.
2. State Level-sectored cum inter-district/inter-regional planning.
3. Distrcit/Metropolital Level-regional planning.
4. Block Level-area planning
5. Panchayat Level-village planning. These also denote five different phases of change in the policy of planning in the country.

It is pertinent to note that before 1993, the Indian Constitution did not specifically recognise district as a third stratum of planning.

1. National Level

At national level Planning Commission is the nodal agency responsible for the countries planning. The Prime Minister is the Chairman of this Commission.

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It not only prepares Plans for the country but also co-ordinates the sectored development works of different ministries of the central Government, states and union territories. The functions of the Planning Commission are supervised through the National Development Council.

The Planning Commission has been granted constitutional status through 52nd Amendment of the Constitution. No big plan can be executed without its prior approval by the Planning Commission. The Commission formulates three types of plans: (a) Perspective plans for 15-25 years, (b) Five year plans, and (c) Annual plans within the framework of Five Year Plan.

In real sense of the term the perspective planning is of little significance except that it helps in the achievement of long-term socio-economic objectives. The Planning Commission also issues guidelines to the states for perspective planning, monitoring and evaluation of existing plans, plan formulation, regional or district planning and for plan co-ordination.

2. State Level

At state level the mechanism of the planning is almost same of the national level. The state Planning Board acts like national planning Commission and co-ordinates the development plans of different ministries and the districts. It also has the responsibility of the formulation, implementation and monitoring of state plan.

It is in constant touch with Planning Commission regarding the formulation of plans and allocation of resources. Under the federal set up of the country states enjoy autonomy in certain state subjects and play pivotal role in the implementation of planning programmes.

It is at state level that all sorts of economic and social data are available and development plans could be formulated keeping regional interests and demands in mind. Hence, there is a need for more rigorous exercise of planning at state-level.

Those states which are conscious of their responsibility and are showing interest in plan formulation and implementation are displaying better performance in development programmes. Andhra Pradesh case may be cited as an example. Infect the Center and the States are the two principal actors in planning and they should move in unison to achieve the objectives and priorities laid down in the plans.

3. District Level

The concept of the district-level planning is based on the principle of local level planning. It also assumes that success of the planning needs greater mobilization and utilization of local resources. Below the state, district occupies a pivotal position in planning because of its location and administrative advantages.

Not only it has sufficient administrative and technical expertise and good source of data and information to carry out plan programmes but has well-knit system to involve people's participation and make the gains of planning to reach to the grass-root level. Since the British days district has an effective system of administration and a store house of all sorts of information and data.

The District Board consists of elected representatives who can play significant role in the process of planning. Hence, there is a sizeable group of scholars who consider district as an ideal and viable unit of micro- level planning.

It is also argued that Gram Panchayat and Development Block are too small to act as the smallest unit of planning. Also there is complete lack of administrative framework and data collection

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system at these two levels. Hence, there would be a number of difficulties in the formulation and execution of plans at village and block levels.

Although the importance of district-level planning was realized during the times of community development plans but the real breakthrough came with the Third Five Year Plan (1961-66) in which emphasis was laid on the district -level planning to remove inter-district and intra-district disparities and make optimum utilization of natural and human resources at district level.

Infect failure of Community Development Plan also forced our planners to opt for alternative course for decentralised planning and involve local resources and people in the planning process. But despite this suggestion of the Planning Commission, the Indian Constitution did not specifically recognize the district as a third stratum of planning until 1993.

However, states like Maharashtra and Gujarat started allocating district- wise funds from the State's pool to carry on development activities since late '60s. In both these states District Planning and Development Councils functioned under the chairmanship of a Minister of State. Presently District Planning is supervised through Zila Parishad and its Chairman.

Its formulation and implementation are looked after by the District Planning Officer (DPO) or the District Magistrate. In Karnataka and Tamil Nadu district magistrate is the chairman of the Zila Parishad but in Bihar and Uttar Pradesh he participates in its meetings without any voting right. In some other states he acts as an adviser.

Constraints

Despite this elaborate system, the task of preparing a reasonably sound District Plan has not made much headway in the States due to following constraints:

1. Some lurking reluctance on the part of Governments and their sartorial heads to devolve sufficient authority-(administrative and financial) to the planning bodies at the district level.
2. Lack of effective co-ordination at the district level between various agencies involved in the planning exercises.
3. Institutionalised arrangements, for seeking consultation with various participants in the planning process, were either not well established or not sufficiently encouraged and developed.
4. Lack of trained staff, both in terms of number as well as quality. The inadequacy of training was a serious constraint.
5. Lack of appropriate and reduced methodologies for planning, in tandem with the capabilities available at the local level. In this context, the non-availability of trained planning personnel posed a serious problem.
6. Planning without a clear and full understanding of the realities of resource constraints.
7. The database presented its own problems. Although a surfeit of data is available at the local level from numerous sources, yet, appropriate methodologies for selecting the "critical minimum information" for local planning from this mass of data and using the same for some simple analysis for decisionmaking, without going into highly sophisticated techniques, had not emerged,
8. Lack of people's participation in Planning.

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In general, steps taken by different states during 1959 to 1993 to devolve powers and functions on Panchayati Raj bodies were isolated, half-hearted and lacked clear direction. In this context, unless various institutionalized pressure as well as user groups, i.e., "Poly-centric institutions", are developed, the success of the district planning exercise will always be at the mercy of people, who may not be interested in it (Sundaram, 1997).

Attempts have been made to remove some of these constraints through the Constitution 73rd and 74th Amendment Acts of 1992 and the Panchayats Act of 1996. Now the provision has been made for the constitution of a District Planning Committee to consolidate the plans prepared by the Panchayats and municipalities and prepare an integrated development plan for the district as a whole.

4. Block Level

Block is an important unit of micro-level planning. These development blocks were created to supervise the implementation of development plans under the Community Development Programme initiated during the First Five Year Plan. Each district was divided into a number of blocks and each block comprised about 100 villages, with a population of about 60,000.

The programme visualized mobilization of local resources, participation of the people in the decision-making and implementation of the development schemes. Hence, a new unit of planning was created at block-level under the leadership of a block development officer and a team of various specialists and village level workers (officers).

The general supervision of blocks was made by the Block Samith is under the chairmanship of the Block Pramukh and elected representatives. Although the Community Development Programme failed but block continued to become an important unit of micro-le planning below the district. The Fifth Five Year PI) (1978-83) opted for area planning with a preferment for block-level planning for achieving employment I objectives and emphasis on rural development.

The main objective of this planning was to absorb local labour surpluses and greater involvement of people in the formulation and implementation of development plans. Hence, by the end of 1983 adopt system of block-level planning integrated into national system was available. It was built in a fram I of district level planning which was adjusted toll overall State Plan. The State Plan already formspai of the national Plan.

The relevance of block-level planning is base I on the viable areal and population-size, more of to the regional and local problems, easier identification of target groups, optimum utilization of regional/local resources, and greater participation of people in plan formulation and implementation The entire strategy of such planning is based on employment planning, growth centre planning credit planning.

It is an action-oriented planning pertaining to the development of agriculture, irrigation (mainly minor irrigation), soil conservation, animal husbandry, pisciculture, forestry, minor processing of agricultural products, small and cottage industries, creation of local-level infra-structure, and development of social services like water supply, health, education, shelter, sanitation, local transport, and welfare plans.

The entire process of 1 block-level planning passes through seven stages. These include:

1. Identification phase,
2. Resource inventory phase,
3. Plan formulation phase,

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4. Employment plan phase,
5. Areal or layout plan phase,
6. Credit plan phase, and
7. Integration and implementation phase.

The main objectives of such planning include self reliance, solution to the problems of unemployment, removal of socio-economic disparities, creation of skill to promote self employment and self reliance, improvement in productivity and optimum utilization of local resources.

Thus the main focus of such planning is the identification of target group, introduction of development plans to generate employment, popularization of minimum need programmes and implementation of special programmes for weaker section of the society.

With the coming of Janata Government in power in 1977 the bottom-up approach was emphasized in planning. The report on the Working Group (1978) has emphasised following objectives of block-level planning. These include: (i) optimum utilization of the development potentials of the region, (ii) higher proportion of profit to weaker section (small and marginal farmers, land-less agricultural labourers, and rural artisans), fulfilment of minimum needs, construction of socio-economic infrastructural bases to achieve aforesaid objectives, formulation of institutions to check the exploitation of poor people, development of such infrastructural facilities which could generate assets for the interest of poor and weaker section of the society, technological upgrading and skill creation and removal of total unemployment through public works.

5. Panchayat Level

The directive principles of state policy mention the village Panchayat which is an elected body at village level. Village, here, roughly corresponds to a revenue village (or a group of revenue villages). The Panchayati Raj System involves a three-tier structure: village-level, block-level and district level.

The first tier at village level is commobly known as Gram Panchayat (village assembly), the second tier at block-level as Panchayat Samiti and the third tier at district-level as Zila Parishad. According to the provisions of the Panchayats Act 1996 the election to the village Panchyat is held at an interval of 5 years where there is proportionate seat reservation for scheduled castes and scheduled tribes and not less than one-third seats reserved for women.

Through the Constitution Amendment Act 1992 the Panchayat (also called Gram Sabha) has been authorized to look after the preparation and implementation of plans for economic development and social justice on an illustrative list of 29 subjects. The respective state has been given discretionary powers to prescribe powers and functions to the Gram Sabha to act as an institution of self government.

It has also been advised to constitute a District Planning Committee to consolidate the plans prepared by the Panchyats and Municipalities and prepare an integrated development plan for the district as a whole. It has also been directed to constitute a State Finance Commission (SFC) to review every five years, the financial position of Panchayats and to make recommendations about the principle governing the distribution of revenues between the state and the Panchyats, and determination of the grants-in-aid to the Panchayats from the Consolidated Funds of the State.

The implementation of the plan at the Panchayat-level is the responsibility of the Village Development Officer (VDO) and the secretary and is supervised by the Gram Sabha which is headed

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by the Gram Pradhan. Under the existing provisions, funds for the Gram Sabha (Village Panchayat) are directly being allocated from the centre to execute rural development programmes like IRDP, JRY etc.

The Panchayat has also been entrusted with the responsibility for the promotion of agriculture, rural industries, provision of medical relief, maternity, women and child welfare, maintaining common grazing grounds, village roads, tanks, wells, sanitation and execution of other socio-economic programmes.

In some places, they are also authorized to supervise primary education and collect land revenue. Presently, Gram Panchayats are involved in the identification of beneficiaries in antipoverty programmes. There are about 2.20 lakh Gram Panchayats, 5,300 Panchayat Samitis and 400 Zila Parishads in the country.

The new status accorded to the Panchayats by the Constitution has raised high hopes and expectations among the elected representatives and the rural folk at large. But owing to the political complexions of the governments in the Indian states, the reluctance of the state-level political and administrative functionaries to part with power and authority, and some genuine financial and economic difficulties, the progress in operationalisation has been somewhat slow and halting.

It has been found that elected representatives of Panchayat Raj Institutions are largely unaware of the political and economic dimensions of development issues and lack planning and managerial skills. This is particularly true of women elected representatives, who are performing their duties under some severe constraints of different kinds.

Objectives of National Planning

General Objectives

Any national economy is built up of several sectors broadly categorized as, for example, heavy industry, manufacture of goods, production of food, supply of services, tourism, etc. All generate wealth in some form and compete for resources in order to do so.

A National Economic Development Plan will analyse the country's objectives and priorities in relation to all these sectors in response to well-identified national needs. It will propose and justify an overall plan in which the role of individual sectors, including aquaculture as a source of food, can be seen in context.

A well-researched and reasoned policy document is of immense value to a country in the allocation of its scarce resources. It relates the scope and timetable of projects to the resources available and the benefits which will accrue. It enables realistic and achievable decisions to be taken.

The private sector looks for a stable and sympathetic environment in which to invest securely and profitably. A national plan provides the evidence to make positive decisions.

In developing countries, a national plan also meets the need of the international development banks and donor organizations to make loans or to provide technical assistance to selected national projects with a clear understanding of the benefits, and assured of the government's own wholehearted commitment. Without them, a project has little meaning or purpose. The national plan also enables these different organizations to avoid wasteful overlap and competition by co-ordinating their respective programmes.

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Finally, the government which sees fundamentally what must be done to secure its country's prosperity can act purposefully to bring it about. It can take strategic decisions which determine the course of events long into the future.

Aquaculture Sector Objectives

As a component of a National Economic Development Plan, a sector plan for aquaculture development will ensure that the legitimate claim of aquaculture to a share of resources is known and understood.

The priorities which dictate selection of sector targets are best described by the framework of needs which an effective industry helps to satisfy. In aquaculture the principal needs are considered to be four.

1. Domestic Production of Food, and Nutritional Health

All countries give highest priority to national food security to supply basic nutrition and to improve diet. As food is not usually distributed evenly, identification of national needs are often by region or possibly a smaller demographic unit.

The importance of cultured aquatic foods as development targets for domestic consumption is determined to some degree by government policy, but there is always evidence of consumer trends and import statistics to interpret. For example, the high-protein content of fisheries products and medical support for their wide use in health programmes are undeniable benefits repeatedly in evidence.

Low production and distribution costs are prime advantages of nationally produced commodities. These are especially important for cultured aquatic products which are trying to establish a share of an existing and often long-established market. Even if production is not viewed primarily as a source of profit, as is the case in some assistance or social projects, those for whom it is intended must be able to pay.

There may be persuasive strategic arguments for some high-cost indigenous aquaculture production to replace cheap imported products. However, the long-term viability of even this investment depends on the reduction of local costs. The potential to achieve reduced costs must exist and be provided for.

2. Foreign Trade

The existing and forecast balance of trade figures are often used to identify a national need for products which can be exported to earn foreign currency. Typically, for aquaculture, these include the high-value marine products, namely fish and shellfish, and raw or processed marine algae.

As with investments for domestic food production or nutritional improvement, the common denominator in every export-based proposal is that investments not adequately rewarded by conventional profit will struggle to survive.

3. Commercial Profit

The incentive to exploit any accessible resources is to generate corporate profit or, at a lower level, to create income and thereby contribute to an improved standard of living for the producer. This is the most fruitful basis for aquaculture development, even when the resources may be little more than a natural water body or point of water source.

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Among the rural poor in developing countries, aquaculture projects which have the profit incentive are a priority. The prospect of profit is self-motivating and attracts ongoing investment for a viable progressive industry.

4. Job Creation

In countries where high levels of long-term unemployment exist, the social implications of sector development may dictate priorities in favour of targets which are labour intensive. At times, some forms of subsidy or investment incentive are necessary, and economic and more appealing targets may have to be sacrificed or postponed as part of the national strategy or plan.

Wherever employment opportunities are limited, the major deprived group is often the less educated and unskilled. These untrained resources impose obvious constraints on the types of aquaculture development which will meet this need. The aquaculture industry, particularly at the level of production, is not labour intensive, although large farms employ significant numbers seasonally for harvest. The post-harvest industries, such as processing and packaging, require higher manning levels.

In summary, having established how aquaculture might meet these four principal needs, the purpose of the sector plan is to secure a favourable environment for investment in the broadest sense - knowledge and effort of all kinds, as well as finance. This will be referred to again, but examples are the designation of land and water zones for aquaculture development, and fiscal legislation which encourages more potential investors.

Regional Level Planning

The understanding of development depends on the way it is defined. In 1995 Jonathan Crush, a global development studies professor at Queen's, formulated in his book 'Power of Development' that development depends on who defines it, and for whom. As the origin of the concept of development lay in the western world, it remained Eurocentric for a considerable period and laid significant emphasis on the 'capitalist form of growth', or in the 'growth of national income'. Regional development was thus interpreted differently in different contexts; the only convergence was at a point where 'regional development' dealt with the process at the spatial scale. It is important to understand why certain individuals, group and regions are poor compared to others. The reason for existing low levels of economic performance and lower levels of standard of life are often believed to be complimentary to each other. Gunnar Myrdal, a Swedish Nobel-laureate economist, 1957, summed up 'poor are poor, as they are poor'; explained later as the vicious cycle of poverty. The existing gaps are the result of market-oriented policy of the governments across the world. The evidence from China presented in 2004 by Sylvie Demurger et al. in their paper 'Geography, economic policy and regional development in China', Harvard Institute of Economic Research, reveals that the coefficient of variation, a measure of disparity, across provinces was lower before adopting the open-door policy; however the coastal areas benefited as compared to the rest of the country. As noted in 2003 by economist R. Mackay, in his paper 'Twenty-five years of regional development' published in Regional Studies, poor laws were a debilitating aspect of policy making, which over a period of time allowed the northern regions of United Kingdom to lose their industries due to the exhaustion of coal mines and also due to the shift in the mechanical source of energy—from coal to oil. In the aftermath of the great depression in 1929 and 1930, which affected most of the capitalist economies, the concept of *laissez-faire*, a policy of minimum governmental interference in the economic activities of individuals and society, was opposed and active state intervention in restructuring of the economy was slowly accepted. This acceptance provided a ready market for production units. The new economic order based on Keynesian 'demand management', D. Roosevelt's 'new deal', and Joseph Stalin's model of 'centralised planning', especially top-down approach, started restructuring the economic space across the world at national and sub-national order. The initiation of regional planning in post independence India has to be placed in this context to understand the intricacies of the structure of the state, the dominant group, the capitalist production system and the people spread across regions of India. Independent India began its journey under the rubric of a mixed economy. The years between 1952 and 1992 are normally categorised into three periods namely: ad-hoc period (1952-55), period of initiation (1956-67)' and period of consolidated planning (1968-91). The year 1991 remain a watershed in the economic history of India, when the 'open economy' format was adopted, supposedly based on global competition. Whether India benefited or not; who in India benefited; who accumulated wealth by dispossessing whom; which class emerged as a ruling class; whether the character of the ruling class remain the same across the country or became divergent across the nation-state; all have a bearing on planning processes and strategies. The focus here is on the changing character of planning and its implications for the economy and people in the last 20-25 years. The last two-three decades of planning could be termed as 'period of rhetoric', as this period has seen loud claims but little action. The analysis of the plan and non-plan expenditure indicates that successive years have witnessed a systematic withdrawal of universal welfare schemes to minimise the fiscal deficit and to meet the global standard of cutting subsidy. The debate began with a general acceptance that the process of development does not start at the same point of time and that means that some regions are behind in the process. According to multiple scholars like August Losch, Gunnar Myrdal and Francois Perroux, the reasons for this (non)uniformity is natural conditions and historically created differentiation that lead to comparative advantage based on resource endowment.

Development in the Contemporary World is Dominated by Neo-liberal States that Result in More and More Regions Getting Excluded.

The choice of a specific location for the beginning of growth impulses depends on resource endowment, cultural factors, concessions and rebates by the state and so on. The history of Indian planning since the third five-year plan suggests that new industries, especially public sector undertakings (PSUs), were located in relatively backward regions with the imaginative outcome of bringing growth across the regions and to create a kind of 'complex interaction across units of production'. The outcome, however remains far from bridging the gap between the core regions and the hinterland. Development in the contemporary world is dominated by neo-liberal states that promote decentralisation, deregulation, liberalisation and a virtual global economy, resulting in more and more people and regions are getting excluded. A major concern in development economics is to find a satisfactory answer to a basic question—why do different regions (countries/states/ districts) grow differently, leading to varying degrees of income and expenditure inequalities and poverty. However, there is no single answer, as there could be country or region specific factors such as governance, institutions, culture, method of intervention and so on, that play a dominant role in determining the growth path. The great inequality amongst different regions in terms of economic performance and the distribution of benefits of such economic development is an undisputed reality. There are glaring examples of various kinds of disparities at international, interstate and interregional levels. The concentration of development in terms of accumulation and affluence in a few parts of the world or in different parts of a nation continue to remain the norm rather than the exception across the globe. Scholars like M.H. Suryanarayana, Indira Gandhi Institute of Development Research, Economics Programme, opine that, "tentative estimates, if valid, indicate that the growth process between 1993-94 and 2004-05 has bypassed the majority and was not inclusive and no cross-sectional

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evidence to believe that growth in India is inclusive". P.P. Ghosh et al., Centre for Economic Policy and Public Finance, Asian Development Research Institute, in their article 'Political Implications of Inter-State Disparity' published in 2009 in the Economic and Political Weekly, 2009, points towards skewed development and growing inter-state disparity. S. Mahendra Dev et al., Centre for Economic and Social Studies, in their book 'India's Development: Social and Economic Disparities' published in 2008 note similar findings about rural poverty ratio across states. It is also true that such disparities are larger in the poor countries and regions and, as Myrdal noted, inequalities would be larger at the outset of the development process. But, the reason behind growing inequalities in a post-industrial phase needs to be addressed anew. According to global economists, even in the most developed countries like USA or the industrial countries of Western Europe, the same scenario was observed a few decades ago, and is today on the increase again. The process of development is said to begin with the creation of external demand, surplus, and, a comparative advantage. These, in combination, are pre-conditions for a classical as well as neo-classical conception of development. In this scenario, relative deprivation of a region is bound to increase, and it has been suggested time and again that if the state intervenes or when decentralisation begins, these disparities are likely to decrease. The reasons for disparities have been cited as multifarious, ranging from race to environmental determinism and resource endowment. In United Kingdom, up to the mid-1970s, there was a trend towards greater regional equality in the distribution of income and wealth, but the next 25 years saw increasing regional inequalities. A similar situation has been reported from the USA where, income inequality and concentrated disadvantage have been on the rise since the 1960s, as the affluent and poor are becoming more concentrated than ever. India too, is facing similar conditions.

The idea of development in India was built on the Nehruvian concept of modernity that was based on technological advancement and industrialisation. The lack of profitability of public sector industries has been partly ascribed to the low rate of capacity utilisation – Bhilai, 65 per cent; Rourkela 48 per cent; Durgapur 30 per cent during the 1970s. K. Kalirajan et al. in their 2003 paper 'Income inequality and convergence of income across Indian States', and U Sankar's 'Economic reforms and liberalisation of the India economy,' 2003, highlight that it was the government's inability to maintain a high-rate of public investment and its tendency to shift its pattern of expenditure away from development-oriented projects that has had an adverse effect on the profitability of industries. This resulted in a new form of concentration of industries in different parts of the country and the regions where such industries were located become deprived, with lots of unemployed or retrenched labour force with old technical know-how, unsuitable for employment in the new industries. Limitation of technological change, missing link between production of raw materials and assembly of final product along with imbalance in industrial development has led to concentration of production and trading activities in states which have traditionally developed infrastructural facilities for large-scale production, manpower training and financial transaction. The regional dimension is important to address specific kinds of deprivation at different sites of exclusion like dam sites, highway sides, special economics zones , industrial sites, etc. In different parts of the country, the model of socialism, the mode of oppression, the mechanism of marginalisation and processes that produce poverty and exclusion have been divergent.

Objectives and Importance of Planning

Planning: Objectives and Importance of Planning

As Economic planning is often regarded as technique of managing an economy. When the structure of an economy becomes complex and subject to rapid change and transformation (due to population growth, discovery of resources, industrialisation, etc.) some sort of advance thinking becomes necessary to resolve that complexity and to prepare the economy for those changes. Such preparation is called planning.

Most often that not an economic plan is regarded as a programme of action. It may also be taken to mean an instrument for regulating a free private enterprise economy. The regulatory measures may vary fro They may leave either too much or too little a degree of freedom to private enterprise. This may hamper the working out of the plan. Many plans leave their programmes incomplete because they hesitate to exercise their regulatory functions. They are little more than a list of public development projects.

Many other plans perform their regulatory functions with such seriousness and severity that their programmes of action are completely jeopardised. In such planned economies any sort of enterprise ceases to exist. The correct plan is one in which a comprehensive and consistent programme of action is sought to be implemented by carefully harnessing enterprise for the success of the plan.

It should be noted that a plan is just a programme of action, it is not a guarantee for action. In short, a good plan is one which makes adequate provisions for and ensures that its targets are properly fulfilled.

Objectives of Planning

The objectives of planning are many and varied. These aims are not the same for all countries, not are they same for the same country at all times.

Some Major Objectives of Economic Planning

1. An improvement in the standard of living of the people through a sizable increase in national income within a short period of time;
2. A large expansion of employment opportunities for the removal of unemployment and for creating jobs and incomes;
3. A reduction in all types of social, economic and regional inequalities;
4. An efficient utilisation of the country's resources for faster growth;
5. Removal of mass poverty within a definite time limit through land reform, employment creation, and provision of educational and medical facilities;
6. Attainment of self-reliance by reducing dependence on foreign capital and foreign aid.

Importance of Planning

The importance of planning lies in the fact that it is an instrument through which important socio-economic objectives, unrealisable under free private enterprise, are likely to be effectively realised.

In an Underdeveloped Country like India these Objectives may be Broadly Grouped as

1. A higher rate of growth than was being realised in the absence of the plan;
2. A greater degree of economic equality than was possible under free enterprise;
3. Fuller employment opportunities for the growing labour force of a country; and
4. Larger provisions for capital formation as one of the principal instruments for accelerating the rate of growth.

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In the language of Gunnar Myrdal, "A main element of every national development plan is a decision to increase the total amount of investment, aimed at raising the productive powers of the country, and to procure the capital formation necessary for this purpose."

The usefulness can be gauged only by examining the extent to which it succeeds in removing the ills of unregulated free enterprise, while simultaneously realising the above goals. In underdeveloped countries like India an economic plan is to be looked at not as a substitute for private enterprise.

Rather it is to be taken as the only instrument through which enterprise can spread to non-traditional forms of economic activity.

In countries like India the most important objective of an economic plan is to bring into being new forms of production by accelerating capital formation. This will surely raise the overall productivity of the economy and thus raise people's income by providing them adequate employment opportunities, and thus remove the problems of mass poverty.

Prima facie, the over-populated underdeveloped countries often suffer from capital starvation. In other words, there is always a shortage of all types of productive capital equipment in such countries. So most people have to depend on land. Under-employment and unemployment are just a reflection of this.

Economists like Nurkse and Lewis believe that the only way to provide gainful employment opportunities and better living standards to the masses is to equip them with more capital. The accumulation of capital must proceed at a pace which would closely correspond to the rate of population growth and productivity change.

It is thus clear that the basic aim to economic planning in a backward country like India is to achieve in different ways a more rapid of capital formation than what would have been possible under private enterprise. "The success of the plan", says Prof. D. Bhattacharya, "is to be judged mainly by the advance it registers in respect of capital formation as compared with the period before the plan was launched."

In short, only planned economic development can hope to achieve a rate of growth which is politically acceptable. The most fundamental objective of planning is to alter the pattern of resources use and, if possible, to intensify such use in such a fashion as to achieve certain socially desirable goals.

For an LDC like India the most important goal is the removal of mass poverty and growing unemployment by putting resources more effectively into use. In other words, planning must focus its attention primarily on the task of improving the pattern of resource use, for raising incomes and improving the pattern of income distribution.

Features

We can identify the following characteristic features of economic planning:

- Fixation of definite socio-economic targets;
- Prudent efforts to achieve these targets within a given time period;
- Existence of a central planning authority;
- Complete knowledge about the economic resources of the country;
- Efficient utilization of limited resources to get maximum output and welfare.

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The Planning Commission of India is of the opinion that, "Planning is essentially a way of organizing and utilizing resources to get maximum advantage in terms of defined social ends. The two main-constituents of the concept of planning are:

(a) A system of ends to be pursued, and

(b) Knowledge of available resources and their optimum allocation to achieve these ends. The availability of resources conditions the ends to be effectively achieved.

Mixed Economy and Planning

Mixed economy is the outcome of the compromise between the two diametrically opposite schools of thought—the one which champions the, cause of capitalism and the other which strongly pleads for the socialization of all the means of production and of the control of the entire economy by the state.

Thus, the concept of mixed economy accepts the possibility of the co-existence of private enterprise and public enterprise.

India is regarded as a good example of a mixed economy. Under the Directive Principles of the Indian Constitution, it has been laid down that the State should strive "to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of national life."

In the economic sphere, the State is to direct its policy to secure a better distribution of ownership and control of the material resources of the community and to prevent concentration of wealth in the hands of a. few and the exploitation of labor. It would be impossible for the State to attain these ends implied in the directive principles unless the State itself enters the fields of production and distribution. This explains the rationale behind of economic planning. To protect the weaker sections, the State is also expected to control the distribution of essential commodities.

Similarly, by controlling the financial system, *viz*., insurance and banking, the State can endeavour to direct investment in socially desirable channels. Besides, in a poor and under-developed country like India, market forces based on profit motive cannot, by themselves, induce the private sector to move into infrastructural development (which involves heavy capital investment, long gestation period, low rate of return, etc.) Accordingly, the State has to promote infrastructural facilities like hydro-electric projects, irrigation; road and railway transport, and have to create conditions conducive to a higher level of investment so that national and per capita incomes of the people can be improved continuously.

Rationale of Planning in India

In India, comprehensive national planning is required to fulfil some broad social and economic objectives. The followings are some principal reasons for planning in India:

1. **Rapid Economic Development:** Before Independence, the long period of British rule and exploitation had made India one of the poorest nations in the world. The main task before the national government was to undertake some positive development measures to initiate a process of development, which can be done .effectively only through the instrument of planning. The state planning mechanism has been proved to be much superior to private market operations in bringing about it a quick transition in the less-developed economics. The spectacular success of planning in some countries had inspired the national leaders to adopt the path of planning for an accelerated development of the shattered economy.

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2. **Quick Improvement in the Standard of Living:** The fundamental objective of planning is to bring about a quick improvement in the standard of living of the people in the less-developed countries. In an unplanned economy the country's resources and materials cannot be employed for increasing the people's welfare as the private capitalists in such an economy direct their activities in increasing their own profits. The path of planning has been chosen to promote a rapid rise in the standard of living of the people by efficient exploitation of resources, increasing production of most goods, and offering employment opportunities to the people.
3. **Removal of Poverty:** Planning in India is necessary for the early removal of abject poverty of the people. This can be effectively done through:
   - Planned increase in the employment opportunities of the people,
   - Planned production of mass consumption goods and their planned distribution among the people,
   - Fulfilment of minimum needs programme by providing essential facilities (e.g., housing, roads, drinking water, public health, primary education, slum improvement, etc.), and,
   - Planned increase in the consumption of the poorest section of the people.
4. **Rational Allocation and Efficient Utilization of Resources:** India is rich in natural resources, but these resources are not fully exploited to get maximum advantages. In the unplanned economy resources tend to be engaged in the production of these goods and services which yield maximum profits, as a result rational allocation of resources is not possible. An unplanned economy faces frequently the problem of either shortages in some sectors or surpluses in others. But such misallocation of resources can be rectified in a planned economy in which the planning authority determines the pattern of the investment of resources. In fact, the development plans in the country are now utilized for the rational allocation of investable resources.
5. **Increasing the Rate of Capital Formation:** Planning can also raise the rate of capital formation in the less-developed countries like India. The surpluses of public enterprises as found in the planned economy can be utilized for investment and capital formation. In India, the governments have been increasing the rate of capital formation through the planned investment in the construction of roads, bridges, manufacturing of machineries and transport equipments etc.
6. **Reduction in Unequal Distribution of Income and Wealth:** Income and wealth are not evenly distributed in India as in other less-developed countries. In the absence of planning such inequality tends to increase due to growing concentration of economic resources at the hands of a few capitalists. Besides, the capitalists in the unplanned society increase their own profits by paying less to the labourers and other suppliers of raw materials. Planning can reverse this trend through the proper guidance and control of production, distribution, consumption and investment. The development works can be so planned and so executed that the greater equality is established with the increase of income and employment.
7. **Reduction of Unemployment and Increase in Employment Opportunities:** The backwardness of the different, sectors of the economy accounts for the presence of widespread unemployment, both open and disguised, in the country. The rate of economic

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growth usually becomes low in the unplanned society; as a result it becomes a difficult task to mitigate this serious problem without proper planning. The government can, however, increase the employment opportunities by undertaking development programs for the different sectors like agriculture, industries, social services, transport and communications, etc. Besides, labor-intensive development projects and job-oriented programs can also be undertaken to provide relief for the problem of unemployment.

The development plans in India have already given proper stress for increasing employment. The steps have been taken to create both short-term and long-term employment opportunities in various sectors like agriculture, industry, small and village industries, irrigation works, construction, etc.

8. **Reorganization of Foreign Trade:** Economic planning in the less-developed countries can bring about fundamental Changes in the foreign trade structure of such countries like India. The foreign trade structure may be reoriented from primary producing economy to the industrialized economy. Through proper controls of import and effective promotion of export of industrial goods the development plans can reorganize the foreign trade structure. In India, the trade policy has been reoriented to realize some cardinal objectives such as import control and substitution, export promotion and growth of economy. Owing to such development the trade structure is no longer regarded as colonial as it was before Independence.
9. **Regional Balanced Development:** Economic planning in India can correct the regional imbalances in development. Proper development programs may be taken for the all-round development of backward areas, so that all the regions are sufficiently developed. More and more industries are to be set up in the less-developed areas and the Plans should provide for dispersal of industries.
10. **Other Considerations:** Indian economy requires planning for other purpose also such as the removal of the shortages of essential goods, attainment of self-sufficiency in essential goods such as food grains and key materials, economic self-reliance, establishment of social justice for increasing economic facilities for weaker and neglected sections of the people etc.

The aforesaid discussion points to the supreme necessity of economic planning in India. It is now fully realized that without planning the country would not be able to initiate a process of quick economic growth.

Objectives of Planning in India

In India, the First Five year plan began in the year 1951-52. Although the objectives of these plans were different, we can identify some of the basic long-term and broad objectives of Indian planning. These are:

1. **Raising the growth rate:** The economic planning in India was to bring about rapid economic growth through the growth in agriculture, industry, power, transport and communications and different other sectors in our economy. Further, the growth in real national income was considered to be the basis for an increase in per Capita real income and an improvement in the physical quality of life for, the maximum number of people. The growth, in national output must be higher than the growth rate in population for an increase in per capita output. Indian planners aimed at increasing national income and per capita

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income on the assumption that the continuous growth in national income and per capita income would remove the problem of poverty and raise the standard of living for the maximum people of the country.

2. **Raising the investment-income ratio:** Growth in investment as a proportion of national income was also one of the important long-term objectives of Indian five year plans.
3. **Achieving self-reliance:** This objective was considered to be an important objective for keeping the growth activity free from political pressures of dominant capitalist countries of the world. India had to import a huge quantity of food grains from abroad for a considerable period. Again, she had to depend on foreign countries for the import of heavy machinery, transport equipment, machine tools, electrical instruments, etc. This was required for the expansion of the industrial sector and for building, a strong infrastructural base in India after independence. Hence, it was quite natural that the developed capitalist countries, supplying food grains, machinery and capital to India, used to take full advantage of their strong bargaining power, by imposing different conditions while extending such help. In many cases, the domestic economic policies are also influenced by such conditions. Because of all these reasons, a self-reliant economic growth became a major objective of economic planning in India, particularly since the inception of the Third Five Year Plan.
4. **Removing unemployment:** Removal of unemployment and underemployment can be regarded as a precondition for the elimination of poverty.

   It was assumed by Planning Commission that an increase in investment would accompany not only an increase in national output but also a rise in employment opportunities. This argument was put forward by the Planning Commission quite explicitly during the Third Five Year Plan. The planning commission however, believed that the removal of unemployment would lead to increase in GDP, on the one hand and improve the standard of living of the people on the other.
5. **Reducing the incidence of poverty:** Various plan documents have all along indicated that the policy of the Government of India is to reduce the incidence of poverty. The problem of poverty has been conceived as one of low productivity of a large section of the people. Hence, to remove these handicaps of the poor and to integrate them in the growth process, alleviation of poverty became one of the broad objectives of Indian planning. So, the long run objective was to free the economy from the vicious circle of poverty which encircles the economy, not only with poor purchasing power, low savings, low capital formation, low productivity and low level of national output, but also with a poor physical quality of life.
6. **Reducing income inequalities:** Indian planners visualized the creation of a socialistic pattern of society where each member of the society would get equal opportunities in the fields of education, health, nutrition, occupation, etc. Hence, they felt the need for reducing income and wealth inequalities in our society. These inequalities have their roots in the feudal system. Hence, reduction in income and wealth necessitated the abolition of semi-feudal relations of production in Indian villages. Thus; the objective was to abolish the 'Zamindari' system, impose ceilings on land-holdings and distribution of surplus land among the landless in rural areas.

Income and wealth inequalities arising out of industrialization and growth were far more complex. The Planning Commission felt the need for imposing some restrictive and fiscal measures e.g., by imposing higher rates of direct taxes on high incomes, to tackle this problem. Further, to reduce the disparity between urban and rural sectors, the Planning Commission suggested various measures to raise agricultural productivity, development of agro-based industries, a fair price to farmers for their products, etc.

The Planning Commission stated its policy towards income inequalities in the Fourth Plan document. It emphasized economic growth with the hope that the poor will benefit from it and thus, income inequalities would be reduced.

A part from these long-term objectives the Sixth plan of India recognized one more objective of modernizing the production process. The implications of this modernization were to shift the sectoral comparison of national income, diversification of productive activities and advancement of technology.

Modernization, as per the view of the Planning Commission, also implied introduction of modern technology, both in industrial and agricultural activities. It also implied an emergence of new types of banking, insurance and marketing institutions, which would facilitate the dynamics of growth process.

Features/Nature/Characteristic of Planning

1. **Planning contributes to Objectives:** Planning starts with the determination of objectives. We cannot think of planning in absence of objective. After setting up of the objectives, planning decides the methods, procedures and steps to be taken for achievement of set objectives. Planners also help and bring changes in the plan if things are not moving in the direction of objectives.

   For example, if an organisation has the objective of manufacturing 1500 washing machines and in one month only 80 washing machines are manufactured, then changes are made in the plan to achieve the final objective.

2. **Planning is Primary function of management:** Planning is the primary or first function to be performed by every manager. No other function can be executed by the manager without performing planning function because objectives are set up in planning and other functions depend on the objectives only.

   For example, in organizing function, managers assign authority and responsibility to the employees and level of authority and responsibility depends upon objectives of the company. Similarly, in staffing the employees are appointed. The number and type of employees again depends on the objectives of the company. So planning always proceeds and remains at no. 1 as compared to other functions.

3. **Pervasive:** Planning is required at all levels of the management. It is not a function restricted to top level managers only but planning is done by managers at every level. Formation of major plan and framing of overall policies is the task of top level managers whereas departmental managers form plan for their respective departments. And lower level managers make plans to support the overall objectives and to carry on day to day activities.

4. **Planning is futuristic/Forward looking:** Planning always means looking ahead or planning is a futuristic function. Planning is never done for the past. All the managers try to make predictions and assumptions for future and these predictions are made on the basis of past experiences of the manager and with the regular and intelligent scanning of the general environment.

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5. **Planning is continuous:** Planning is a never ending or continuous process because after making plans also one has to be in touch with the changes in changing environment and in the selection of one best way.

   So, after making plans also planners keep making changes in the plans according to the requirement of the company. For example, if the plan is made during the boom period and during its execution there is depression period then planners have to make changes according to the conditions prevailing.

6. **Planning involves decision making**

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   The planning function is needed only when different alternatives are available and we have to select most suitable alternative. We cannot imagine planning in absence of choice because in planning function managers evaluate various alternatives and select the most appropriate. But if there is one alternative available then there is no requirement of planning.

   For example, to import the technology if the licence is only with STC (State Trading Co-operation) then companies have no choice but to import the technology through STC only. But if there is 4-5 import agencies included in this task then the planners have to evaluate terms and conditions of all the agencies and select the most suitable from the company's point of view.

7. **Planning is a mental exercise:** It is mental exercise. Planning is a mental process which requires higher thinking that is why it is kept separate from operational activities by Taylor. In planning assumptions and predictions regarding future are made by scanning the environment properly. This activity requires higher level of intelligence. Secondly, in planning various alternatives are evaluated and the most suitable is selected which again requires higher level of intelligence. So, it is right to call planning an intellectual process.

Importance/Significance of Planning

1. **Planning provides Direction:** Planning is concerned with predetermined course of action. It provides the directions to the efforts of employees. Planning makes clear what employees have to do, how to do, etc. By stating in advance how work has to be done, planning provides direction for action. Employees know in advance in which direction they have to work. This leads to Unity of Direction also. If there were no planning, employees would be working in different directions and organisation would not be able to achieve its desired goal.

2. **Planning Reduces the risk of uncertainties:** Organisations have to face many uncertainties and unexpected situations every day. Planning helps the manager to face the uncertainty because planners try to foresee the future by making some assumptions regarding future keeping in mind their past experiences and scanning of business environments. The plans are made to overcome such uncertainties. The plans also include unexpected risks such as fire or some other calamities in the organisation. The resources are kept aside in the plan to meet such uncertainties.

3. **Planning reduces over lapping and wasteful activities:** The organisational plans are made keeping in mind the requirements of all the departments. The departmental plans are derived from main organisational plan. As a result there will be co-ordination in different departments. On the other hand, if the managers, non-managers and all the employees are

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following course of action according to plan then there will be integration in the activities. Plans ensure clarity of thoughts and action and work can be carried out smoothly.

4. **Planning Promotes innovative ideas:** Planning requires high thinking and it is an intellectual process. So, there is a great scope of finding better ideas, better methods and procedures to perform a particular job. Planning process forces managers to think differently and assume the future conditions. So, it makes the managers innovative and creative.

5. **Planning Facilitates Decision Making:** Planning helps the managers to take various decisions. As in planning goals are set in advance and predictions are made for future. These predictions and goals help the manager to take fast decisions.

6. **Planning establishes standard for controlling:** Controlling means comparison between planned and actual output and if there is variation between both then find out the reasons for such deviations and taking measures to match the actual output with the planned. But in case there is no planned output then controlling manager will have no base to compare whether the actual output is adequate or not.

   For example, if the planned output for a week is 100 units and actual output produced by employee is 80 units then the controlling manager must take measures to bring the 80 unit production upto 100 units but if the planned output, i.e., 100 units is not given by the planners then finding out whether 80 unit production is sufficient or not will be difficult to know. So, the base for comparison in controlling is given by planning function only.

7. **Focuses attention on objectives of the company:** Planning function begins with the setting up of the objectives, policies, procedures, methods and rules, etc. which are made in planning to achieve these objectives only. When employees follow the plan they are leading towards the achievement of objectives. Through planning, efforts of all the employees are directed towards the achievement of organisational goals and objectives.

Limitations of Planning

1. **Planning leads to rigidity:** Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

2. **Planning may not work in dynamic environment:** Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.

   The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment. For example there may be change in economic policy, change in fashion and trend or change in competitor's policy. A manager cannot foresee these changes accurately and plan may fail if many such changes take place in environment.

3. **It reduces creativity:** With the planning the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business

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environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

4. **Planning involves huge Cost:** Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.
5. **It is a time consuming process:** Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.
6. **Planning does not guarantee success:** Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans.

   It is not true that if a plan has worked successfully in past, it will bring success in future also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.
7. **Lack of accuracy:** In planning we are always thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail.

   For example, if in the plan it is assumed that there will be 5% inflation rate and in future condition the inflation rate becomes 10% then the whole plan will fail and many adjustments will be required to be made.

External Limitations of Planning

Sometimes planning fails due to following limitations on which managers have no control.

(a) **Natural calamity:** Natural calamities such as flood, earthquake, famine etc. may result in failure of plan.

(b) **Change in competitors' policies:** Sometimes plan may fail due to better policies, product and strategy of competitor which was not expected by manager.

(c) **Change in taste/fashion and trend in the market:** Sometimes plans may fail when the taste/fashion or trend in market goes against the expectation of planners.

(d) **Change in technologies:** The introduction of new technologies may also lead to failure of plans for products using old technology.

(e) **Change in government/economic policy:** Managers have no control over government decisions. If government economic or industrial policies are not framed as expected by manager then also plans may fail.

Planning Process

Notes

1. **Setting up of the objectives:** In planning function manager begins with setting up of objectives because all the policies, procedures and methods are framed for achieving objectives only. The managers set up very clearly the objectives of the company keeping in mind the goals of the company and the physical and financial resources of the company. Managers prefer to set up goals which can be achieved quickly and in specific limit of time. After setting up the goals, the clearly defined goals are communicated to all the employees.
2. **Developing premises:** Premises refer to making assumptions regarding future. Premises are the base on which plans are made. It is a kind of forecast made keeping in view existing plans and any past information about various policies. There should be total agreement on all the assumptions. The assumptions are made on the basis of forecasting. Forecast is the technique of gathering information. Common forecast are made to find out the demand for a product, change in government or competitor policy, tax rate, etc.
3. **Listing the various alternatives for achieving the objectives:** After setting up of objectives the managers make a list of alternatives through which the organisation can achieve its objectives as there can be many ways to achieve the objective and managers must know all the ways to reach the objectives.

   For example, if the objective is to increase in sale by 10% then the sale can be increased:

   (a) By adding more line of products;

   (b) By offering discount;

   (c) By increasing expenditure on advertisements;

   (d) By increasing the share in the market;

   (e) By appointing salesmen for door-to-door sale etc.

   So, managers list out all the alternatives.
4. **Evaluation of different alternatives:** After making the list of various alternatives along with the assumptions supporting them, the manager starts evaluating each and every alternative and notes down the positive and negative aspects of every alternative. After this the manager starts eliminating the alternatives with more of negative aspect and the one with the maximum positive aspect and with most feasible assumption is selected as best alternative. Alternatives are evaluated in the light of their feasibility.
5. **Selecting an alternative:** The best alternative is selected but as such there is no mathematical formula to select the best alternative. Sometimes instead of selecting one alternative, a combination of different alternatives can also be selected. The most ideal plan is most feasible, profitable and with least negative consequences.

   After preparing the main plan, the organisation has to make number of small plans to support the main plan. These plans are related to performance of routine jobs in the organisation. These are derived from the major plan. So, they are also known as derivative plans. These plans are must for accomplishing the objective of main plan. The common supportive plans are plans to buy equipment, plan for recruitment and selection of employees, plan to buy raw material, etc.
6. **Implement the plan:** The managers prepare or draft the main and supportive plans on paper but there is no use of these plans unless and until these are put in action. For

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implementing the plans or putting the plans into action, the managers start communicating the plans to all the employees very clearly because the employees actually have to carry on the activities according to specification of plans. After communicating the plan to employees and taking their support the managers start allocating the resources according to the specification of the plans. For example, if the plan is to increase in sale by increasing the expenditure on advertisement, then to put it into action, the managers must allot more funds to advertisement department, select better media, hire advertising agency, etc.

7. **Follow-up:** Planning is a continuous process so the manager's job does not get over simply by putting the plan into action. The managers monitor the plan carefully while it is implemented. The monitoring of plan is very important because it helps to verify whether the conditions and predictions assumed in plan are holding true in present situation or not. If these are not coming true then immediately changes are made in the plan.

   During follow up many adjustments are made in the plan. For example, if the expenditure planning is done keeping in mind 5% inflation rate but in present situation if the inflation rate rises to 10% then during follow up the managers make changes in the plans according to 10% inflation rate.

   Plan: Plan is a document that outlines how goals are going to be met. It is a specific action proposed to help the organization achieve its objectives. There may be more than one way and means of reaching a particular goal but with the help of logical plans, objectives of an organization could be easily achieved.

   Single Use Plans: Single use plans are one time use plan. These are designed to achieve a particular goal that once achieved will not reoccur in future. These are made to meet the needs of unique situations. The duration or length of single use plan depends upon the activity or goal for which it is made. It may last one day or it may last for weeks or months if the project for which it is made is long.

   Standing Plans: Standing plans are also known as Repeat Use Plans. These plans focus on situations which occur repeatedly. Standing plans are used over and over again. They are made once but retain their value over a period of years. Although some revisions and updates are made in these plans from time to time.

Types of Plans

Planning is a pervasive function which means it is not the task of top level managers only but managers working at different levels perform planning function. The plans framed by top level manager may differ from the plans formed by middle and lower level managers. The different types of plans or common plans formed by the managers at different levels are:

- Objectives – Rules
- Strategy – Programmes
- Policies – Methods
- Procedures – Budgets

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1. **Objectives:** Objectives are the ends towards which the activities are directed. They are the end result of every activity. An objective:
   (a) Should be related to single activity;
   (b) Should be related to result and not to activity to be performed;
   (c) It should be measurable or must be measured in quantitative term;
   (d) It must have a time limit for achievement of objective;
   (e) It must be achievable or feasible.

   For example, increase in sale by 10% or decrease in rejections by 2%.

2. **Strategy:** A strategy is a comprehensive plan to achieve the organisational objectives. The dimensions of strategy are:
   (i) Determining long-term objectives.
   (ii) Adopting a particular course of action.
   (iii) Allocating resources for achieving the objectives.

   Strategy formulation is the task of top level people and it is must to scan and understand clearly the business environment before framing the strategy. The common decisions in strategy are whether to introduce a new product or not. If to introduce then how, finding out customer for your products making changes in existing products etc. All the strategic decisions are greatly influenced by the business environment. Strategy defines the future decisions regarding the organisation's direction and scope in the long run.

   For example, Choice of advertising media, sales promotion techniques, channels of distribution, etc.

3. **Policies:** Policy can be defined as organisation's general response to a particular problem or situation. In simple words, it is the organisation's own way of handling the problems. Policies are made at every level because the managers at every level need to decide or predetermine the way of handling a situation and policy acts as a guide to take decisions in unexpected situation.

   Policy formation always encourages initiatives of employees because employees have to deal with situations and the way of handling the situation is decided in consultation with the employees. Then they will be able to handle the situation in a much better way. For example, a school may have policy of issuing admission form only to students who secured more than 60% marks.

   "No credit sale policy", etc. Introduction of new product in the market.

4. **Procedures:** Procedures are required steps established in advance to handle future conditions. The sequence of steps to be followed by employees in different situations must be predetermined so that everyone follows same steps.

   The procedure can be defined as the exact manner in which an activity has to be accomplished.

   For example, the procedure for admission in a particular school can be:
   (i) Set up a file for applicants;

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(ii) Accept the field forms and put them in a file;

(iii) Ask for other certificates to verify score or marks of students;

(iv) Put those documents also in the file;

(v) Give the file to admission in-charge.

Procedures are made common for all the departments to co-ordinate their activities. So procedures cut across all the departmental lines. For example, the procedure to handle the order by manufacturing department may involve sales department also.

5. **Rules:** Rules spell out special actions or non-actions of the employees. There is no discretion allowed in rules, i.e., they must be followed strictly and if rules are not followed then strict actions can be taken against employees who are disobeying the rules. Rules are spelt out to create the environment of discipline in the organisation. For example, there can be rule of no smoking in the organisation. Rules generally guide the general behaviour of the employees and employees cannot make any changes in them.

6. **Programmes:** Programmes are the combination of goals, policies, procedures and rules. All these plans together form a program. The programmes are made to get a systematic working in the organisation. The programmes create relation between policies, procedures and goals. The programmes are also prepared at different levels. A primary programme is prepared by the top level and then to support the primary programme supportive programmes of different levels are prepared for smooth function of the company.

   For example, construction of shopping mall, Development of new product.

7. **Methods:** Methods can be defined as formalized or systematic way of doing routine or repetitive jobs. The managers decide in advance the common way of doing a job. So, that:

   (a) There is no doubt in the minds of employees;

   (b) There can be uniformity in actions of the employees;

   (c) These help in applying the techniques of standardization and simplification;

   (d) Act as guide for employees.

   If the common way of doing the job is not decided in advance then there will be confusion and comparison will not be possible. For example, for the valuation of stock, the organisation must decide in advance what method has to be adopted (lifo or fifo). So that everyone follows the same method and comparison with the past value of stock can be done, method for calculation of depreciation.

8. **Budget:** Budget is the statement of expected result expressed in numerical terms. In budgets the results are always measurable and most of the time these are financial in nature but it does not mean that company prepares only financial budget. Financial budget is also known as profit plan of the company because it includes the expected income and related expenditures with that income and the profit which the company will earn in the coming year.

   Along with financial budget capital budget is prepared to find out the expected capital requirement. Operational budget is prepared where instead of finance hourly units are used stating expected hours the employees will be working. Budgets are prepared by managers at every level and lower level managers generally prepare operational budgets.

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The most common budget prepared by managers at different levels is cash budget. This budget estimates the expected cash inflow and cash outflow over a period of time. Cash inflow comes from sales and cash outflow is in the form of expenses. Businessmen can find out net cash position by subtracting cash outflow from cash inflow.

6.2 COMPARATIVE COST STUDIES

Please refer chapter 5 of this book.

6.3 INDUSTRIAL COMPLEX ANALYSIS

Please refer chapter 5 of this book.

6.4 SUMMARY

1. In India following five stages of multi-level planning have been recognized. These include:
2. National Level-sectored cum inter-state/inter-regional planning, 2. State Level-sectored cum inter-district/inter-regional planning, 3. Distrcit/Metropolital Level-regional planning, 4. Block Level-area planning, 5. Panchayat Level-village planning.
3. At state level the mechanism of the planning is almost same of the national level. The state Planning Board acts like national planning Commission and co-ordinates the development plans of different ministries and the districts. It also has the responsibility of the formulation, implementation and monitoring of state plan.
4. The concept of the district-level planning is based on the principle of local level planning. It also assumes that success of the planning needs greater mobilization and utilization of local resources.
5. Block is an important unit of micro-level planning. These development blocks were created to supervise the implementation of development plans under the Community Development Programme initiated during the First Five Year Plan.
6. The directive principles of state policy mention the village Panchayat which is an elected body at village level. Village, here, roughly corresponds to a revenue village (or a group of revenue villages). The Panchayati Raj System involves a three-tier structure: village-level, block-level and district level.

6.5 SELF ASSESSMENT QUESTIONS

1. In India following five stages of multi-level planning have been recognized. Eluicidate.
2. At national level Planning Commission is the nodal agency responsible for the countries planning. The Prime Minister is the Chairman of this Commission.
3. Explain the Objectives of national planning.

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4. Explain the importance of Regional level planning.
5. 'Development in the contemporary world is dominated by neo-liberal states that result in more and more regions getting excluded.'Comment.

Chapter

7

PLAN MECHANISM AT NATIONAL AND REGIONAL LEVELS AND THEIR CO-ORDINATION

Learning Objectives

The objectives of this lesson are to:

- Planning Commission
- Planning Boards

Structure:

Plan mechanism at national and regional levels and their co-ordination

7.1 PLANNING COMMISSION

The Planning Commission was an institution in the Government of India, which formulated India's Five-Year Plans, among other functions.

In his first Independence Day speech in 2014, Prime Minister Narendra Modi announced his intention to dissolve the Planning Commission. It has since been replaced by a new institution named NITI Aayog.

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History

Rudimentary economic planning, deriving from the sovereign authority of the state, was first initiated in India in 1938 by Congress President and Indian National army supreme leader Netaji Subhash Chandra Bose, who had been persuaded by Maghnad Saha to set up a National Planning Committee. M. Visvaraya had been elected head of the Planning Committee. Meghnad Saha approached the great engineer and requested him to step down. He argued that planning needed a reciprocity between science and politics. M. Visvesvaraya generously agreed and Jawaharlal Nehru was made head of the National Planning Committee. The so-called "British Raj" also formally established Advisory Planning Board under K.C.Neogy that functioned from 1944 to 1946. Industrialists and economists independently formulated at least three development plans in 2012. Some scholars have argued that the introduction of planning as an instrument was intended to transcend the ideological divisions between Mahatma Gandhi and Nehru. Other scholars have argued that the Planning Commission, as a central agency in the context of plural democracy in India, needs to carry out more functions than rudimentary economic planning.

After India achieved Independence, a formal model of planning was adopted, and accordingly the Planning Commission, reporting directly to the Prime Minister of India, was established on 15 March 1950, with Prime Minister Jawharlal Nehru as the Chairman. Authority for creation of the Planning Commission was not derived from the Cnstitution of India or statute; it is an arm of the Central Government of India.

The first Five-Year Plan was launched in 1951, focusing mainly on development of the agricultural sector. Two subsequent Five-Year Plans were formulated before 1965, when there was a break because of the Indo-Pakistan conflict. Two successive years of drought, devaluation of the currency, a general rise in prices and erosion of resources disrupted the planning process and after three Annual Plans between 1966 and 1969, the fourth Five-Year Plan was started in 1969.

The Eighth Plan could not take off in 1990 due to the fast changing political situation at the Centre, and the years 1990-91 and 1991-92 were treated as Annual Plans. The Eighth Plan was finally launched in 1992 after the initiation of structural adjustment policies.

For the first eight Plans the emphasis was on a growing public sector with massive investments in basic and heavy industries, but since the launch of the Ninth Plan in 1997, the emphasis on the public sector has become less pronounced and the current thinking on planning in the country, in general, is that it should increasingly be of an indicative nature.

In 2014, Narendra Modi government decided to wind down the Planning Commission. It was replaced by the newly formed NITI Aayog.

Organisation

The composition of the Commission underwent considerable changes since its initiation. With the Prime Minister as the *ex officio* Chairman, the committee had a nominated Deputy Chairman, with the rank of a full Cabinet Minister. Cabinet Ministers with certain important portfolios acted as ex officio members of the Commission, while the full-time members were experts in various fields like economics, industry, science and general administration.

Ex officio members of the Commission included the Finance Minister, Agriculture Minister, Home Minister, Health Minister, Chemicals and Fertilisers Minister, Information Technology Minister, Law Minister, Human Resource Development Minister and Minister of State for Planning.

The Commission worked through its various visions, of which there were two kinds:

(i) General Planning Divisions

(ii) Programme Administration Divisions

Functions

The Indian Planning Commission's functions as outlined by the Government's 1950 resolution are following:

(i) To make an assessment in the material, capital and human resources of the country called India, including technical personal, and investigate the possibilities of augmenting those are related resources which are found to be deficient in relation to the nation's requirement.

(ii) To formulate a plan for the most effective and balanced utilisation of country's resources.

(iii) To define the stages, on the basis of priority, in which the plan should be carried out and propose the allocation of resources for the due completion of each stage.

(iv) To indicate the factors that tend to retard economic development.

(v) To determine the conditions which need to be established for the successful execution of the plan within the incumbent socio-political situation of the country.

(vi) To determine the nature of the machinery required for securing the successful implementation of each stage of the plan in all its aspects.

(vii) To appraise from time to time the progress achieved in the execution of each stage of the plan and also recommend the adjustments of policy and measures which are deemed important *vis-a-vis* a successful implementation of the plan.

(viii) To make necessary recommendations from time to time regarding those things which are deemed necessary for facilitating the execution of these functions. Such recommendations can be related to the prevailing economic conditions, current policies, measures or development programmes. They can even be given out in response to some specific problems referred to the commission by the central or the state governments.

7.2 PLANNING BOARDS

Functions and structure of the planning commission

Planning Commission was set up in March, 1950. A copy of the Resolution of Government of India has been given in Unit I of this document. The following are the tasks assigned to the Commission:

(i) To make an assessment of the material, capital and human resources of the country, including technical personnel and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements;

(ii) To formulate a Plan for the most effective and balanced utilisation of the country's resources;

(iii) On determination of priorities, to define the stages in which the Plan should be carried out and propose the allocation of resources for due completion of each stage.

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(iv) To indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan;

(v) To determine the nature of machinery which will be necessary for securing successful implementation of each stage of the Plan in all its aspects;

(vi) To appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend for adjustments of policy and measures that such appraisal may show to be necessary; and

(vii) To make such interim or ancillary recommendations as appear to it be appropriate either for facilitating the discharge of the duties assigned to it; or, on a consideration of the prevailing economic conditions, current policies, measures and development programmes; or on an examination of such specific problems as may be referred to it for advice by Central or State Governments.

Besides, the Government of India (Allocation of Business) Rules have assigned responsibilities to the Planning Commission in respect of:

- Public co-operation in National development
- Hill area development programme (except in the North Eastern Region), and
- Institute of Applied Manpower Research.

The relevant extracts containing entries pertaining to the Planning Commission from these Rules have been given in Unit I of this document. The present composition of the Commission has been given in Unit I of the document.

4. The day to day working of the Commission is carried out on a collective responsibility. However, for convenience, each Member has been given charge of a group of subjects. While, each Member individually deals with various technical and other problems pertaining to his allotted subject, the important policy matters are considered by the Commission as a whole. The Prime Minister in his capacity as Chairman of the Planning Commission, participates and gives direction to the Commission on all major issues of policy. The work of the Commission is organised into technical Divisions/Units. They are headed by Principal Advisers/Advisers/Joint Secretaries

All the Divisions in the Planning Commission may be grouped into three types of Divisions as indicated below:

(i) **Administrative Divisions:** They render services pertaining to administration, accounts, library, training and other general services to the employees of the Commission.

(ii) **General Divisions:** These are concerned with certain aspects of the entire economy e.g. Perspective Planning, Financial Resources, International Economics, Plan Co-ordination, State Plans including Multi-Level Planning, Hill Area Development Programme, Labour Employment and Manpower, Science and Technology, Project Appraisal and Management, Development Policy and Socio- Economic Research.

(iii) **Subject Divisions:** These are concerned with specific fields of development e.g. Agriculture, Environment and Forests, Water Resources, Power and Energy, Industry and Minerals, Transport, Communication and Information, Village and Small Industries, Rural Development, Education, Health, Nutrition and Family Welfare, Housing and Urban Development, Social Development and Women's Programme, and Backward Classes.

All the Divisions in the Planning Commission maintain close contacts with the concerned Central Ministries/State Governments and various non-official agencies, study and examine various problems and issues in relation to the formulation as well as implementation of the Plan Programmes and Policies in their respective fields. They also organise research studies, which are deemed necessary for planning either on their own or through competent external institutions/organisations.

8. The senior officers of the Planning Commission have also been designated as Principal Adviser (State Plans) or Adviser (State Plans) who help the Commission in keeping close touch with the progress of planning and its implementation in States. Each Principal Adviser (SP) or Adviser (SP) has a group of States/UTs. allotted to him or her and helps in maintaining close liaison between Central Government and these States/UTs. He/she visits from time to time the concerned States/UTs, gives necessary advice and guidance to the Planning Commission and Executive authorities at the State/UT level and brings the difficulties and problems of the latter to the notice of the Planning Commission and Ministries/Departments at the Centre. The State Plans work is co-ordinated by Joint Secretary (State Plans). Formulation of Five Year Plan and Annual Plans The principal task of the Planning Commission is to formulate the Five Year and Annual Plans for the most effective and balanced utilisation of the country's material, capital and human resources, appraise from time to time the progress in their implementation and recommend adjustments of policy and measures that are considered to be necessary in the light of such appraisal. In formulating the Five Year Plan the Planning Commission co-ordinates and oversees the development programmes of the Central Ministries and State Governments and integrates these in a national Plan covering both the public and private sectors. Specific schemes of financing are worked out for the Centre and each State, indicating clearly the additional resource mobilisation efforts that they would have to undertake; these are integrated with the overall scheme of flow of funds for the economy as a whole. At the Centre, the role of the Planning Commission in investment planning is crucial as the Commission provides an objective method of resource allocation reconciling claims of various Ministries taking into account the broad national objectives and priorities.

Similarly, the Commission seeks to ensure through the Annual Plans which are the operational plans that the sum total of outlays of the Centre and the State is consistent with the estimates of resources available to the public economy. The plan outlays in both the public and private sectors are matched by resources in order to ensure orderly growth in conditions of relative stability, without introducing any distortions in investments or the production pattern. Process of Planning The first step in the process of formulating a Five Year Plan is preparation of a paper on 'Approach to the Plan'. While undertaking work in this connection, Steering Committees/Working Groups are also set up for reviewing the progress in the implementation of the current Five Year Plan and making detailed recommendations regarding programmes, projects, schemes and policies as well as outlays and targets both financial and physical for the various sectors and sub-sectors. Members of these Groups are drawn from officials in the Planning Commission, Central Ministries/Departments, other Institutions, State Governments and experts in the respective fields. As many as 23 Steering Groups and 116 Working Groups were set up in connection with the Ninth Plan. For the Tenth Plan, 27 Steering Committees and 98 Working Groups were set up. Lists of Steering Committees/Working Groups set up for the Ninth Five Year Plan and those for the Tenth Five Year Plan are placed at Annexure II and Annexure III respectively.

The Approach Paper is prepared on the basis of the preliminary exercises undertaken in the Planning Commission projecting the growth profile of the economy over a period of 15-20 years covering the ensuing Five Year Plan period and the papers prepared by the Sectoral Divisions

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bringing out the issues to be tackled in their respective sectors during the ensuing five year plan period. Also, experience of the past projected requirements, likely availability of resources and such information as becomes available as a result of the work undertaken by the various Steering Committees/Working Groups are also kept in view while formulating the Approach Paper. Views of the Central Ministries, State Governments, Consultative Committee of Members of Parliament, Panel of Economists, experts and cross-section of the public are also taken into account. Objectives, targets, strategy, policies and programme thrusts of the five year plan are enunciated in Approach Paper.

Sometimes alternative scenarios, requiring different degrees of effort, are also presented. The paper is first considered in the meeting of the full Planning Commission, then by the Union Cabinet and finally by the National Development Council. After approval by the Council, it is placed before the Parliament. While initiating work on the approach at the national level, the State Governments are also advised to take preliminary steps for formulating their approach and set up Working Groups wherever considered necessary. After the Approach Paper is approved by the National Development Council, the Planning Commission addresses the Central Ministries and State Governments for undertaking the exercise of formulating detailed proposals for the Five Year Plan. Suitable guidelines are indicated for this purpose based on the mandate given by the NDC while approving the Approach Paper. The work on detailing the development strategy, the economy wide or macro parameters, such as savings, investment, employment, exports, imports and sectoral targets is carried out in- house by the Planning Commission, with inputs from the concerned Working Groups. The main emphasis on ensuring that these targets or projections are consistent with the mandate given by the NDC while approving the Approach Paper. Simultaneously, the Financial Resources Division of the Planning Commission requests the State Governments to furnish detailed forecasts of their resources for the Plan and the estimates of State resources for the five year plan is made by the Working Group on State Resources. For the Centre, the estimates of resources are formulated by the Steering Committees/Working Groups on Financial Resources of the Centre, which includes, inter alia, representatives of the Planning Commission, Ministry of Finance and Reserve Bank etc.

The recommendations of the State Plan Sectoral Working Groups on the plan proposals of a State are considered by the concerned State Plan Adviser. He takes a view on these recommendations in the light of his informal discussions with the State and Central Officers and also his knowledge of the development activities in the State. He prepares a report making detailed recommendations covering the programmes, targets and outlays. This report forms the basis of discussion between the Planning Commission and the State Government for finalising the Plan of the State concerned. The final position regarding the state's own resources, including market borrowing and additional resource mobilisation, Central assistance and programme content emerges after discussion. In the case of Central Plan, the procedure adopted for the Tenth Plan was that the Division concerned prepared a Background paper taking into account the guidelines laid out in the Approach Paper, the recommendations of the concerned Working Group(s), Ministry's proposals and the Division's own assessment of the development programme that was considered feasible and necessary. This Paper constituted the basis of discussion between the Planning Commission and the Secretaries of the concerned Central Ministries/Departments. In the light of the discussions with the Ministries and the anticipated availability of the total resources for the Central Plan, the Planning Commission took a view on the development programme of each Ministry/Department and the respective outlays. In the process of finalising the Plan, the Planning Commission, if deemed necessary, may also consult the Consultative Committee of Members of Parliament attached to the Ministry of Planning representatives of organised groups of industrialists, labour leaders, agriculturists, social scientists and other experts. The views expressed in the Parliament and at other fora are also taken into account.

Members of Parliament are also addressed individually seeking their valuable suggestions in this regard.

The Central and State Plans, together with the scheme of financing for these, as finally formulated are incorporated in the draft Five Year Plan. After approval by the full Planning Commission and the Union Cabinet, the Plan is presented before the National Development Council. After the Council has approved/endorsed the Plan, it is laid on the tables of both Houses of the Parliament. The procedure for the formulation of the Annual Plan has been the same as for the Five Year Plan in the case of the States till 1993-94. However, while formulating the Annual Plan 1993-94, the Planning Commission attempted a change in the process of formulation and finalisation of the State Plans. Earlier, the State Plan proposals which used to be need-based, were first discussed in the Working Groups consisting of the officers of the States, the Planning Commission and the Central Ministries and this used to form the basis of discussion between the Deputy Chairman and the Chief Ministers concerned. Invariably, in the process, the Plan proposals were far in excess of the resources and efforts had to be made to match the plan size to the resources in the discussions with the Chief Ministers. For the formulation of Annual Plan 1993-94, the resource evaluation was made first, on the basis of which, the Plan size was decided in the discussion between the Deputy Chairman and the Chief Ministers. The detailed Sectoral allocations were worked out thereafter. This realistic approach in finalising the Plan size has been highly appreciated by the States.

In the sectoral allocations in the State Sector, a change in the system by limiting the earmarking of funds to around 50% of total outlay, contrary to much higher percentages prescribed earlier, was attempted, so as to provide greater flexibility to the States to meet local requirements. This also meets the long standing demand of Chief Ministers in the National Development Council for greater flexibility in the State Plan. In the case of the Centre, firstly, estimates of Centre's resources are called for from the Ministry of Finance and finalised in consultation with that Ministry. In this connection Planning Commission participates in a series of meetings convened by the Ministry of Finance with the Central Ministries to consider and finalise the Internal and Extra Budgetary Resource (IEBR) of the Public Sector Undertakings under the jurisdiction of the concerned Ministries. Secondly, discussions with Central Ministries are held on the draft Plan proposals sent by them and meetings for this purpose are taken by Member-Secretary/Secretary, Planning Commission with the Secretaries of the Ministries/Departments. The Planning Commission has also been laying particular emphasis on the need for improving planning process and capabilities in the States, which bear the primary responsibility for creating and maintaining most of the economic and social infrastructure in the country. Over the years, the Indian planning system has moved from centralized investment planning to a more directional planning methodology. Today the Planning Commission concerns itself with evolving a long-term strategic vision of the economy, decides on priorities and works out the sectoral targets consistent with the strategic vision and priorities. It also indicates the initiatives the government needs to take both in terms of investments and policy changes to realize these objectives. Planning Commission plays an integrative role in the development of a holistic approach to policy formulation in critical areas of human and economic development, specially where both the Centre and the States have a role to play. In the social sector, schemes which require co-ordination and synthesis, like rural health, drinking water, rural energy needs, literacy and environment protection, require co-ordinated policy formulation. The lack of such co-ordination has led to multiplicity of agencies and duplication of efforts, which increases costs and reduces efficiency.

In a federal framework, such an integrated approach can be developed only by the Planning Commission, which has close links with both the Central Ministries and State governments. The

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emphasis of the Commission is also on maximizing the output of the economy by using our limited resources optimally. Although ways of increasing the availability of resources is an important component of planning, it is equally important to look for increasing the efficiency of utilization of the available resources. The priorities, programmes and strategies of the Plan, therefore, have to take into account all these factors. With the emergence of severe constraints on available budgetary resources, the resource allocation system between the States and Ministries of the Central Government are under strain. This requires the Planning Commission to play a mediatory and facilitating role, keeping in view the best interests of the country. It has to ensure smooth management of change and help in creating a culture of high productivity and efficiency in Government, both at the Centre and in the States. The key to efficient utilization of resources lies in the creation of appropriate institutions and self-managed organizations at all levels. In this area, Planning Commission plays a systems change role and provides capability within the Government for developing better systems and institutional design. In order to spread the gains of experience more widely, Planning Commission also plays an information dissemination role regarding best practices obtaining in different States and institutions. Consultation of Planning Commission by Central Ministries on important Issues The Planning Commission (Yojana Ayog) is concerned broadly with technical questions relating to planning and the planning organization itself. The policy and details of specific schemes included in the Plan are matters to be dealt with by the Central Administrative Ministries and State Governments. However, the Planning Commission, being an advisory body, is consulted by the Central Ministries on all important economic and development issues. This enables the Government to have expert advice and ensure that the decisions taken from time to time are in conformity with the strategy and policies indicated in the Plan.

Project Appraisal In order to undertake the techno-economic appraisal of major projects and programmes in the public sector for facilitating the investment decision by the Government, a separate Division known as ‘Project Appraisal Division’ was set up in the Planning Commission in 1972. With the merger of Monitoring and Information Division with this Division, it has been reconstituted as Project Appraisal and Management Division (PAMD) on 6th January, 1994. The PAMD undertakes appraisal of Central Sector projects and schemes in consultation with the subject Divisions of the Planning Commission before these are considered for investment approval/decision by the Public Investment Board or Expenditure Finance Committee depending upon the size and nature of project cost. Presently, all the Central Sector Projects/Schemes costing Rupees 25 crore or more are appraised by this Division. The appraisal by PAMD broadly includes various aspects such as need and justification, linkages with the Plan, Demand Supply, Technical feasibility, Organisational, Managerial and Financial Capabilities of Project Authorities, reliability of cost estimates, financial and economic viability etc. of the projects/schemes. Besides, new proposals, the proposals of the revised cost estimates are also appraised by PAMD. In the light of experience gained in project planning, certain steps have been taken to improve the system of project formulation and implementation. Since the quality of the feasibility report is the main problem and its quality depends upon the extent of studies and investigations, the Government has recently introduced a new system called clearance of proposals, known as “Two-stage clearance System”, for major projects where the cost of the project exceeds Rupees fifty crore or the cost of preparation of feasibility reports exceeds Rupees one crore. At the first stage, proposals for the preparation of feasibility reports would be cleared. The investment decisions would be taken at the second stage on the basis of well prepared feasibility reports. To improve the quality of feasibility reports, the Division has issued sector-specific guidelines particularly for coal, power, industry and mineral sectors. The PAMD has also issued guidelines for the preparation of proposals of revised cost estimates to be processed under

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delegated powers of the Ministries/Departments in consultation with the Planning Commission. Government has issued comprehensive guidelines for formulation, appraisal and approval of all Government funded Plan schemes/projects including social sector projects costing Rupees 50.00 crore and above over a 5 year Plan period The Planning Commission also undertakes certain management and training programmes and caters management support services through its Management Consultancy Development Scheme in selected public utilities with a view to improving efficiency, work environment, performance, management systems and procedures in various Central and State Public Sector Undertakings and other organisations. After the formation of the Department of Programme Implementation in 1985, the monitoring function of the Planning Commission, namely, Central Sector Projects has been transferred to that Department.

Evaluation of Programmes Evaluation and assessment of the development projects/schemes play a key role in generating vital data for effective development planning, particularly in the developing countries. The results of the quick evaluation studies of the ongoing programmes provide results which guide in making mid-course corrections if necessary, in their implementation. Also feedback through evaluation results is an important requirement for assessing the performance, comparing the envisaged with the actual operations and using these information to guide the future line of action. The other detailed post evaluation assessment studies/surveys create data base for future effective and viable planning of development schemes/projects.

For the above purpose scientific evaluation/assessment studies/surveys are being undertaken by the Programme Evaluation Organisation of the Planning Commission and also State Evaluation Bodies to assess the achievement of plan programmes against the stated objectives/goals and targets; impact on the beneficiaries and socioeconomic structure of the community; the mechanism and the adequacy of the delivery system etc. The basic data that becomes available through conduct of the studies/survey, helps in the formulation of Medium and Long-term Plans.

7.3 NATIONAL DEVELOPMENT COUNCIL

The National Development Council (NDC) or Rashtriya Vikas Parishad is the apex body for decision creating and deliberations on development matters in India, presided over by the Prime Minister. It was set up on 6 August 1952 to strengthen and mobilize the effort and resources of the nation in support of the Plan, to promote common economic policies in all vital spheres, and to ensure the balanced and rapid development of all parts of the country. The Council comprises the Prime Minister, the Union Cabinet Minister, Chief Minister of all States or their substitutes, representatives of the Union Territories and the members of the **NITI Aayog**.

NDC (National Development Council) has been proposed to be abolished. But till date no resolution has been passed to abolish it. It is an extra-constitutional and non-statutory body.

History

The first meeting chaired by Prime Minister, Jawharlal Nehru on 8-9 November 1952. So far 57 meetings had been held. The 57th Meeting of National Development Council was held on 27 December 2012 at Vidhan Bhavan, New Delhi,.

Objectives

It has been set up with four objectives:

(i) To secure co-operation of the states in the execution of the plan.

(ii) To strengthen and mobilize the effort and resources of the nation in support of the Plan.

(iii) To promote common economic policies in all vital spheres and.

(iii) To ensure the balanced and rapid development of all parts of the country.

Functions

The functions of the Council are:

(i) To prescribe guidelines for the formulation of the National Plan, including the assessment of resources for the Plan;

(ii) To consider the National Plan as formulated by the NITI Aayog;

(iii) To make an assessment of the resources that are required for implementing the Plan and to suggest measures for augmenting the important questions of social and economic policy affecting national development; and

(iv) To review the working of the Plan from time to time and to recommend such measures as are necessary for achieving the aims and targets set out in the National Plan.

(v) To recommend measures for achievement of the aims and targets set out in the national Plan.

Composition

The National Development Council is presided over by the Prime Minister of India and includes all Union Ministers, Chief Ministers of all the States and Administrators of Union Territories and Members of the NITI Aayog. Ministers of state with independent charge are also invited to the deliberations of the Council.

The 56th meeting of NDC

The 56th meeting of NDC was held on 22 October 2011 to consider the 12th Plan approach paper. The meeting was presided over by Dr Manmohan Singh Prime Minister of India. Dr Montek Singh Ahluwalia, the Dy Chairman of Planning Commission, raised six major issues for consideration at the NDC:

1. Determining the state level five year plans for the Twelfth Plan period early and set targets for growth and other social indicators. They need to be built into consistent national targets for the Twelfth Plan. Create an economic environment that would support the efforts of farmers and entrepreneurs. It will determine much of the outcome in terms of the flow of investment to the State, and the growth of both output and employment.
2. Mobilization and allocation of resources for the Plan. Since inclusive growth depends on the development of rural and urban infrastructure, provision of health services extension of education and skill development, adequate provisioning shall be done for these sectors. Centre's Gross Budgetary Support for the Plan as a ratio of GDP shall be increased while reducing the fiscal deficit. That requires raising of the ratio of tax revenues to GDP, and cut untargeted subsidies. States have to aim at much better revenue performance and also exercise progressive control over subsidies. Early implementation of the GST would not only raise more revenue for both the Centre and the States, it would also create a single market in the country and remove many of the distortions in the indirect tax system. Both

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the Centre and the States must explore the scope for public private partnership, wherever possible to leverage limited public resources.

3. Agriculture needs more attention and priority at State Government levels (e.g. exempting horticultural products entirely from the application of the APMC Act.)
4. Management of energy resources will be a major challenge because rapid growth will require a significant expansion in domestic energy supplies and also a much greater focus on energy efficiency. The viability of the power sector as a whole depends critically upon the financial viability of the distribution system. The total losses of the distribution system, if properly accounted, are probably as high as ₹ 70,000 crores. If the States could cover these losses by subsidies, the system would not be at risk. However, state budgets cannot provide subsidies on this scale and the losses are effectively being funded by the banking system. AT&C losses shall be reduced to 15% by the end of the Twelfth Plan. The electricity tariffs have to be adjusted in line with costs. There is an urgent need to implement a package of distribution reforms combined with tariff increases, which will make the distribution companies viable for all additional sales. The Twelfth Plan version of the Accelerated Power Development Reform Programme should be tailored to provide resources to States taking credible steps along these lines. New energy efficient building standards should be made mandatory.
5. Management of water resources - demand for water in the country is outstripping supply, leading to serious water shortages and unsustainable drawal of ground water in many parts of the country. Whereas we increase the amount of water that is effectively available, the real solution lies in increasing the efficiency of water use. At present, almost 80% of our water is used in agriculture, and it is used very inefficiently. Water use in agriculture can be cut to half with known technology, e.g., by switching from flood irrigation of paddy to SRI. Water availability can be improved by treating sewage water before it enters our fresh water system. At present, only about 30% of sewage water is treated. There are similar problems with industrial effluents. With urbanisation and industrialisation set to accelerate, these pressures on our fresh water systems will increase. Corrective action in all these areas lies largely in the domain of state governments. The Approach paper called for a comprehensive re-examination of water policy including changes in the laws. It also calls for empowered water regulatory authorities which can ensure effective allocation of water to different uses and also different areas. Some States have introduced innovative schemes for rational use of water by involving farmers actively. Future assistance under AIBP should be linked to moves which ensure more rational use of water.
6. Improve implementation of Plan schemes on the ground. Over the past several years, we have greatly expanded the volume of resources devoted to various flagship programmes in health, education, clean drinking water, sanitation, area development programme, etc. The while these schemes focus on the right areas, their implementation leaves a great deal to be desired. Report of the Chaturvedi Committee made a number of recommendations on the need for streamlining the centrally sponsored schemes. Ways of improving governance, promoting innovation, extending e-governance to the panchayat level, introducing transparency in government programmes and use of the UID number combined with the benefits of IT become areas of priority. The Aadhar platform can be used to improve efficiency in many of these programmes. The Central Plan Scheme Monitoring System will be used to serve as a management information and decision support system which will

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enable tracking of the Central government disbursements under a Centrally Sponsored Scheme. There is a need to track funds from the State Governments down through different levels in the state Government to the final expenditure incurred at the implementing level.

7.4 MECHANISM OF POLICY FORMULATION AT NATIONAL AND REGIONAL LEVEL

How are Five-Year Plans Formulated

The Planning Commission has come out with a draft Approach Paper for the Eleventh Five-Year Plan that will come into effect from April 1, 2007. The draft paper has suggested four economic growth alternatives for the next Plan. The government will have to adopt one of the alternatives and dovetail its policies to meet the growth target. In view of the importance of the planning exercise and its impact on economy and growth, let us take a closer look at the Approach Paper and the planning process:

What is the Approach Paper

The Planning Commission, as part of the Plan formulation exercise, comes out with an Approach Paper. It sets the tone for the next Plan by assessing the available resources, fixing the growth target and suggesting a broad strategy for achieving targeted growth. The Paper also takes into account the performance of the existing Plan before exploring the possibility of scaling up growth in the next Plan.

Usually, the Approach Paper is prepared internally by the Planning Commission. It suggests the possible economic growth target which is invariably accepted by National Development Council (NDC). This time, however, the Planning Commission has come out with alternative growth models and circulated the paper among various stakeholders, including the Central ministries, state governments and think-tanks for public debate. Finally, one of the alternatives will be picked up for the Eleventh Plan.

What are the different growth alternatives

The Paper has suggested four growth alternatives7%, 8%, 8.5% and 9%. Each alternative is further divided into sub-alternatives on the basis of assumptions. For instance, if the government wants to pursue a 9% growth target, it would have to raise the requisite resources for funding growth.

If the government decides to shift the FRBM targets to 2010-11, the resources required by way of revenue, savings and foreign investment would be less. Similarly, the Approach Paper has presented a different set of sub-alternatives for the other altnernatives too.

In practical terms, it means that if the government wants to achieve 9% growth in the Eleventh Plan and also meet the various FRBM targets, it would be required to take tough decisions. Alternatively, the government can adopt a soft approach by adopting a 7% growth target without making any effort to achieve the FRBM targets.

How will the Growth Target be Fixed

After debate and discussion, the Planning Commission will finalise the draft Paper. The growth target will be fixed by the full Planning Commission which comprises the Prime Minister, finance minister, other important Central ministers and all full-time members of the panel. Thereafter, the

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draft Approach Paper will be placed before the Unin cabinet for approval. Lastly, it will be placed before the National Development Council for final approval.

How is the Plan Finalised

As part of the Plan formulation exercise, the Commission sets up working groups on various subjects manned by experts. Each group looks into existing problems, makes an assessment of the fund requirements and suggests measures for accelerating growth. The working group reports are assimilated by the steering committees that take a sectoral view of the problem. For instance, there could be different working groups for thermal, hydel and nuclear power. All these reports will then be considered by the steering committee on energy which will then suggest a broad strategy for the sector.

The steering committees also take into account the Approach Paper, as approved by the NDC, while drawing the draft Plan document. The Plan document is primarily an extension of the Approach Paper and lays down the strategy for achieving targeted growth.

The draft document, which is prepared by the Planning Commission internally, is placed before the full Plan panel for approval. Thereafter, it goes to the Union cabinet and finally to the NDC. The draft becomes final once approved by the NDC.

Why is NDCs Approval Necessary

The NDC is headed by the PM. Other members include some Union ministers, chief ministers of all states and Union Territories. It is a body which represents the entire nation. Since the Planning Commission formulates a Plan for the entire country, its approval by a representative body like the NDC becomes necessary.

How much Time does it take for the Government to Finalise a Five Year Plan

Drawing a Plan is an exhaustive academic and administrative exercise. The whole process, beginning from the setting up of working groups to final approval of the draft document by the NDC takes about a year-and-a-half to two years.

7.5 PLAN FORMULATION AND IMPLEMENTATION IN INDIA

In India, achievement of growth did not ensure full development nor did it lead to removal of poverty—which have consistently been the goals of economic planning. Mainly due to implementation failure there was more unemployment at the end than at the beginning of each Five Year Plan. The consequence of continuing unemployment was a lower growth rate and perpetuation of poverty.

The strategy of eradicating poverty through growth has largely failed as the number of poor in proportion to the total population has kept on increasing. Faced with growing poverty, the poor are increasingly losing faith in the plan premises.

Another fact of poverty is inequality in income and wealth distribution and concentration of economic power in the private corporate sector. The egalitarian policies to narrow down inequalities in income and wealth have largely failed as is evident from the deteriorating share of the bottom 20% households in the nation's income and consumption expenditures in rural and urban areas.

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Even after 60 years of Independence there is an economic polarisation between classes, with the rich living in luxury, using goods and services sought after in the developed Western world, and the poor saddled with living standards that are unbelievably low. The striking contrast between the rich and the poor in India is unparalleled in any civilized society.

In the face of glowing inequalities it is the non-poor classes which have been the major beneficiaries of most of the policies ostensibly adopted for the benefit of the poor! The pattern of resource allocation is clearly in favour of producing goods and services for the rich, rather than for the poor. All these indicators make the **"Garibi Hatao"** slogan a farce.

Formulation of current economic policy is one thing, and its implementation quite another. In India, there has, all along, been a wide gap between Planned policies and their actual implementation. Consequently, it is widely held that Indian Plans are 'political documents' or 'statement of hopes' and those no longer arouse enthusiasm among the general public.

Compliance with existing laws and regulations can go a long way in achieving the goals of economic planning, including equality in income and wealth distribution. There can be no social justice for the weaker sections if the executors of egalitarian policies have a vested interest in retaining their social and economic power. The foremost task ahead of the nation is enforcement of law, and narrowing down the gap between a Plan and its implementation.

The Role of Planning in Liberalised Economy

Planning is, no doubt, a programme of actions regarding the future. It is also a technique of managing an economy. It is an instrument for controlling the private sector of the economy.

India has adopted a programme of planned economic development since 1951. However, in spite of Planning, India has not achieved satisfactory growth. It has also failed to eliminate poverty and ensure equity. Moreover, the poor performance of the controlled planned economy ultimately led to collapse of socialism in erstwhile Soviet Union and several East European countries.

In India a crisis situation developed in May 1991. And the government adopted a policy of economic liberalisation in June 1991 by removing some controls and relaxing others. This virtually led to partial departure from Planning and a bold step forward towards a market- based economy. Planning was no longer considered to be a technique of controlling the private sector of the economy. It was just taken as a broad framework for guiding the economy in the desired direction.

Failure of Planning

India's Plans have failed to achieve their basic goals. The economic conditions of the poor have not increased much since the first decade of planning. So Planning has lost its relevance to the masses and they have lost faith in Planning. This is why the 9th Plan (1997-2002) generated hardly any excitement unlike the first eight plans. The reason was not that the 8th Plan was bad compared to the earlier plans.

The same was true of the 10th Plan (2002-2007) which has just been completed. Both were good Plans, at least on paper. But, in reality, they left much to be desired. Planning no longer secures importance since no Plan is effective without active support and participation of the people at the grassroots level. Planning has lost its relevance. So it generates no hopes and no longer excites imagination.

Neglect of Policies

Planners themselves are responsible for this disillusionment with Planning. In the past all Plans have emphasised the need for efficient allocation of resources. This preoccupation with allocative efficiency and optimality along with a neglect of policies has resulted in such inefficiency of resource use that India's growth purpose in the first four decades of planning (1951-1990) left much to be desired.

It was felt that much higher growth rate could have been achieved if simple economic policies were followed. What was even more distressing was that the growth performance has been low despite consistent rise in both saving and investment rates.

Planning did not ensure equity or distribution of justice either. No doubt various efforts were made to eradicate poverty but the results of the efforts were not satisfactory. Poverty persists in abundant measures eventually. Thus the main reason for disillusionment with planning is the perpetuation of poverty in an economy, where the growth preference itself has been dismal. Most Plans stressed input-substitution, self-reliance and dominant role of state and the public sector. But they have failed in fulfilling the objectives of poverty-alleviation and satisfaction of public needs.

Resource Allocation Through Markets

The failure of planning in bringing redistribution with growth brought into focus the importance of efficiency not only in the allocation but also in the use of resources. It was felt in the early 1990s that market mechanism and competition could attain efficiencies better than control Planning has been able to do.

Is Planning Needed Now?

The reforms introduced in July (1991) sought to promote competition and ensure efficiency in resource use; to exploit the opportunities of trade in a globalized economy; to force entrepreneurs from bureaucratic constraints on scale of production, choice of location and techniques as well as of product mix; to make imports and exports easier; to facilitate ease of entry; to provide easy access to adequate credit and technology. Indian industries are now free regarding their products, processing, places of location and plant size.

Most imports no longer require an import licence and tariffs have been reduced. The process of financial liberalisation has begun and fiscal reforms are also on way (such as reduction of fiscal deficit and prudence in government expenditure). So the question has naturally arisen: Is Planning needed in deregulated market economy? If so, what is its exact role?

Need for Planning

The basic justification for Planning in a liberalised economy has been expressed in the Prime Minister's description to the 8th Plan (1992-1997)-

The market can be expected to bring about an 'equilibrium' between 'demand'-backed by purchasing power—and 'supply', but it will not be able to ensure a balance between 'need' and 'supply'.

Even today 37% of the population is so poor that it does not have enough income to meet its 'needs' and government intervention is necessary. So during the 10th Plan (2002-07), the trend towards transition to a liberalised economy has to be managed and perfected with great care.

Fulfilling Social Objectives

Giving up central planning, positive setting, licence-permit regime variety, does not mean giving up social objectives. If we are to serve the objectives better and faster a reliance on markets and decentralisation is desirable. Of course, markets as well as the governments have a role in ensuring this.

Planning as a Transfer (Redistribution) Mechanism

In addition, Planning is needed to provide transfers. An important role of Planning lies in designing and monitoring redistributive purposes. An important redistributive measure is promoting human resource development. According to Sen, elementary education and primary health care can improve the skills of the poor as also their ability to acquire marketable skills. A more equitable distribution of knowledge and skills will improve social welfare.

Need for Informational Decentralisation

Decentralisation of economic decisions still seems to be the most practical approximation of liberalised economy. Both central planning and decentralisation in a liberalised market-based economy require vast amounts of information which the government alone can provide.

Provision of Public Goods

There is another area of government action or planning—*viz*, provision of public good and services. There is also need for promotion of optimum use of environmental resource through appropriate prices.

Interregional Equity

Another objective of planning which is still valid is the promotion of inter-regional equity. Backward regions—just like poor people—need transfers. The government can help backward regions through provision of other incentives.

Role of Planning in New Era

The role of planning is:

(i) To ensure that all markets are functional.

(ii) To plan public action in areas where externalities create natural monopolies.

(iii) To act as a forum for the poor in decision-making.

(iv) To maintain macroeconomic stability to prevent real income of the poor from falling.

Greater equity can be brought about faster by investing in skill formation, human resource deficit and by providing health and education.

Employment Creation

Planning should also concern itself with programmes targeting transfers such as employment guarantee schemes to provide immediate relief to the poor at the national level. The availability of an alternative employment opportunity increases the power of unskilled workers to demand fair wages. This, in its turn, will increase the value of labour.

The above targets are achievable and should be the central theme of Planning. However, Planning cannot be done in isolation of economic policy formation. Planning and policy analysis must be integrated. The present Five Year Plan models are not adequate for this purpose.

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7.6 SUMMARY

1. The Planning Commission was an institution in the Government of India, which formulated India's Five-Year Plans, among other functions.
2. The first Five-Year Plan was launched in 1951, focusing mainly on development of the agricultural sector.
3. The composition of the Commission underwent considerable changes since its initiation. With the Prime Minister as the ex officio Chairman, the committee had a nominated Deputy Chairman, with the rank of a full Cabinet Minister.
4. Planning Commission was set up in March, 1950.
5. The PAMD undertakes appraisal of Central Sector projects and schemes in consultation with the subject Divisions of the Planning Commission before these are considered for investment approval/decision by the Public Investment Board or Expenditure Finance Committee depending upon the size and nature of project cost.

7.7 SELF ASSESSMENT QUESTIONS

1. Explain the function of Planning Commission.
2. Explain the role played by the National Development Council.
3. Explain the Mechanism of policy formulation at national and regional level.

Chapter

8

INDIAN PLANS AND ORISSA PLANS

Learning Objectives

The objectives of this lesson are to:

- India's Five Year Plan
- Orissa Plans

Structure:

8.1 INDIA'S FIVE YEAR PLAN

From 1947 to 2017, the Indian economy was premised on the concept of planning. This was carried through the Five-Year Plans, developed, executed, and monitored by the Planning Commission (1951-2014) and the NITI Aayog (2015-2017). With the prime minister as the ex-officio chairman, the commission has a nominated deputy chairman, who holds the rank of a cabinet Minister. Montek Singh Ahluwalia is the last deputy chairman of the commission (resigned on 26 May 2014). The Twelfth Plan completed its term in March 2017. Prior to the Fourth Plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which led to the adoption of the Gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans. The new government led by Narendra Modi, elected in 2014, has announced the dissolution of the Planning Commission, and its replacement by a think tank called the NITI Aayog (an acronym for National Institution for Transforming India).

History

Five-Year Plans (FYPs) are centralized and integrated national economic programs. Joseph Stalin implemented the first Five year plan in the Soviet Union in 1928. Most communist states and several capitalist countries subsequently have adopted them. China and India both continue to use FYPs, although China renamed its Eleventh FYP, from 2006 to 2010, a guideline (guihua), rather than a plan (jihua), to signify the central government's more hands-off approach to development. India launched its First FYP in 1951, immediately after independence under socialist influence of first Prime Minister Jawaharlal Nehru.

The First Five-Year Plan was one of the most important because it had a great role in the launching of Indian development after Independence. Thus, it strongly supported agriculture production and it also launched the industrialization of the country (but less than the Second Plan, which focused on heavy industries). It built a particular system of mixed economy, with a great role for the public sector (with an emerging welfare state), as well as a growing private sector (represented by some personalities as those who published the Bombay Plan).

First Plan (1951-1956)

The first Indian Prime Minister, Jawharlal Nehru presented the First Five-Year Plan to the Parliament of India and needed urgent attention. The First Five-year Plan was launched in 1951 which mainly focused in development of the primary sector. The First Five-Year Plan was based on the Harrod –Domar model with few modifications.

The total planned budget of ₹ 2069 crore (2378 crore later) was allocated to seven broad areas: irrigation and energy (27.2%), agriculture and community development (17.4%), transport and communication (24%), industry (8.4%), social service (16.6%), rehabilitation (4.1%), and for other sectors and services (2.5%). The most important feature of this phase was active role of state in all economic sectors. Such a role was justified at that time because immediately after independence, India was facing basic problems—deficiency of capital and low capacity to save.

The target growth rate was 2.1% annual Gross Domestic Product (GDP) growth; the achieved growth rate was 3.6% the net domestic product went up by 15%. The monsoon was good and there were relatively high crop yields, boosting exchange reserves and the per capita income, which increased by 8%. National income increased more than the per capita income due to rapid population growth. Many irrigation projects were initiated during this period, including the Bhakra, Hirakud, Mettur Dam and Damodar Valley dams. The World Health Organization (WHO), with the Indian Government, addressed children’s health and reduced infant mortality, indirectly contributing to population growth.

At the end of the plan period in 1956, five Indian Institute of Technology (IITs) were started as major technical institutions. The University Grants Commission (UGC) was set up to take care of funding and take measures to strengthen the higher education in the country. Contracts were signed to start five steel plants, which came into existence in the middle of the Second Five-Year Plan. The plan was quasi successful for the government.

Second Plan (1956-1961)

The Second Plan was particularly in the development of the public sector and “rapid Industrialisation”. The plan followed the Mahalanobis model, an economic development model developed by the Indian statistician Prasant Chandra Mahalanobis in 1953. The plan attempted to determine the optimal allocation of investment between productive sectors in order to maximise long-run economic growth. It used the prevalent state of art techniques of operations research and optimization as well as the novel applications of statistical models developed at the Indian Statistical Institute. The plan assumed a closed economy in which the main trading activity would be centred on importing capital goods.

Hydroelectric power projects and five steel plants at Bhilai, Durgapur, and Rourkela were established with the help of Russia, Britain (the U.K) and West Germany respectively. Coal production was increased. More railway lines were added in the north east.

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The Tta Institute of Fundamental Research and Atomic Energy Commission of India was established as research institutes. In 1957 a talent search and scholarship program was begun to find talented young students to train for work in nuclear power.

The total amount allocated under the Second Five-Year Plan in India was ₹ 48 billion. This amount was allocated among various sectors: power and irrigation, social services, communications and transport, and miscellaneous.

The target growth rate was 4.5% and the actual growth rate was 4.27%.

Third Plan (1961-1966)

The Third Five-year Plan, stressed agriculture and improvement in the production of wheat, but the brief Sino-Indian war of 1962 exposed weaknesses in the economy and shifted the focus towards the defence industry and the Indian Army. In 1965-1966, India fought a War with Pakistan. There was also a severe drought in 1965. The war led to inflation and the priority was shifted to price stabilisation. The construction of dams continued. Many cement and fertilizer plants were also built. Punjab began producing an abundance of wheat.

Many primary schools were started in rural areas. In an effort to bring democracy to the grass-root level, Panchayat elections were started and the states were given more development responsibilities.

State electricity boards and state secondary education boards were formed. States were made responsible for secondary and higher education. State road transportation corporations were formed and local road building became a state responsibility.

The target growth rate was 5.6%, but the actual growth rate was 2.4%.

Due to miserable failure of the Third Plan the government was forced to declare "plan holidays" (from 1966-67, 1967-68, and 1968-69). Three annual plans were drawn during this intervening period. During 1966-67 there was again the problem of drought. Equal priority was given to agriculture, its allied activities, and industrial sector. The government of India declared "Devaluation of Rupee" to increase the exports of the country. The main reasons for plan holidays were the war, lack of resources, and increase in inflation.

Fourth Plan (1969-1974)

At this time Indiira Gandhi was the Prime Minister. The Indira Gandhi government nationalised 14 major Indian banks and the Green Revolution of India advanced agriculture. In addition, the situation in East Pakistan (now Bangladesh) was becoming dire as the Indo-Pkistan War of 1971 and Bangladesh Liberation War took funds earmarked for industrial development. India also performed the Simla Buddha underground nuclear test (Pokhran-1) in Rajasthan on May 18, 1974, partially in response to the United States deployment of the Seventh Fleet in the Bay of Bengal. The fleet had been deployed to warn India against attacking West Pakistan and extending the war.

The target growth rate was 5.6%, but the actual growth rate was 3.3%.

Fifth Plan (1974-1978)

The Fifth Five-Year Plan laid stress on employment, poverty alleviation (Garibi Hatao), and justice. The plan also focused on self-reliance in agricultural production and defence. In 1978 the newly elected Morarji government rejected the plan. The Electricity Supply Act was amended in 1975, which enabled the central government to enter into power generation and transmission.

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The Indian national highway system was introduced and many roads were widened to accommodate the increasing traffic. Tourism expanded. The twenty-point programme was launched in 1975. It was followed from 1974 to 1979.

The Minimum Needs Prgramme (MNP) was introduced in the first year of the Fifth Five Year Plan (1974-78). The objective of the programme is to provide certain basic minimum needs and thereby improve the living standards of the people.

The target growth rate was 4.4% and the actual growth rate was 4.8%.

Rolling Plan (1978-1980)

The Janta party government rejected the Fifth Five-Year Plan and introduced a new Sixth Five-Year Plan (1978-1980). This plan was again rejected by the Indian National Congress government in 1980 and a new Sixth Plan was made. The Rolling Plan consisted of three kinds of plans that were proposed. The First Plan was for the present year which comprised the annual budget and the Second was a plan for a fixed number of years, which may be 3, 4 or 5 years. Plan number two kept changing as per the requirements of the Indian economy. The Third Plan was a perspective plan for long-terms i.e., for 10, 15 or 20 years. Hence there was no fixation of dates for the commencement and termination of the plan in the rolling plans. The main advantage of the rolling plans was that they were flexible and were able to overcome the rigidity of fixed five-year plans by mending targets, the object of the exercise, projections and allocations as per the changing conditions in the country's economy. The main disadvantage of this plan was that if the targets were revised each year, it became difficult to achieve the targets laid down in the five-year period and it turned out to be a complex plan. Also, the frequent revisions resulted in the lack of stability in the economy.

Sixth Plan (1980-1985)

The Sixth Five-Year Plan marked the beginning of economic liberalization. Price controls were eliminated and ration shops were closed. This led to an increase in food prices and an increase in the cost of living. This was the end of Nehruvian socialism. The National Bank for Agriculture and Rural Development was established for development of rural areas on 12 July 1982 by recommendation of the Shivaraman Committee. Family planning was also expanded in order to prevent over population. In contrast to China's strict and binding one child policy, Indian policy did not rely on the threat of force. More prosperous areas of India adopted family planning more rapidly than less prosperous areas, which continued to have a high birth rate.

The Sixth Five-Year Plan was a great success to the Indian economy. The target growth rate was 5.2% and the actual growth rate was 5.4%. The only Five-Year Plan which was done twice.

Seventh Plan (1985-1990)

The Seventh Five-Year Plan was led by the Congress Party with Rajiv Gandhi as the prime minister. The plan laid stress on improving the productivity level of industries by upgrading of technology.

The main objectives of the Seventh Five-Year Plan were to establish growth in areas of increasing economic productivity, production of food grains, and generating employment through "Social Justice".

As an outcome of the Sixth Five-Year Plan, there had been steady growth in agriculture, controls on the rate of inflation, and favourable balance of payments which had provided a strong base for the Seventh Five-Year Plan to build on the need for further economic growth. The Seventh

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Plan had strived towards socialism and energy production at large. The thrust areas of the Seventh Five-Year Plan were: social justice, removal of oppression of the weak, using modern technology, agricultural development, anti-poverty programmes, full supply of food, clothing, and shelter, increasing productivity of small- and large-scale farmers, and making India an independent economy.

Based on a 15-year period of striving towards steady growth, the Seventh Plan was focused on achieving the prerequisites of self-sustaining growth by the year 2000. The plan expected the labour force to grow by 39 million people and employment was expected to grow at the rate of 4% per year.

Some of the expected outcomes of the Seventh Five-Year Plan India are given below:

- **Balance of payments (estimates):** Export – ₹ 330 billion (US$4.6 billion), Imports – (-) ₹ 540 billion (US$7.5 billion), Trade Balance – (-) ₹ 210 billion (US$2.9 billion)
- **Merchandise exports (estimates):** ₹ 606.53 billion (US$8.4 billion)
- **Merchandise imports (estimates):** ₹ 954.37 billion (US$13.3 billion)
- **Projections for balance of payments:** Export – ₹ 607 billion (US$8.5 billion), Imports – (-) ₹ 954 billion (US$13.3 billion), Trade Balance – (-) ₹ 347 billion (US$4.8 billion)

Under the Seventh Five-Year Plan, India strove to bring about a self-sustained economy in the country with valuable contributions from voluntary agencies and the general populace.

The target growth rate was 5.0% and the actual growth rate was 6.01%. and the growth rate of per capita income was 3.7%.

Annual Plans (1990-1992)

The Eighth Plan could not take off in 1990 due to the fast changing political situation at the centre and the years 1990-91 and 1991-92 were treated as Annual Plans. The Eighth Plan was finally formulated for the period 1992-1997.

Eighth Plan (1992-1997)

1989-91 was a period of economic instability in India and hence no five-year plan was implemented. Between 1990 and 1992, there were only Annual Plans. In 1991, India faced a crisis in foreign exchange (forex) reserves, left with reserves of only about US$1 billion. Thus, under pressure, the country took the risk of reforming the socialist economy. P.V. Narasimha Rao was the ninth Prime Minister of the Republic of India and head of Congress party, and led one of the most important administrations in India's modern history, overseeing a major economic transformation and several incidents affecting national security. At that time Dr. Manmohan Singh (later Prime Minister of India) launched India’s free market reforms that brought the nearly bankrupt nation back from the edge. It was the beginning of Liberalization, Privatisation, and Globalization (LPG) in India.

Modernization of industries was a major highlight of the Eighth Plan. Under this plan, the gradual opening of the Indian economy was undertaken to correct the burgeoning deficit and foreign debt. Meanwhile, India became a member of the World Trade Organization on 1 January 1995. The major objectives included, controlling population growth, poverty reduction, employment generation, strengthening the infrastructure, institutional building, tourism management, human resource development, involvement of Panchavati rajs, Nagar Palikas, NGOs, decentralisation and people’s participation.

Energy was given priority with 26.6% of the outlay.

The target growth rate was 5.6% and the actual growth rate was 6.8%.

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To achieve the target of an average of 5.6% per annum, investment of 23.2% of the gross domestic product was required. The incremental capital ratio is 4.1. The saving for investment was to come from domestic sources and foreign sources, with the rate of domestic saving at 21.6% of gross domestic production and of foreign saving at 1.6% of gross domestic production.

Ninth Plan (1997-2002)

The Ninth Five-Year Plan came after 50 years of Indian Independence. Atal Bihari Vajpayee was the Prime Minister of India during the Ninth Five-Year Plan. The Ninth Five-Year Plan tried primarily to use the latent and unexplored economic potential of the country to promote economic and social growth. It offered strong support to the social spheres of the country in an effort to achieve the complete elimination of poverty. The satisfactory implementation of the Eighth Five-Year Plan also ensured the states ability to proceed on the path of faster development. The Ninth Five-Year Plan also saw joint efforts from the public and the private sectors in ensuring economic development of the country. In addition, the Ninth Five-Year Plan saw contributions towards development from the general public as well as governmental agencies in both the rural and urban areas of the country. New implementation measures in the form of Special Action Plans (SAPs) were evolved during the Ninth Five-Year Plan to fulfill targets within the stipulated time with adequate resources. The SAPs covered the areas of social infrastructure, agriculture, information technology and Water policy.

Budget

The Ninth Five-Year Plan had a total public sector plan outlay of ₹ 859,200 crore (US$120 billion). The Ninth Five-Year Plan also saw a hike of 48% in terms of plan expenditure and 33% in terms of the plan outlay in comparison to that of the Eighth Five-Year Plan. In the total outlay, the share of the center was approximately 57% while it was 43% for the states and the union territories.

The Ninth Five-Year Plan focused on the relationship between the rapid economic growth and the quality of life for the people of the country. The prime focus of this plan was to increase growth in the country with an emphasis on social justice and equity. The Ninth Five-Year Plan placed considerable importance on combining growth oriented policies with the mission of achieving the desired objective of improving policies which would work towards the improvement of the poor in the country. The Ninth Five-Year Plan also aimed at correcting the historical inequalities which were still prevalent in the society.

Objectives

The main objective of the Ninth Five-Year Plan was to correct historical inequalities and increase the economic growth in the country. Other aspects which constituted the Ninth Five-Year Plan were:

- Population control.
- Generating employment by giving priority to agriculture and rural development.
- Reduction of poverty.
- Ensuring proper availability of food and water for the poor.
- Availability of primary health care facilities and other basic necessities.
- Primary education to all children in the country.
- Empowering the socially disadvantaged classes like Schedules castes, Schedule Tribes and other backward classes.

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- Developing self-reliance in terms of agriculture.
- Acceleration in the growth rate of the economy with the help of stable prices.

Strategies

Structural transformations and developments in the Indian economy.

New initiatives and initiation of corrective steps to meet the challenges in the economy of the country.

Efficient use of scarce resources to ensure rapid growth.

Combination of public and private support to increase employment.

Enhancing high rates of export to achieve self-reliance.

Providing services like electricity, telecommunication, railways etc.

Special plans to empower the socially disadvantaged classes of the country.

Involvement and participation of Panchayati Raj institutions/bodies and Nagar Palikas in the development process.

Performance

The Ninth Five-Year Plan achieved a GDP growth rate of 5.4% against a target of 6.5%.

The agriculture industry grew at a rate of 2.1% against the target of 4.2%.

The industrial growth in the country was 4.5% which was higher than that of the target of 3%.

The service industry had a growth rate of 7.8%.

An average annual growth rate of 6.7% was reached.

The Ninth Five-Year Plan looks through the past weaknesses in order to frame the new measures for the overall socio-economic development of the country. However, for a well-planned economy of any country, there should be a combined participation of the governmental agencies along with the general population of that nation. A combined effort of public, private, and all levels of government is essential for ensuring the growth of India's economy.

The target growth was 7.1% and the actual growth was 6.8%.

Tenth Plan (2002-2007)

The main objectives of the Tenth Five-Year Plan:

- Attain 8% GDP growth per year.
- Reduction of poverty rate by 5% by 2007.
- Providing gainful and high-quality employment at least to the addition to the labour force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007.
- 20-point program was introduced.
- **Target growth:** 8.1% – growth achieved: 7.7%.

The Tenth Plan was expected to follow a regional approach rather than sectoral approach to bring down regional inequalities.

Expenditure of ₹ 43,825 crore (US$6.1 billion) for tenth five years.

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Out of total plan outlay, ₹ 921,291 crore (US$130 billion) (57.9%) was for central government and ₹ 691,009 crore (US$96 billion) (42.1%) was for states and union territories.

Eleventh Plan (2007-2012)

It was in the period of Manmohan Singh as a prime minister.

It aimed to increase the enrolment in higher education of 18-23 years of age group by 2011-12.

It focused on distant education, convergence of formal, non-formal, distant and IT education institutions.

Rapid and inclusive growth (poverty reduction).

Emphasis on social sector and delivery of service therein.

Empowerment through education and skill development.

Reduction of gender inequality.

Environmental sustainability.

To increase the growth rate in agriculture, industry and services to 4%, 10% and 9% respectively.

Reduce total fertility rate to 2.1.

Provide clean drinking water for all by 2009.

Increase agriculture growth to 4%.

Twelfth Plan (2012-2017)

The Twelfth Five-Year Plan of the Government of India has been decided to achieve a growth rate of 8.2% but the National Development Council (NDC) on 27 December 2012 approved a growth rate of 8% for the Twelfth Five-Year Plan.

With the deteriorating global situation, the Deputy Chairman of the Planning Commission Montek Singh Ahluwalia has said that achieving an average growth rate of 9 per cent in the next five years is not possible. The Final growth target has been set at 8% by the endorsement of the plan at the National Development Council meeting held in New Delhi.

"It is not possible to think of an average of 9% (in the 12th plan). I think somewhere between 8 and 8.5 per cent is feasible," Ahluwalia said on the sidelines of a conference of State Planning Boards and departments. The approached paper for the 12th Plan, approved last year, talked about an annual average growth rate of 9%.

"When I say feasible... that will require major effort. If you don't do that, there is no God given right to grow at 8 per cent. I think given that the world economy deteriorated very sharply over the last year...the growth rate in the first year of the 12th Plan (2012-13) is 6.5 to 7 per cent."

He also indicated that soon he should share his views with other members of the Commission to choose a final number (economic growth target) to put before the country's NDC for its approval.

The government intends to reduce poverty by 10% during the 12th Five-Year Plan. Ahluwalia said, "We aim to reduce poverty estimates by 9% annually on a sustainable basis during the Plan period". Earlier, addressing a conference of State Planning Boards and Planning departments, he said the rate of decline in poverty doubled during the 11th Plan. The commission had said, while using the Tendulkar poverty line, the rate of reduction in the five years between 2004-05 and 2009-10, was

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about 1.5% points each year, which was twice that when compared to the period between 1993-95 to 2004-05. The plan aims towards the betterment of the infrastructural projects of the nation avoiding all types of bottlenecks. The document presented by the planning commission is aimed to attract private investments of up to US$1 trillion in the infrastructural growth in the 12th five-year plan, which will also ensure a reduction in the subsidy burden of the government to 1.5 per cent from 2 per cent of the GDP (Gross Domestic Product). The UID (Unique Identification Number) will act as a platform for cash transfer of the subsidies in the plan.

The objectives of the Twelfth Five-Year Plan were:

- To create 50 million new work opportunities in the non farm sector.
- To remove gender and social gap in school enrolment.
- To enhance access to higher education.
- To reduce malnutrition among children aged 0-3 years.
- To provide electricity to all villages.
- To ensure that 50% of the rural population have accesses to proper drinking water.
- To increase green cover by 1 million hectare every year.
- To provide access to banking services to 90% of households.

8.2 ORISSA PLANS

Adoption of Five Year Plans (FYP) at the national and State level was considered to be a major step for integrated and balanced development of the country. Accordingly Orissa has adopted the first Five Year Plan 1951-56 and all subsequent plans. The State is passing through 2nd year of the 11th plan starting from 2007-08. In the entire period beginning from 1951, few Annual Plans have been taken up, besides the five year plans in the absence of approved Five Year Plan Documents. The annual plans were adopted for the periods 1966-69 (3 years) & 1978-80 (2 years). 1990-92 (2 years). The approved plan outlay of Orissa were not revised from first five year plan 1951-56 to annual plan 1979-80 with 5 Five Year Plans and Five Annual Plans. The 6th and 7th Five Year plans were revised upward and all other Five Year Plans and Annual plans were revised down ward with plan cuts ranging from 16.41% in the annual plan 1990-91 and 29.92% in 8th Five Year Plan. As regards achievement of targets fixed in the revised plan outlays for different plan periods, it is pertinent to note that the state has achieved 100% and above in 4th five year plan period (112.01%), Sixth Five year Plan (100.12%), annual plan 1990-91 (104.48%), 9th five year plan (101.05%) and also in the years 2004-05 & 2006-07 of 10th plan period. Achievement of 95 to 99.99% were made in 3rd and 5th (FYP) Annual plan 1978-79, 7th (FYP), annual 1991-92, 8th (FYP) and first year (2002-03) of 10th Five Year Plan period. 1st Five Year Plan and annual plans 1966-69 marked achievement of 91.82% and 94.09% respectively. But Second Five year Plan, Annual plan (1979-80). Annual Plan 2003-04 marked achievement below 90%. On review of the year wise achievements in 8th, 9th and 10th plan periods,. it is revealed that 100% or more achievements in above expenditure were made during the years, 1993-94, 1994-95, 1995-96 of 8th Plan and 1998-99, 2000-01 and 2001-02 of 9th plan. It is fact that revision of plan outlay was realistic at the present juncture as against huge plan outlay originally approved. The approved original plan outlay seems to be very unrealistic and ambitious without looking at the actual resource available for the plan expenditure when loans are incurred to fill up the non-plan gap. Approved Plan outlay for the year 2006-07 of ₹ 3500.00 crores

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was revised upward to ₹ 3600.00 crore with actual achievement above 100%. The approved State Plan Outlay for the year 2007-08 has been fixed at ₹ 105.00 crores is at a much higher level, which has been 251 revised upwards to ₹ 5520.00 crore. There will be not much difficulty for funding of State Plan Outlay in 2007-08 because of the realistic assessment of resources and better Fiscal Management. The surplus generated in the non-plan revenue account can be utilized for higher Plan Expenditure particularly in the Capital Sector. Further keeping this in mind, the plan outlay for 2008-09 has been pegged at ₹ 7,500.00 crore with total 11th Plan outlay of ₹ 32225.00 crore. During the 8th plan period Irrigation and Flood Control, Energy, Industries and Minerals and social services sectors were given priority. In the 9th plan, Rural Development, Irrigation and Flood Control, Transport and Social Services were kept ahead of other sectors. But in the 10th Plan, Agricultural and allied activities Irrigation and Flood Control, Transport, General Economic Services and Social Services Sectors were given priority over other sectors. In 11th plan period target have been fixed for higher investment in Agriculture, Rural Development, Irrigation, Energy, Transport and Science & Technology. The Average real growth in the State's economy (GSDP at constant prices), in the 8th and 9th Plan period were 2.30% and 5.47% respectively. 10th plan has marked an average growth of 8.59% (at 1999-2000 prices). Tertiary and Finance Services Sector have marked the highest average growth of 13.57% and 5.60% during 10th Plan period. Tertiary and Finances Services sector always recorded high growth in 8th, 9th and 10th Plan period. Growth of GSDP (at current prices), of the State from 1st plan to 10th plan were very optimistic. The lowest growth in GSDP in the 2nd plan period was 5.5% and highest was 15.6% in sixth plan of 1980-85. NSDP at current prices indicated lowest growth of 5.3% in second plan and highest of 15.5% in the sixth plan. The growth in percapita income of the state behaved in the same manner as GSDP and NSDP The gap in per-capita Income of Orissa and India is widening from year to year beginning from 1st Plan Period. Orissa has made significant growth in GSDP & NSDP raising its per-capita Income much higher. On the other hand the growth in GNP & NNP and Per Capita at All India Level is growing at a higher pase than Orissa. So the gap is still existing with increasing dimension. The gap can be wiped out if the growth rate of GSDP of Orissa can surpass the growth rate of All India continuously for several years. 252 Growth in real terms i.e., GSDP at constant prices, recorded the lowest growth (-) 12.1% in the annual plan 1979-80 and highest growth of 7.5% in the seventh plan. But the growth in the 10th Plan period has shown an upward trend. As per provisional estimate its come to 8.59% and per-capita income at constant prices in the 10th plan periods have behaved in the similar manner. During the 10th plan period particularly 2nd year i.e., 2003-04 the growth rate of GSDP was 22.3% and 14.7% at current and constant prices which is quite remarkable. Annual Plan 2008-09 envisages modest growth rate of 13% at nominal terms. The approved 11th Plan outlay has been fixed at ₹ 32,225.00 crore. The State Govt. have however projected a growth rate of 9% in real terms for the 11th Plan Period.

8.3 SUMMARY

1. From 1947 to 2017, the Indian economy was premised on the concept of planning.
2. Five-Year Plans (FYPs) are centralized and integrated national economic programs.
3. The first Indian Prime Minister, Jawharlal Nehru presented the First Five-Year Plan to the Parliament of India and needed urgent attention. The First Five-year Plan was launched in 1951 which mainly focused in development of the primary sector.
4. The Second Plan was particularly in the development of the public sector and "rapid Industrialisation".

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5. Adoption of Five Year Plans (FYP) at the national and State level was considered to be a major step for integrated and balanced development of the country.

8.4 SELF ASSESSMENT QUESTIONS

1. **Indian plans:** Objectives, Allocations, Strategy, Finances and achievements interregional balances as strategies of development under five year plans. Comment.
2. **Orissa Plans:** Objectives, Allocations, Strategy, Finances and achievements interregional balances as strategies of development under five year plans. Comment.

UNIT – V

Chapter 9

MAN POWER PLANNING

Learning Objectives

The objectives of this lesson are to:

- Man power planning:with reference to India
- Orissa man power planning and economic development
- Man power,Policy at National and Regional levels under five year plans

Structure:

9.1 MAN POWER PLANNING: WITH REFERENCE TO INDIA

In the economy, Human Resources are there, both on the demand as well as the supply side of production of goods and services. On the demand side, Human Beings consume produced goods and services to alleviate poverty, improve health, generate better living conditions, enhance general educational levels and so on and so forth. Therefore, utilisation of goods and services leads to an improvement of quality of Human Resources. On the supply side, Human Resources along with

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capital form essential ingredients of production systems which transform natural and physical resources into goods and services. However, complementarities between Human Resources and capital is so close that optimal increase in output and hence optimal economic growth is not possible through increases in one of them at the cost of the other. Although Theodore W. Schultz (1962) observed that, some growth can be possible by increasing additional conventional capital even though the labour is lacking in terms of skill and knowledge. But the rate of growth will be seriously limited. It is simply not possible to reap the fruits of modern agriculture and the abundance of modern industry without making large investments in Human Beings. Based on the study of per capita income differences among many countries, Anne O. Kmegar (1968) came to the conclusion that an optimal ratio of Human Resources to capital has to be maintained to reach the attainable rate of economic growth. Given the endowment of capital and other material resources, Human Resources could accelerate the production process and thereby economic growth. At the same time, unprecedented growth in Human Resources, disproportionate to the pattern of accumulation of capital and other material resources could hinder the tempo of development which necessitates Human Resource Planning at Macro level.

9.2 HRP AT MACRO LEVEL

Manpower Planning is largely concerned with labour supply, where as employment planning is concerned more with the demand for jobs than with the supply side of the employment equation. Thus HRP is interested to know as how many people are coming onto the labour market, what are their education and training levels, what is their age etc. It is largely concerned in determining what training needs are there so that the labour supply can be shaped to meet the demands of the economy. This activity is largely confined to the Ministry of Labour and/or Education, Ministries of Planning or Finance. The focus on the supply side of the equation is probably the reason that the demand for labour has been treated inadequately in most of the Manpower Planning activities to date. However, there is increasing recognition of the need for skilled workforces as a basis for future development (Lall, 1999). Therefore, Manpower Planning is becoming a critical issue for developing countries like India.

Manpower planning cannot be carried out in isolation from macro-economic phenomena. The part of macro-economics interested in creating jobs must take care of who are for the jobs in terms of the skill, sex and age base of the population hand in hand. The reason is that, determinants of economic growth are related to the characteristics of the labour force in a very strong way in terms of its skill, education, flexibility so on and so forth.

Manpower is the primary resource of an economy. Without manpower resources, physical and financial and all other resources cannot be put into use. HRP are both macro and micro level issues. At the macro level, it is influenced by the environmental factors like employment, unemployment situation, demographic changes, legal control and organizational policies where as the factors like technological changes, trade union pressure, gap in skill and competency and recruitment and selection affect the process of manpower planning at the micro level. However, macro level manpower planning is uncontrollable and micro level manpower planning is controllable.

HRP Need at Macro Level: HRP at macro level are to address the following factors as follows:

(i) **Employment-Unemployment Situation:** on one hand the number of educated unemployed is increasing in the economy, on the other hand there are acute shortages for a

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variety of required skills. Therefore an intensive macro level manpower planning can help in this direction in order to bridge the gap between employments –unemployment Scenario.

(ii) Technological Changes: The rate of change of technologies in production, marketing methods and management techniques has been extensive and rapid in outside world. In order to adopt the change of technology in accordance with gobal trend, necessitate high degree of extensive Macro level Manpower Planning.

(iii) Organizational Changes: The turbulent business environment affected by global economic cycle and discontinuities, the nature and pace of changes in organisational environment in terms of its activities and structures affect manpower requirements that require strategic considerations at Macro level.

(iv) Demographic Changes: The changing profile of the work forces in the economy, in terms of age, sex, literacy level, technical competency and social background have implications for macro level HRP.

(v) Skill Shortages: There are acute skill shortages in labour market. Unemployment does not mean that the labour market is a buyer's market. Organisations have generally become more complex and require a wide range of specialist skills that are rare and scarce. These skill gaps can be bridged by proper Macro level Manpower Planning.

(vi) Government legislation: Macro level manpower planning must go hand in hand in a very systematic way in accordance with Government control and changes in legislation.

(vii) Lead Time: The long lead time is the gestation period required to provide education and training and deployment of the employees to handle new knowledge and skills successfully can be avoided by Macro level Manpower Planning.

9.3 MACRO LEVEL MANPOWER PLANNING IN INDIA

Development of Human Resources is primary objective of any country for long-term economic growth. For a developing economy like India this is more visible from our economic planning as governments over the years have been giving increasing priority to population planning and control, education, health, housing etc.

Population Planning and Control

To enforce control over population explosion to economic imbalances, population planning and control measures have been initiated by the Government. Unless such control is enforced in a planned manner no amount of institutional support can sustain this resulting in generation of unproductive population which will remain a drain on our national resource. Recognising this, the Government of India has adopted a National Policy (2000) to ensure population stabilisation. The policy emphasises on affordable reproductive health care, increased quality of life by enhancing services of primary and secondary education, sanitation, drinking water, housing, transport, communication and empowering women as part of the macro level manpower planning. Such planned efforts have helped us to achieve the goal in fair way if not in absolute terms. From the trend analysis on population growth in India, It is evident that there is a significant rise in population control awareness among people resulting in phenomenenal increase in averting birth over the decades.

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Literacy and Education

To develop Human Resource at the macro level, the Government of India has brought a National Policy on Education in the year 1986. The policy provides a broad framework for complete eradication of illiteracy in the country by declaring basic primary level education up to standard V, free and compulsory. The government has initiated lot of schemes for elementary and secondary education as follows:

(i) **Sarva Shiksha Abhiyan (SSA)/Right to Education (RTE):** Free education for all children between 6 and 14 years of age has been made a fundamental right under the RTE Act 2009.

(ii) **Rashtriya Madhyamik Shiksha Abhiyan (RMSA):** The RMSA was launched in March 2009. The objective was to improve quality of secondary education by enhancing access to it.

(iii) **National Programme for Education of Girls at Elementary Level (NPEGEL):** This is a focused intervention by Government of India, specifically meant to reach at girls.

(iv) **Model Schools Scheme:** A scheme to set up 6000 model schools as benchmarks of excellence at block level. With one model school per block to provide quality education to rural talents. It was launched in November 2008.

(v) **National Programme of Mid Day Meals in schools:** Under the National Programme of Mid Day.Meals in schools, cooked midday meals are provided to all children attending Classes I-VIII in government, local body, government-aided, and National Child Labour Project schools.

(vi) **Saakshar Bharat (SB)/Adult Education:** The National Literacy Mission, recast as Saakshar Bharat (SB) launched by the Prime Minister on 8 September 2009, reflects the enhanced focus on female literacy.

(vii) **Inclusive Education for the Disabled at Secondary Stage (IEDSS):** The IEDSS scheme was launched in 2009-10 replacing the earlier Integrated Education for Disabled Children (IEDC) scheme.

(viii) **Vocational Education:** The revised centrally sponsored Vocationalisation of Secondary Education Scheme aims to address the weaknesses of the earlier scheme to strengthen vocational education in Classes XI-XII.

(ix) **Indian Higher Education System:** With reference to Indian higher education system, it is one of the largest in the world. The major initiatives taken during 2011-12 for promoting higher and technical education are, National Mission in Education through Information Communication Technology (ICT). Content generation and connectivity along with provision for access devices for institutions and learners are the major components of the Mission. The Gross Enrolment Ratio (GER) in higher education is targeted to increase from nearly 18 per cent at present to say 25 per cent by 2016-17.

Health and Medical-care

The National Health Policy of 2002 and the priorities set in the successive Five year Plans seek to provide preventive and curative health-care facilities. As an important initiative for the development of Human Resources at the macro level, it aims at achieving an acceptable standard of good health amongst the general population in the country by enhancing accessibility to the decentralized public health system. Success in eliminating or controlling diseases such as small pox, leprosy, polio, and TB is indicative of the progress made in some areas of health. Overall sex ratio in the country has increased from 933 in 2001 to 940 as per census 2011 (prov.). The health indicators in Table depict all the progress that has been made by India over the years.

Despite progress made on many fronts, there are areas of concern as progress has been quite uneven across regions with large-scale inter-state variations. Moreover, rural and remote areas continue to have deficit in health facilities. At the state level the situation is not very well baring few positive changes in life expectancy ratio, infant mortality rate, child mortality rate etc.

Housing

In housing sector, Government has renewed its efforts by bringing the National Housing and Habitat Policy 1998. The basic thrust of this policy is to achieve sustainable development of housing infrastructure through public-private partnership. The Government of India has been giving high priority over the years for building rural infrastructure with the objective of facilitating a higher degree of rural-urban integration and for achieving an even pattern of growth and opportunities for the poor and disadvantaged sections of society. Programmes for achieving this include the Bharat Nirman. This programme, launched in 2005-6 for building infrastructure and basic amenities in rural areas, has other components like rural housing, irrigation potential, and drinking water, rural roads, electrification, and rural telephony as well. To provide better urban infrastructure, Housing in the country, the central government has been allocating resources to state governments through various centrally programmes as follows:

(i) **Jawahar Lal Nehru National Urban Renewal Mission (JNNURM):** The JNNURM has two of its four components devoted to shelter and basic service needs of the poor. These are: Basic Services to the Urban Poor (BSUP) for 65 selected cities and Integrated Housing & Slum Development Programme (IHSDP) for other cities and towns. Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) seeks to supplement the efforts of the government through the JNNURM to address the housing shortage.

(ii) **Rajiv Awas Yojana (RAY):** RAY is to provide support for shelter and redevelopment and creation of affordable housing stock to states, which are willing to assign property rights to slum dwellers.

Apart from these there are other social sectors schemes of the Government are in operation to enhance social security and overall quality of life are as follows:

(iii) **The MGNREGA:** This is a flagship programme of the Government of India. The objective is to enhance livelihood security of rural households of the country. The scheme provides guaranteed wage employment of at least one hundred days in a financial year to every household whose adult members ready to do unskilled manual work.

(iv) **The Swarnjayanti Gram Swarozgar Yojana (SGSY):** It is a self-employment programme with the objective of helping poor rural families to cross the poverty line by assisting them to take up income generating economic activities through a mix of bank credit and government subsidy.

(v) **The Swarna Jayanti Shahari Rozgar Yojana (SJSRY)** was launched by the Government of India on 1st December1997. It provides gainful employment to the urban unemployed and underemployed by promoting self-employment ventures and provision of wage employment. In addition to the above centralised strategy for Human Resource Planning and development, state planning boards at the state level and at the district level, manpower planning generation councils have been setup in this direction. Macro level HRP is a complex and dynamic process. It requires longitudinal study to understand the results of various policy measures and actions.

9.4 INSTITUTIONAL ARRANGEMENTS AT MACRO LEVELS

The followings are the agencies and institutions that provide required macro level data at the appropriate level:

(i) The Planning Commission: At the apex of the institutional machinery for plan formulation regarding employment is the Employment Manpower Planning Division of the Planning Commission. This Division works closely with the -Perspective Planning Division of the Planning Commission.

(ii) The Ministry of Labour: The Labour Ministry collects the data on employment through the Directorate General of Employment and Training.

(iii) The National Sample Survey Organisation: Employment data can also be collected through the National Sample Survey and the Annual Survey of Industries.

(iv) The Institute of Applied Manpower Research: The Institute of Applied Manpower Research conducts studies on employment strategies and estimates at the sectoral and project levels.

(v) The National Labour Institute: The National Labour Institute has conducted major studies at the sectoral and project levels on institutional conditions on rural employment.

(vi) Universities: Researchers in the Universities and other research bodies also participate and work in this direction.

(vii) Other institutions at the state level: The state level employment market information scheme departments collect data on local labour markets through employment market information schemes.

9.5 APPROACHES TO MACRO LEVEL MANPOWER PLANNING

The approaches to Macro-level Manpower planning are as follows:

(i) The Manpower Requirements Approach (MRA)

(ii) Rate of Return Approach/cost benefit analysis

(iii) The Social Demand Approach

The Manpower Requirements Approach (MRA)

The dominant model of manpower planning is known as the manpower-requirements approach (Youdi, 1985). It first came to widespread prominence in the Organization for Economic Co-operation and Development's (OECD) Mediterranean Regional Project (MRP) in the early 1960s. The three major steps in manpower forecasting are: (a) projecting the demand for educated manpower (b) projecting the supply of educated manpower and (c) balancing supply and demand.

Notes

(a) Projecting the demand for educated manpower

There are five main steps to assess the number of workers by educational level over time by following the MRP methodology

Note: i = economic sector, j = occupation, k = educational level, a = age, s = sex;

1. Estimating the future level of GDP or output (X)
2. Estimating the structural transformation of the economy as expressed by the distribution of output by economic sector (Xi/X) as it evolves over time.
3. Estimating labour productivity by economic sector (Li/Xi) and its evolution over time.
4. Estimating the occupational structure of the labour force within economic sectors and its evolution over time (Lij/Li).
5. Estimating the educational structure of the labour force in given occupations within economic sectors over time (Lijk/Lij).

Hence the demand function for educated labour looks something like:

LDijk = f (X, Xi/X, Li/Xi, Lij/Li, Lijk/Lij) ...(1)

(b) Projecting the supply of educated manpower

There are four basic steps:

1. Estimating the population Pa,s,k by age, sex and educational level.
2. Assessing the number of graduates, dropouts by age, sex and educational level, Ea,s,k.
3. Finding the labour force participants (LS) by applying age, sex, educational level, labour force participation rates to the number of graduates, la,s,k.
4. Estimating the occupational supply based on the labour supply by education level possibly using an education to occupation matrix Mk,j

Hence the supply function for educated labour looks something like:

LSj,k = f(Pa,s,k, Ea,s,k, la,s,k, Mk,j) … (2)

(c) Balancing labour supply to demand

According to Youdi, (1985), this adjustment is normally done in two ways. First, if LD.j. is very different from LSj, due to poor data quality and not backed up by a proper reasoning, the manpower planner will tend to use an ad hoc adjustment mechanism in revising one or more of the key assumptions. For example, too much optimism on labour productivity could reduce the demand for labour. On the contrary too much optimism on labour force participation rates could increase the supply of labour. To deal with such paradoxical situations, it is necessary to reconcile labour supply and demand.

The critics of MRA

Psacharopoulos and Blaug (1970) and Ahamad and Blaug (1973), criticised MRA by evaluating ten manpower-forecasting studies in different countries. They have identified, considerable forecasting errors with projections of employment by occupation using the MRP (Mediterranean Regional Project) or manpower requirements approach methodology.

The errors were primarily due to the fixed-coefficients model and assumed labour-productivity growth as mentioned in equation (1).

Notes

Forecasting errors go parallel with the time-horizon of the forecast.

There was no evidence linking manpower forecasts to any real educational policy decision.

In some cases manpower forecasts corroborated to what turned out to be a wrong decision. Therefore, forecasting does not improve policy decisions always. One of the most crucial assumption according to Youdi in MRP-type manpower-forecasting methodology is that the elasticity of substitution between different kinds of labour is equal to (or near) zero. The elasticity of substitution is:

$e = - d \text{ Log } (Lk1/Lk2)/d \text{ Log } (Wk1/Wk2)$

Where k1 and K2 are two kinds of labour, say university graduates or post graduates, or even mechanical or electrical engineers, and W is the level of their wages determined during the forecast period. Yet, it is clear that the elasticity of substitution cannot be zero. It would vary depending upon the degree of substitutability of one type of job for another. Again this is also highly dependent on the amount of training or additional education required to substitute one job with other.

Rate of Return Approach/Cost Benefit Analysis

The Rate of Return (ROR) approach is radically different from the MRA approach. In this approach the net returns of educational expenditure is calculated (ILO, 1984). It is measured as the increase in net income that an individual will be able to command during his life with respect to the income he would have received if he had not reached a given level of education. The present value of the flow of future net income is calculated for each specific educational programme. Those programmes which show positive returns should be promoted, while those showing zero or negative net present value should be reduced or possibly abandoned.

If the flow of net income is calculated as the difference between the income of the individuals benefited after tax, and the cost include both the direct costs paid for the education and the indirect costs in terms of income earned not because of participation in educational programmes, for a given discount rate this gives the private rate of return. If the income is calculated before payment of tax and the costs include all the resources utilised to implement the education programme, for a given discount rate this gives the social rate of return.

Critiques of ROR Approach

It neglects external effects on earnings, since the only gains quantified are those accruing to the individuals who had received the education in question.

The analysis cannot shed light on the extent to which households needs to be encouraged to undertake “human capital investments”. For example, school drop-outs co-existing with high private rates of return could be caused either by a family decision on the relative priorities of work or schooling, or by insufficient government resources to primary or elementary education.

The basic assumption in ROR is questionable that observed wages reflect the marginal product of labour, and that the content of the marginal years of schooling an individual undertakes is responsible for the marginal increase in income.

In this approach, the total employment remains constant. Dougherty (1985) argues that most rate-of-return studies of manpower-development programmes implicitly assume that the old post of a trained individual is not filled by an unemployed worker and that the trained individual does not displace any other worker.

It gives no guide to the quality of education currently being given. One would have to wait at least a decade to see whether the quality of the education delivered was reflected in the wages given, which is hardly a basis for improving the quality of education today.

As noted by George Psacharopoulos (1995), it does not allow for market "segmentation" and "screening" hypotheses much favoured in today's labour market models. That means earnings differences might be due to the superior ability of the more educated, rather than to their extra education.

Paul Bennell (1996a) added controversy to ROR approach by saying that, it is generally accepted that comparative evaluations of general academic and vocational education indicate that the rate of return for the general academic is much higher than the vocational education.

The Social Demand Approach

Social demand approach relies on assessing society's requirement for education. It is an aggregate demand for education in respect of all individuals within the society. In practice, social demand approach relies on projection of past trends in demographic aspects of population and the enrolment at different levels of education. Therefore, social demand approach is capable of revealing the number of students with different types of professional preparation that is expected with a given target data, based on past experiences. Projections of social demand for education rest upon the levels of:

- Incomes of educated people
- Tastes and preferences of households for education
- Demographic characteristics such as fertility and mortality
- Direct costs of education
- Student grants
- Existing standards of taking admissions to various levels of education
- Direct costs of education

Critiques of Social Demand Approach

It is argued that the decision to choose more or less of education, beyond a legal school-learning age, is made by an individual who attaches a positive value to the present as well as the future benefits of education. Since, the theory of the rate of return approach to education looks upon education as a contributor to productivity, it facilitate investment decisions in education.

9.6 LABOUR MARKET ANALYSIS

Labour market analysis is a principal instrument of Human Resources Planning. It helps in identifying skill shortages and also gets into the reason of market failure to match labour supply with demand since the demand for human resources crucially depends on the functioning and flexibility of labour markets. Psacharopoulos (1991) advocates "labour market analysis" as an alternative to manpower forecasting. Hollister, (1986) argue that given the state of the art of manpower planning and the characteristics of developing countries' economies, such countries would be best served by a manpower planning and analysis program which puts less emphasis on manpower projections and more emphasis on analysis of the operation of various aspects of the labour market at all skill levels.

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He states "if labour markets in developing economies are relatively flexible then the need for long-term manpower projections of demand and supply is relatively limited". It is therefore, all forecasting techniques that purported to assess manpower requirements are dubious putting more emphasis on labour market analysis and labour market signalling. Labour market analysis helps in identifying shortages at more disaggregated levels of occupations and geographical locations. It also enables to have a diagnosis of market failure in order to match labour supply with demand.

Demand, supply and institutions interact in labour markets and labour economics studies the operation of labour market considering all these issues. Analysis of labour markets is carried out for different occupational segments markets for blue collar workers, markets for white-collar workers, markets for professional etc. Investigating markets for knowledgeable and skilled workers, differentiating supply and demand forces in the market, geographic and industrial mobilities, wage pattern etc. are the areas for studying the labour markets. Recently, however macro changes in wages and unemployment over a given period of time, both within the country and across countries are also studied to synthesize the facts of the labour market with the basic principles of economics. To facilitate labour market analysis, there is a need for a comprehensive and regularly updated labour market information system.

Labour Market Characterstics

Labour markets are more of social matters. Sociological and demographic changes like social class movements, gender awareness, youth cultures, family size, employment heritage, ethic and cultural background may influence who enters, leaves, or is restricted from taking up and keeping particular kinds of employment. However, labour is one important factor of production. The supply of labour is determined by the number of able people in the population and their willingness to work with due cognizance of existing labour laws and regulations, health of economy and firms along with labour price and availability of other factors of production.

In a perfect market, wages would be determined directly by supply and demand of labour. But the labour market is often far from perfect. Wages are less flexible than other prices. Wages rarely fall, when demand for labour declines or supply increases. This wage rigidity can be considered as the major cause of unemployment.

Labour Market Information Systems (LMIS)

The seeming failure of above approaches has led some authors to concentrate on the preparation and organisation of labour which is known as Labour Market Information Systems (LMIS). This serves as an alternative to forecasting. As noted by Richter (1989) "labour market information means nothing more or less than information about labour markets". LMIS promote collection of data sets without prescribing any analytical framework within which to collect and analyze data for planning or policy formulation. For which this model is of very little use. Hence suffer from the following criticism.

Criticism of LMIS

Manpower forecasts suffer from lack of appropriate data whereas lack of proper analytical framework is the measure drawback of Labour Market Information Systems (LMIS). Another disadvantage of LMIS as described by the ILO is that, it ignores the demand side of the equation to a large extent i.e., the macro-economics. This is because data on macro-economic planning is largely the preserve of non-labour market specialists in Departments of Planning, Finance, and Statistics etc. Since demand projections for labour depend on the economic growth rate and this is the single most important variable for manpower planning (Jolly and Colclough, 1972), these should hardly be ignored in LMIS.

MACBETH Model

MACBETH is essentially a recursive simulation model of the labour market and the evolution of occupational mismatches. The MACBETH (MACro Compter Based EmploymenT Heuristic) model provides a flexible tool to examine alternative future scenarios of the manpower planning problem. The main use of MACBETH is learning-by-doing as a heuristic. As defined in Oxford English Dictionary, Heuristic is a system of education under which the pupil is trained to find out things for himself. Heuristic is the core of MACBETH. It is a tool with which alternative scenarios are examined and thereby to understand the complexities of the labour market and its underlying factors.The purpose of the model for labour market and human resource policy analysis is to project and examine different scenarios of:

- Population by age and sex
- Number of students and school leavers
- Size and cost of the schooling system
- Supply of labour by occupation and education level
- Value added and growth by economic sector
- Employment demand by occupation and education level
- Employment mismatches by occupation and education level
- Impact on employment of mobility of labour between occupations
- Training implications and costs of labour movements between occupations

Technically, the MACBETH package has three main modules, all functioning interactively with the user through several menus:

1. Data preparation
2. Projections
3. Result comparisons

The model is robust and straightforward enough to be applied in the context of developing country like INDIA. The model serves as tool to ensure data consistency for the purpose of projections. Therefore is most useful for perspective planning purposes.

Labour Market Signalling

For short-term assessment of training needs, Labour Market Signalling (LMS) is recommended as a tool that could help, and improve the ability of training centres to respond quickly to changes in market circumstances and thereby, reduce inefficiencies (Middleton, 1993).

“Labour market signalling requires planners to focus more on education and training qualifications rather than on occupational classifications. The reasons are related to the quality of occupational statistics, the effect of technology on an occupation, and the practical link between academic specialization and occupational placements.” (Middleton, 1993, p. 140)

Labour market signalling advocates the need to focus on wage and employment trends not only to guide schooling and training decisions but also to evaluate how well labour markets are

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functioning. The objective of signalling, again according to Middleton et.al, is that it can estimate whether there will be upward or downward pressure on the economic returns to invest in specific skills. Planners can monitor labour market conditions and evaluate training programs. They can also focus upon skills that are of strategic importance for economic development and that take a long time to acquire. The main indicators of labour market signals are wages, employment trends by education and training and occupational classifications, costs of specific education and training programs, enrolment data for institutions, programs of study, individual courses, 'help-wanted' advertisements in newspapers and professional journals, unemployment rates by education, skill, training and occupation.

Part and parcel of the labour market signalling technique is the need to identify the types of skills that are required in the labour market. It is felt that the demand for occupations is a poor predictor of future labour market requirements for qualified labour, simply because the types of occupation change rapidly with new technologies. However, any forecasting technique can compensate through the use of scenario analysis that provide a number of alternative forecasts under different assumptions.

Labour Accounting Matrices (LAM'S)

Labour accounting matrices provide a useful tool to organise demographic and labour market information in an internally consistent manner. Since the framework is set in the tradition of social accounting matrices (SAM's) the labour accounting system provides a complete mapping from activities in the economy to jobs and earnings, and to households receiving such earnings. SAMs and LAMs are static pictures or photographs of the economy at any given time. They can be used for simulation experiments of comparative statics in an economy. Clearly, a collection of SAMs or LAMs over time provide a near moving picture of events over time. The LAM is then a manpower matrix because it indicates the number or number of hours that each type of person is, on the average, available for work. The matrix of activities can either be a supply or a demand for labour statement and shows the numbers each type of individual spends being engaged in productive activities and the number of hours that are lost due to unemployment.

9.7 LABOUR ECONOMICS

Labour economics seeks to understand and explain the functioning and dynamics of the labour markets. It is concerned with workers who are suppliers of labour services as well as employers, who demands labour services and endeavours to understand the resulting pattern of wages, employment and income etc. Labour market is characterised by the interaction of employers and workers. Marshal and Smith are the two pioneering economists who first recognised that the study of market for labour is not possible without understanding the social relations of production, long-term contractual arrangements, problem of motivation, institution like unions and internal labour markets etc. All these characterstics requirements differentiate the market for labour from other markets.

Labour Economics may be defined as a study of the organization, institutions and behaviour of the labour market in an industrial economy". As defined by Dole Yoder, "Labour economics or manpower economics is basically concerned with efficient utilization and necessary conservation of manpower and human resources. Labour economics endeavours to study and seeks to understand the processes by which manpower is utilized in modern society. It is concerned of natural resources in the land". Labour economics has to deal with manpower planning, labour organization, labour

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relations and public policy, wage and employment theory, collective bargaining theory and practice of social security and welfare etc.

Labour economics has two sides. One is the application of microeconomic technique and the other is application of macroeconomic techniques to the labour market. Microeconomic technique deals with the role of individuals as well as individual firms in the labour market whereas macroeconomic technique is concerned with the interaction and interrelationship between labour market, money market, goods market, as well as the foreign trade market. Macroeconomics also looks into the resultant effect of these interactions on macro variables such as employment levels, aggregate income and gross domestic product etc.

The most important development in modern labour economics is the development of the concept of human capital. Human capital approach analyses the individual decision making with regard to supply of labour and other behavioural areas which are more related with sociology than economics. Before the development of the concept of human capital, labour supply decisions were considered more as an economic rationality. By making such decision as an inter- relational variable of education, skill, investment, wages, working hours etc, the subject of labour economics has been demarcated from the traditional economic analysis.

9.8 EMERGING TRENDS AND ISSUES IN HRP

HRP is a holistic process of organizational strategy to gain competitive advantage. However, shortages of skills are now global phenomena. For the developed countries, this is primarily because of ageing population, whereas in developing countries like India, the problem is due to absence of proper initiative at the national level. Some of those are described below:

1. The shift in skill requirements in India was witnessed from 1981 census reports. Indian economy has encountered massive shift in employment from secondary & primary sectors to tertiary or science sector.
2. Labour market authority in India should perform in the line with the practices prevailing in Europe and other industrialized advanced countries. The authority does the job of matching labour requirements of firms & helping in placements. Hence it is the look out of the authority to ensure that labour is not mismatched redundant.
3. The Institute of applied Manpower research under the planning commission has done some studies in the same Sectoral and occupational categories. Decisions on skill development at the national level cannot be taken in isolation of social sector spending both planned nonplaned which including education budget. In India, average percentage of total expenditure on education shows a decline trend.
4. In order to achieve the desired result, initiative at the national level should be reinforced by organizations at the micro level, through regular skills renewal efforts.
5. Another important aspect which deserves the attention of HRP is demographic change process.

Indian organizations are witnessing a significant change process in systems, management culture and philosophies and management practices which is the outcome of global aligning of Indian organization. Other emerging issues like restructuring, TQM Practices, changing process, systems, culture and management practices need attention of HRP.

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9.9 THE EFFECTIVENESS MACRO LEVEL HUMAN RESOURCE PLANNING AND POLICY

Human Resource Planning is concerned with the controlled utilisation of human resources to achieve pre-set objectives, both short-term as well as long-term. Thereby, planning processes aim at balancing supply and demand at the levels most consistent with the needs of the projected requirements and with the assessments of the prevailing and expected economic and social environment.

An essential step in improving the effectiveness of manpower planning and policy at the macro level lies in taking decisive measures to raise the quality and reliability of labour market information. Existing sources of statistical information suffer from serious gaps and inadequacies, redundancies that hinders in meaningful manpower research which is very much required for effective National Employment Policy.

Thus, the quality and effectiveness of future manpower policies at the macro level would depend most significantly on the accuracy and adequacy of the information inputs in the formulation of the plans and policies. This need to build extensive computer-based data banks, as well as to improve the quality of current bench-mark data sources at the apex level institutions referred above.

Macro level manpower planning is an important objective of the Government for long-term economic growth. However, the art of manpower planning is in a mess. After decades of manpower forecasting practices, it has been suffering from repeated and sustained criticism. The planners practicing the art of manpower planning might rightly be confused with its mandate. The methodology and overall usefulness of manpower planning is also questionable. Therefore, Manpower Planning at its core is suffering from the problem of mismatch between labour supply and demand resulting in unemployment.

9.10 ORISSA MAN POWER PLANNING AND ECONOMIC DEVELOPMENT

The economy of Odisha is one of the fastest growing state economies in India . According to 2014-15 economic survey, Odisha's Gross State Domestic Product (GSDP) was expected to grow at 8.78%. Odisha has an agriculture-based economy which is in transition towards an industry and service-based economy. According to recent estimates, the size of Odisha's economy has increased by 22.27 per cent during the last six years in terms of the Gross State Domestic product (GSDP). Thereby, Odisha achieved an annual average growth rate of 6.23 per cent during that period. Odisha is also one of the top FDI destinations in India. In the fiscal year 2011-12, Odisha received investment proposals worth ₹ 49,527 CRORE (US$ 9.296 billion). According to the Reserve Bank of India, It received ₹ 53,000 crore (US$ 8.33 billion) worth of new FDI commitments in the 2012-13 fiscal year.

Overview

In 2013-14, the GSDP growth rate dropped to 2.21%. This slown down was attributed to the Phailin cyclone, which caused a negative growth of 9.78% in the agricultural sector and also affected several other sectors. According to the 2011 Census of India, Odisha has a working population of 17,541,589, among them 61% are main workers and rest are marginal workers. 33.9% of the total working female population are main workers. As of June 2014, Odisha has 10,95,151 people registered in various employment exchanges of the state. Of them, 10,42,826 reported themselves

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educated. Odisha had a rural unemployment rate of 8.7% and an urban unemployment rate 5.8% calculated based on the current daily status basis in the 68th National Sample Survey (2011-2012). The per capita income of the state was ₹ 98,983 (US$ 1,531) in 2013-14. The state has a PUBLIC DEBT of ₹ 38,666 crore (US$ 6.34 billion), which is ₹ 8,909 per capita (US$ 146), at the end of 2013-14.

According to assocham, in the fiscal year 2011-12, Odisha received investment proposals worth ₹ 49,527 crore (US$ 9.296 billion). According to the Reserve Bank of India, Odisha received new FDI proposals worth ₹ 53,000 crore (8.333 billion USD) in the 2012-13 fiscal year. In 2012-13, ₹ 125 crore (US$ 19.66 million) worth of foreign aid was received by NGOs in the state. However, a brief summary of each chapter is explained below:

(I) Natural Resource Assessment : Endowments, Utilisation and Degradation

Orissa's mineral deposits are large, and as a per cent of all-India resource stock, there is fairly heavy concentration in respect of Bauxite, Chromite, Graphite, Manganese, Nickel ore, Coal and Iron ore also have a significant share, though they are not of high grade variety. The rate of cumulative exploitation (output-resource stock ratio) has remained low, except in the case of Graphite and Manganese ore. However, this has not provided a sufficient condition for the establishment of metallurgical and non-metallic mineral based industries on a large scale. Even value addition within the State has remained relatively low.

The quality of soil, in general, is rather low with low moisture retention capacity except in the coastal districts which contain highly fertile alluvial soil and the soils of the river valleys. This is a natural weakness of the State's economy as agriculture is its mainstay.

Forest resources, though depleted still have a high crown density in the north and north-west parts of the State. Sal and bamboo forest predominate and the State does not have evergreen forest - mostly semi ever green and deciduous varieties.

The State has rich irrigation potential, both flow and groundwater and these have so far been under exploited, partly because of spreading resources too thinly over too many major and medium projects, many of which have not become fully operational due to noncompletion of the canal network.

Again, marine fishery resource potential is relatively significant. However, in the case of both marine and inland fishery, the ratio of output to resource potential suggests under investment in this sector where large gainful employment opportunities could be created.

Though Orissa boasts of rich natural resources, these are being degraded over time. While forests, land and surface water resources are undergoing severe degradation, ground water, minerals and air are under serious threat of degradation. Not only the different patterns of development in the State have led to the degradation of these natural resources but also other factors like the growth of population and the unsustainable activities adopted by them have become crucial for the degradation of valuable natural resources in the State. The adoption of unsustainable activities is, however, driven by the market and institutional failure. It provides incentives to the poor to have short time preferences and to the rich to exploit the resource base at unsustainable rate.

The degradation of natural resources has not only reduced the economic base of the State but also affected the environment adversely. The adverse impacts like change in climatic condition, increased flooding, decreased productivity, water shortage, increased infant mortality and morbidity rate, etc. are some of the outcomes of continuing degradation. In the absence of proper measures to

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reduce the degradation of natural resources the problem will be aggravated. Therefore, a policy in this regard is of utmost importance.

(II) Infrastructure Development

It is needless to mention that the economic development of a state/region more or less depends on its development status of the social and economic infrastructure. From this angle when the development status of the key infrastructures in Orissa is compared with the average development status of such infrastructures in the country by the formation of composite development index, the development position of Orissa as such does not reveal its actual backward status in comparison to many other States in India. However, when the development indicators of a few key infrastructures are analysed and compared with many other major States and also with the all-India figures, the deficiencies and weaknesses of such infrastrctures in Orissa are clearly revealed to manifest its backward status. Added to this, it is further found that the level of disparities in the development status of infrastructure among the present 30 districts of Orissa is fairly high. Also, its access across space and people is highly unequal. It is observed from the observation made during the time of field study that mere existence of infrastructure does not ensure its service utility for the poor and downtrodden. The maintenance and supervision of many key social and economic infrastructures particularly in the backward highland districts of the State is observed to be very poor. As a result, such provisions have failed to generate the intended development effects among the poorer and vulnerable sections of population.

Nevertheless, it is a good trend to observe that the rural pockets of Orissa in the recent years have witnessed positive transformations of certain key infrastructures such as development of roads, transport and communication networks and if more stress could be put on proper maintenance and supervision of different service infrastructures, it will be easier for a poor and backward State like Orissa to accelerate its pace of economic development.

(III) Economic Growth, Structural Change and Workforce Participation

Trend in Growth

The long-term growth of NSDP (over the period 1950-51 to 1988-89, at 1970-71 prices) has been 2.7 per cent which, one may say, is not really satisfactory. Whether at 1970-71 or at 1980-81 prices, the economy has posted the highest growth rate historically during the decade of the 1980s. At 1980-81 prices, the growth rate of NSDP has come down from about 4.8 per cent to 3.8 per cent, which is also the case for all individual economic sectors, with the exception of mining and quarrying (from 8.7% to 12.7%), unregistered manufacturing (2.6% to 8.1%), communications (7.9% to 13.7%) and trade, hotels and restaurants (from 5.7% to 6.8%). In particular, it is to be noted that the agriculture and animal husbandry sector has seen a fairly sharp decline in the growth rate in the 1990s - down to 1.9 per cent from 3.1 per cent in the 1980s.

Structural Change

There is a simple pattern of change in sectoral composition of NSDP : a decline of about 16 percentage points in the share of ‘Agriculture and Animal Husbandry’ sector between 1980-81 and 1999-2000, which has been entirely taken up by a corresponding increase in the share of the tertiary sector from 30.5 per cent to 46.0 per cent, with the secondary sector’s share remaining more or less stagnant.

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Workforce Characteristics

The available data clearly suggest that there has occurred a decline in employment rates for both males and females and in both rural and urban areas between 1983-84 and 1999-2000. Since labour force participation rate has not increased much between 1987-88 and 1993-94, there has been a squeeze on employment during the second half of the 1990s.

The other relevant point is that, unlike the sectoral shift of output, the sectoral distribution of workers (across primary, secondary and tertiary sectors) has remained broadly the same.

As regards status of employment, only a few pertinent observations may be made. First, casual labour is relatively higher in Orissa as compared to other low income States, and thus the extent of self-employment is lower. Second, regular wage employment is greater in the case of male as compared to female workers. Third, the degree of casualisation has significantly increased in the case of rural female workers in the 1990s.

The rate of open unemployment is the highest in Orissa among the low-income States. The degree of visible underemployment is again higher in Orissa than for other low-income States and all-India, and this is observed both for male and female workers and also in both rural and urban areas.

(IV) Performance of Agriculture in Orissa - Intertemporal and Spatial Variations

For increasing agricultural productivity and accelerating agricultural growth of the State, public investments in agriculture sector need to be stepped up substantially. Keeping in view the importance of agriculture in creating employment, generating income and ensuring self-sufficiency in food production, share of agriculture in total plan outlay needs to be enhanced. Emphasis should be laid on providing appropriate rural infrastructure and services. Irrigation facilities should be extended to dry land and rainfed areas. Instead of constructing big dams and reservoir canal projects ground water development should be encouraged by providing subsidised credit for construction of wells and tube wells and for purchase of diesel or electric pumpsets. Other infrastructural facilities like rural road, transport, power supply, marketing and storage should be improved. Agricultural credit should be provided to the needy farmers in time and as per their requirement. For better recovery of crop loans group-lending may be encouraged. Effective extension services should be provided to the farmers.

Farmers should be motivated to diversify their cropping pattern by cultivating more remunerative and cash crops, which include oilseeds, fibre crops, vegetables and fruits. State Government should provide all-out support for cultivation of crops having export potential. In this regard thrust should be given on development of floriculture and horticulture in the State. Orissa has vast potential for development of horticulture. Different agro-climatic zones have been identified for development of specific fruits, vegetables and spices. Hill tracts of KBK districts and of Phulbani and Gajapati districts have been chosen for intensive horticultural activities. Cultivation of commercial fruits, use of hybrid vegetable seeds, propagation of off-season vegetable cultivation, establishment of bio-centres for production of quality planting materials, use of quality potato seeds, installation of drip irrigation system, beneficiary oriented cultivation of oil palm etc. are the major thrust areas in horticulture. A compact area approach may be applied for propagating horticultural activities. This would help in developing the market and also facilitate establishment of food processing and other downstream activities.

Farmers should be encouraged to follow mixed farming. Along with cultivation farmers should undertake complementary activities like dairy, poultry, goatery and piggery to supplement farm income. A mixed farming system is more desirable from the view point of ensuring better utilisation

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of family labour and farm by-products and also to meet the increasing demand for nutritious food and farm-yard manure.

Also, for adding value to agricultural produce, agro-processing industries should be set up in rural areas. Agricultural inputs like quality seeds, chemical fertiliser, pesticides should be made available to the farmers in time and as per their requirement at reasonable prices. It is most important that all the inputs should be supplied to the farmers under one roof and through one window, so that transaction costs can be minimised. Farmers should be motivated to undertake joint farming and to form user groups for efficient, equitable and sustainable management of irrigation system and watershed. Micro-financing through formation of self-help groups should be given due importance. The coverage of crop insurance should be extended and instead of defined area approach individualistic assessment of crop loss should be made and accordingly indemnities be paid. Land leasing should be legalised with proper regulation of its terms and conditions for achieving efficient production and equitable distribution of production gains. Last but not the least, employment opportunities in the nonfarm sector should be created by accelerating the pace of industrialisation in the State, so that growing pressure on limited land and declining size of land ownership holding can be checked.

(V) Forest Resource and Forest Management Policy

Forest sector in Orissa plays an important role in the economy, culture and livelihood of a large number of forest dependent poor and it represents a huge economic resource for the State. However, there has been progressive decline in the forest cover in Orissa during the last few decades. The wasteful exploitation is posing potential danger for the economy and environment besides threat to livelihood sector security of millions of forest dependent poor. Massive deforestation is primarily caused by the increase in biotic pressure, and also due to non-response of forest resources to the increased needs of the people. Due to lack of adequate public and private investment, and absence of adequate externally funded forestry development programmes for the State, forestry sector has remained precisely unattended over the years.

Orissa has rich potential of various NTFPs, which are important sources of non-tax revenue. But most of these are not computed in the State's revenue as these are consumed by the forest dwellers and are sold in the local markets. At the same time, faulty NTFP policy on collection, trade and disposal, processing and value addition, etc. results in forest potentials to remain unexploited. A number of forest laws and regulations in Orissa have been identified as major hurdles in NTFP trade. Absence of adequate attention to marketing infrastructure also has resulted in the under utilisation of existing forest potential in the State. Further, stringent restrictions on the marketability of certain products like Kendu leaf, Mahua flower on the private lands have encouraged illegal and unfair trade practices. A close scrutiny of the political economy of NTFP management in Orissa suggests that the economic and ecological sustainability considerations have not only been undermined, but also successfully overshadowed by the political ideology of different political parties in power.

Orissa is suitable for growth of a large number of medicinal plants and also for their cultivation. People have been using these medicinal herbs to get relief from various diseases. These plants are also in great demand in recent years for all the indigenous systems of medicines. Despite their growing importance, the government have given very little attention with respect to their production, procurement, processing and marketing, etc.

The JFM has now become the central point of future forest development programme in Orissa. In order to make forest protection drive more effective and transparent through involvement of local villagers, a number of people's organisation have been formed. Though the State Government has issued enabling resolutions permitting partnership with local people for ensuring an effective forest management, JFM has a number of problems like weak and controversial legal framework, intra-village conflicts, controversies regarding the status of VFCs versus village Panchayats, etc.

Social forestry project has been initiated in the State in order to reduce pressure on reserve forest and to create sustainable forest resources for the people to meet their needs for fuel wood, fodder, minor forest produce and small timber requirements with the active involvement of the people, more particularly women and economically and socially weaker sections. However, the result is not satisfactory due to poor involvement of women in VFCs, limited participation of the people in decision making on issues like selection of land and species, lack of adequate dissemination of information regarding the rights on community plantation and the arrangement of distribution, etc.

(VI) Industrialisation in Orissa: Structure, Policy and Prospects

This chapter discusses the various aspects of the industrial economy of Orissa in an inter-regional framework. From the analysis, it is found that Orissa's industrial structure has hardly shown any improvement as compared to other States. In most cases, the presence of highly capital intensive industries with cost disadvantages in fuel, interest payment and depreciation has resulted in heavy losses. Moreover, the prevalence of low wages in many industries causes low productivity of labour. Because of poor agricultural base, the emergence of an active local entrepreneurial class has been stifled. The persistently disadvantageous position of the State raises basic questions of neglect and misdirected policies of the Centre as well as the State.

Lack of proper infrastructure, especially, transport and power, has severely impaired both growth and diversification of industries in the State. So, a serious rethinking on the issue of greater use of power for the State's industrialisation, rather than mere selling it, is essential. In order to activate the industrial sector, development of railways and civil aviations is very much essential. Secondly, to generate income in the rural sector and promote a viable rural industrial base, larger investment in agricultural development needs to be made. Thirdly, for further industrial development, a dynamic small enterprise promotion policy for the State is needed. Fourthly, the State is endowed with a range of high-grade minerals. But, these are not exploited properly. Mining activities should be upgraded to the status of manufacturing industry wherein mineral processing upto certain stages could be undertaken in the region. Fifthly, modern agro and forest based industries need to be encouraged in the State. Finally, preference should be given to the new areas of industrial activities with special emphasis on location in underdeveloped districts.

(VII) Handloom and Handicrafts: Development and Constraints

Orissa, otherwise known for its natural beauty and rich culture, has unfortunately acquired the ill reputation of being one of the poorest States in the country with acute poverty, hunger and malnutrition. Handloom and handicrafts have the potential to provide gainful employment to the weavers and the craft workers with very little financial investment mainly by exploiting their inherent strength. It is necessary to appreciate these emerging challenges and gear up the handloom and handicrafts industry of Orissa for availing of opportunities, which will bring in rapid economic development and will be of particular significance in eradication of poverty. Since Indian economy in general has to take care of the surplus workforce under the scenario of unemployment and underemployment, the State has to tap its strength and advantage of handloom and handicrafts sector to bridge the widening gap at the national level under the present State of industrial development.

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(VIII) Poverty and Living Conditions

The chapter examines the poverty scenario and the living conditions of the people of Orissa. It has five parts. The first part deals with the levels of poverty of major States including Orissa and the various dimensions of poverty. The second part analyses the rural poverty of all the thirty districts of the State on the basis of different income groups and occupations. In the third part, the levels of living in Orissa *vis-a-vis* India have been compared and explained. The fourth part has estimated the standard of living of each district of the State through composite index determined by the development indicators. The last part discusses some of the important welfare measures undertaken by the government for improving the living conditions of the people.

Orissa is one of the poorest States of the country. Compared to coastal region, the incidence of poverty is more in northern and southern regions of the State. It is higher among the scheduled tribes as compared to scheduled castes and general castes. Further more, the percentage of rural families living below the poverty line is found to be much higher in the State (66.37 per cent, as per the estimate made by Panchayati Raj Department, Govt. of Orissa in 1997). Besides structural poverty, the State also faces the poverty like conjunctural poverty (due to floods, cyclones, droughts, etc.) and destitute poverty (of persons lacking either money or material to survive). In terms of the development indicators like literacy rate, infant mortality rate, per capita income, etc, the living conditions of the people of the State are considerably lower than the national average. Greater inter-district variations in the living conditions of the people are found within the State. The performances of the welfare activities like EAS, PDS, ICDS and MDM are also found to be very poor.

There are a number of remedial measures to reduce the incidence of poverty among the people in the State. Economic growth is necessary to improve the living conditions of the people. For this, development indicators like literacy rate, per capita income, infant survival rate, per capita foodgrain production, per capita net value added by manufacturers, etc. have to be improved through appropriate and adequate investment in the concerned sectors. Adequate funds should be diverted to the rural area to reduce the higher concentration of rural poverty in the State. Further more, efforts should be made to remove the present loopholes and a problem in the rural developmental programmes and programmes aimed at alleviating poverty through government initiatives. Increase in agricultural production and stability in foodgrain prices are very much necessary for improving the levels of living of the rural poor. Government should take necessary steps to control the climatic crises like flood, drought, cyclone, etc., so that the conjunctural poverty causing mass structural poverty (headcount index) in the State can be reduced. Inter-district variations in the living conditions of the people should be reduced to improve the standard of living of the people. Lastly, necessary steps should be taken to improve the performance of the welfare activities of the government (i.e. EAS, PDS, ICDS and MDM), so that the living conditions of the people can be increased.

(IX) Social Sector Development

Like the infrastructure sector provision for different social infrastructures and services required to be rendered to the people under social sector development by the State is not so discouraging in Orissa. However, the nature of implementation of various services and their delivery across space and people is highly unsatisfactory. In the front of health and education the State has to pay more attention for the development of infrastructure and amenities in the backward tribal and highland districts. Particularly, in the health sector there is a necessity for ensuring the services of doctors and other paramedical staff in the interior and tribal pockets of highland districts. It is found that the infant mortality rate, morbidity rate and death rate of population in Orissa are much higher and the life expectancy rate is much lower than the other major neighbouring States making almost same level of investment on the health sector. Similarly, in education sector the State should not remain complacent by mere setting up of primary schools and constructing school buildings alone. It is observed from the village survey that the primary school education in the interior and tribal villages of the highland districts are in total disarray. Further, there should be policy formulation for giving preference to vocational education for increasing self employment opportunities. The State has much lower level of literacy among the female population particularly, in the tribal districts like, Koraput, Rayagada, Malkangiri, Nabarangpur, Kalahandi, Nuapada, Kandhamal, etc. Apart from health and education, the other welfare schemes and beneficiary oriented anti-poverty programmes should pay more attention on their monitoring aspects and selection of right beneficiaries in order to protect the interest of the poor and weaker sections. There is a need to check the malafide transfer of social security benefits to the actual non-poor category of rural population.

(X) Socio-Economic Profile of KBK Districts

In a poor and backward State showing highest incidence of rural poverty the development of hardcore backward districts requires special attention. It is found that the socio-economic conditions of people in the undivided Kalahandi, Bolangir and Koraput districts, popularly known as the KBK districts, have worsened over the years. Thanks to deforestation and erratic rainfall causing recurring droughts and famine like situation, these districts having more than 80 per cent of agricultural dependent population show bulk of the poor and destitute in Orissa. Interestingly, during 1970-90 periods, although the inter district level of development disparities among the 13 old and undivided districts of Orissa could marginally be reduced from 42.62 per cent to 40.24 per cent in the early 1990s according to the co-efficient of variation values of Composite Development Index (CDI) formed on the basis of relative deprivation method, the CDI values of all the three undivided KBK districts have markedly diminished over the years. There has also been a marked fall in the rank positions of these three districts vis-a-vis the other districts of the State. This shows that these three districts have been affected by the 'backwash effects' of development, which may probably be due to their inherent disadvantageous factors like poor quality of human capital, backward and unsustainable agriculture coupled with reckless exploitation of forest resources

(XI) Fiscal Imbalances: Dimensions, Issues and Implications

The State is facing a severe financial crisis. The mounting revenue deficits accompanied by rapid increase in revenue expenditure and slow growth of revenue receipts, inadequate own revenues, declining Central assistance and negative contribution by public enterprises have kept the developmental expenditure of the State at low level. The revenue expenditure of the State has increased to such an extent that the State has to divert funds from capital account to meet expenses in revenue account, thereby causing retardation in economic development. The borrowing of the State has been mounting year after year and the amount of debt has reached a level where the State needs to borrow more money to clear off debts. Most of the borrowings of the State are used for repaying loans, interest and a part is used to finance the deficits. The borrowings instead of being used to finance developmental activities are used to finance non-developmental activities. If this trend is allowed to persist then the situation would be further aggravated leading to a collapse of developmental expenditure and a halt in the normal functioning of the government. In order to arrest this trend, there is a need to make fiscal correction without any further delay.

(XII) Tourism: Miles to go

Orissa is endowed with a treasure of tourists' attraction, which is varied catering to every facet of tourism - be it religious, cultural, heritage, leisure or eco-tourism. Also the hospitability industry

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has grown enormously over the last one decade. The 'Golden Triangle' of Bhubaneswar-Puri-Konark is the biggest tourist attraction. The 'Tri-Ratna Triangle' comprising Laleet Giri, Udaya Giri and Ratna Giri is yet another attraction for the Budhists from eastern countries whose potential has not been properly harnessed. Be it east, west, south or north of Orissa, the rich tourist spots have all the potential to become a money-spinning industry providing gainful employment to lakhs of people directly and indirectly and substantial revenue to the State through users-charges and entry fees.

But lack of infrastructure particularly-well-laid communication keeps the State out of the itinerary of most overseas tourists. Four-laning of Bhubaneswar-Konark, Pipili-Puri, Bhubaneswar-Chilika road is an urgent necessity. Similarly widening of road to Ratna Giri complex must get top priority. Further, till Bhubaneswar airport is converted to an international airport, it is absolutely necessary to develop Calcutta airport as the port of entry to all east bound flights from south and south east Asia. Linked properly and groomed adequately through Centre's support as also State initiative private tour operators could be encouraged to run chartered flights to the State bringing in large numbers of overseas tourists.

(XIII) Power Sector Reform in Orissa: A Case Study in Restructuring

The 70s and 80s saw a resurgence of the notion that, transferring assets from the public sector to private enterprises would raise both allocative and technical efficiency, leading to greater economic well-being of the region. This led to a spate of privatisation decisions in several countries, both in the developed and developing ones. Moreover, such change in the ownership was not confined to a particular industry. Even the State monoliths like electricity boards, telecommunications, railways were open for private participation.

The experiment and the experiences of the power sector reforms undertaken in the State of Orissa are analysed in that backdrop. The Orissa Power Sector has completed three crucial stages of the reform process - corporatisation, unbundling and privatisation of distribution. The regulatory body has also been functioning and has issued four tariff orders so far. However, the sector is faced with a serious financial crisis. The transmission company, GRIDCO, is virtually bankrupt and the distribution companies (Wesco, Nesco, Southco and Cesco) are incurring significant losses. The study stresses that, problems like high T&D losses, low collection performance, inefficient human-resource, rationalising the tariff computation should be addressed immediately to put the sector on the path of recovery. Finally, efforts should be made to reform the sector rather than just privatising and substituting the public monopoly with a private monopoly.

(XIV) Disaster Management

Disasters are unexpected events, which affect the biological and social functioning of a society. This chapter provides a historical account of disasters so far experienced in Orissa with special reference to the Super Cyclone, recent drought and flood, which have occurred in the State during the year of 1999, 2000 and 2001.

In spite of the best possible measures undertaken by the State to save the life and property of the people, it has been observed that during these disasters a lot of damages have occurred. Disasters have disrupted the communication network, supply of essential commodities and the functioning of State administration. These calamities have destroyed standing crops as well as plants, livestock, and human lives. For the first time after the Super Cyclone the State could mobilise huge relief operation and rehabilitation support in the form of food items, medicines, livelihood generating assistance. This chapter examines the extent of losses, services provided by various welfare agencies to overcome the adverse impact of these calamities and measures taken for smooth management of post-disaster situation.

The Orissa Relief Code is a generic document to guide the State Government in the management of such calamities. But it needs substantial revision keeping in view the changing times and problems encountered by the State and people in the disasters of the recent years. In order to co-ordinate the preparedness measures, relief distribution, livelihood restoration activities, and the flow of bilateral and multi-lateral aids and loans for reconstruction, the State has recently formed an authority, *viz.,* Orissa State Disaster Mitigation Authority (OSDMA). It is suggested that disaster management should be based on development planning and the welfare agencies should play the role of facilitators.

(XV) An Overview of the Scheduled Tribes in Orissa

Orissa has a composite society consisting of various caste categories and a number of diverse tribal communities. Sixty two tribals have been scheduled in the State under Article 342 of the Constitution of India. These tribal communities mostly reside in the Scheduled Areas which account for 44.21 per cent of the total land of the State. They also vary from one another in terms of their language, social structure, territorial affiliation, socio-cultural identity, livelihood sources, and degree of modernisation. Considering the low literacy, small size of population and adherence to pre-agricultural type of economy, Government of India have designated 12 tribal communities as Primitive Tribal Groups for special treatment. It is observed that the tribal economy is still in a primitive stage from the point of view of resource utilisation, technology, and adoption of diverse livelihood sources.

As a part of Indian nation Orissa has been equally committed to provide protective measures to the tribal people for their development. The strategic plans which are being implemented for overall development of the tribal communities are known as Integrated Tribal Development Agency, Special Micro Project, Modified Area Development Agency, Cluster approach and Dispersed Tribal Development Programme. Apart from giving financial assistance, the State has enacted various laws to safeguard the interest of the tribals in respect of the land alienation, indebtedness, exploitation, protection of their civil rights, reservation of vacancies in public sector posts and services, abolition of bonded labour system, protection of tribal rights over forest produces, etc. The State has commenced the process of democratic decentralisation by extending the Panchayati Raj Act to Scheduled areas and in empowering the tribal through Gram Sabha. In spite of this it is observed that, by and large, the benefits of Constitutional privileges for the Scheduled Tribes of Orissa have not been realised to the desired level.

With this background the chapter provides a brief socio-economic profile of tribal communities of Orissa. It describes the growth and development of tribal welfare policies and programmes implemented in the State during different Five Year Plan periods and the role played by State level agencies for the promotion of tribal development in Orissa.

(XVI) Development Scenario of the Village

In a poor and backward State like Orissa it is least expected that the development scenario of the village and the pace of socio-economic transformations could be better. Our socio-economic survey of different types of villages in different regions of Orissa clearly reveals that the State has to make a longitudinal perspective plan for the transformation of the subsistence oriented backward agricultural economy in order to solve the problem of poverty and to improve the ‘quality of life’ of rural people. Dependence of population on primary sector occupations is quite high, whereas agriculture with its

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present State of infrastructure and technology and, above all, operational holdings is itself not in a position to provide a substantial form of gainful livelihood to the majority of rural population in Orissa. There have been little occupational diversifications of population at the village level. Irrigation infrastructure created through many development projects has failed to achieve desired goal across space and people. Often this serves the interest of only large, medium and semi-medium farmers. Like this, the welfare programmes and Minimum Needs Programme implemented by the State under social sector development to lessen poverty and improve the 'quality of life' of poor in rural areas hardly reach the targeted sections of population.

Thus to sum up, while economic indicators of development are poor, which produce acute poverty conditions, there are a number of social conditions of deprivation that tend to perpetuate poverty which, in turn, hold back social development. This is a kind of vicious circle which calls for stepping up investment in productive sectors to increase the pace of growth and improve the economic and social well being of the poor.

In view of severe resource crunch, there are two parameters which can be used to endogenise the important desirable objectives. One is efficiency of or return to investment and two, the poverty reducing capacity of different sectors which is of extreme importance as a basic objective of planning in Orissa. Sectoral efficiency can simply be taken as the inverse of incremental capital output ratio (ICOR). Steps should, therefore, be taken to reduce ICOR by improving efficiency of management of investment outlay.

Sectoral poverty reduction capacity can be considered as the responsiveness of poverty reduction to growth. This is derivable from the implicit elasticity of poverty with respect to growth i.e. by what per cent the poverty ratio declines with one per cent increase in growth. We may thus take a normative approach and assign equal weights to the above mentioned two sectoral parameters as the basis of sectoral allocation of total plan outlay. Thus the two parameters can simply be added up and called efficiency-cum-equity index.

On the basis of this efficiency-cum-equity-index a growth rate of 6.2 per cent per annum during the Tenth Plan along with a poverty reduction of 7 per cent has been proposed in the Vision Statement.

9.11 MAN POWER,POLICY AT NATIONAL AND REGIONAL LEVELS UNDER FIVE YEAR PLANS

Human resource planning is the most important managerial function of an organization. It ensures three main things:

- It ensures adequate supply of human resources.
- It ensures proper quality of human resources.
- It ensures effective utilization of human resources.

HR Planning at different Levels

Human Resource Planning (HRP) may be done at different levels and for different purposes.National planners may make a HR plan at the national level whereas the strategists at a company may make a HR plan at the unit level. The HR Planning thus operates at five levels.

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1. **HRP at National Level:** HRP at the national level helps to plan for educational facilities, health care facilities, agricultural and industrial development and employment plans, etc. The government of the country plans for human resources at the national level. National plans for HR forecast the demand and supply of human resources at the national level. It also plans for occupational distribution, sectoral and regional allocation of human resources.
2. **HRP at the Sectoral Level:** HRP at the sectoral level helps to plan for a particular sector like agriculture, industry, etc. It helps the government to allocate its resources to the various sectors depending upon the priority accorded to the particular sector.
3. **HRP at the Industry Level:** HRP at the industry level takes into account the output/operational level of the particular industry when manpower needs are considered.
4. **HRP at the Unit Level:** HR Planning at the company level is based on the estimation of human resource needs of the particular company in question. It is based on the business plan of the company. A manpower plan helps to avoid the sudden disruption of the company's production since it indicates shortages of particular types of personnel, if any, in advance, thus enabling the management to adopt suitable strategies to cope with the situation.
5. **HRP at the Departmental Level:** HRP at the departmental level looks at the manpower needs of a particular department in an organization.

9.12 INTEGRATED STRATEGIC PLANNING AND HR

HRP like production planning, financial planning and marketing planning needs to be comprehensive, unified and integrated for the total corporation. HR manager provides inputs like key HR areas, HR environmental constraints, HR capabilities and HR capability constraints to the corporate strategists. Corporate strategists further communicate their needs and constraints to HR manager. The corporate strategic plan and HR plan, thus incorporates both HR and other functional plans. However, Integrated strategic planning involves four steps.

Step I: Development and knowledge of organization's overall purpose or mission or goals and objectives.

Step II: Providing inputs by HR manager regarding key HR areas, capabilities and constraints of HR and environment to corporate strategists.

Step III: The corporate strategists in turn communicate their needs and constraints to the HR manager.

Step IV: Integration of HR and other functional plans.

Corporate strategic planning involves four time spans:

(i) **Long period (5 or more years):** Strategic plans that establish company's vision, mission and major long-range objectives. The time span for strategic plans is usually considered to be five or more years.

(ii) **Intermediate period (3 years):** Intermediate-range plans cover about a three-year period.These are more specific plans in support of strategic plan.

(iii) **Operation period (1 year):** Operating plans cover about one year. Plans are prepared month-by-month in sufficient detail for profit, human resources, budget and cost control.

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(iv) Short period (day-to-day or week-by-week): Activity plans are the day-to-day and weekby-week plans. These plans may not be documented.

(v) Corporate-level plan: Top management formulates corporate-level plan based on corporate philosophy, policy, vision and mission. The HRM role is to raise the broad and policy

Need for Human Resource Planning

Human resource planning is needed for foreseeing the human resource requirements of an organization and supply of human resources. Its need can be assessed from the following points:

1. **Replacement of Persons:** A large number of persons are to be replaced in the organization because of retirement, old age, death, etc. There will be a need to prepare persons for taking up new position in such contingencies.
2. **Labour Turnover:** There is always labour turnover in every organisation. The degree of labour turnover may vary from concern to concern but it cannot be eliminated altogether.

   There will be a need to recruit new persons to take up the positions of those who have left the organization. If the concern is able to forecast turnover rate precisely, then advance efforts are made to recruit and train persons so that work does not suffer for want of workers.
3. **Expansion Plans:** Whenever there is a plan to expand or diversify the concern then more persons will be required to take up new positions. Human resource planning is essential under these situations.
4. **Technological Changes:** The business is working under changing technological environment. There may be a need to give fresh training to personnel. In addition, there may also be a need to infuse fresh blood into the organization. Human resource planning will help in meeting the new demands of the organisation.
5. **Assessing Needs:** Human resource planning is also required to determine whether there is any shortage or surplus of persons in the organization. If there are less persons than required, it will adversely affect the work. On the other hand, if more persons are employed than the requirement, then it will increase labour cost, etc. Human resource planning ensures the employment of proper workforce.

Objectives of Human Resource Planning

The following are the objectives of human resource planning:

1. Assessing manpower needs for future and making plans for recruitment and selection.
2. Assessing skill requirement in future for the organization.
3. Determining training and the development needs of the organization.
4. Anticipating surplus or shortage of staff and avoiding unnecessary detentions or dismissals.
5. Controlling wage and salary costs.
6. Ensuring optimum use of human resources in the organization.
7. Helping the organization to cope with the technological development and modernization.

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8. Ensuring career planning of every employee of the organization and making succession programmes.
9. Ensuring higher labour productivity.

Determinants of HRP

There are several factors that affect HRP. These factors or determinants can be classified into external factors and internal factors.

External Factors

- **Government Policies:** Policies of the government like labour policy, industrial relations policy, policy towards reserving certain jobs for different communities and sons-of-thesoils, etc. affect the HRP.
- **Level of Economic Development:** Level of economic development determines the level of HRD in the country and thereby the supply of human resources in future in the country.
- **Business Environment:** External business environmental factors influences the volume and mix of production and thereby the future demand for human resources.
- **Level of Technology:** Level of technology determines the kind of human resources required.
- **International Factors:** International factors like the demand for the resources and supply of human resources in various countries.

Internal Factors

- **Company Policies and Strategies:** Company's policies and strategies relating to expansion diversification, alliances, etc. determines the human resource demand in terms of quality and quantity.
- **Human Resource Policies:** Human resources policies of the company regarding quality of human resource, compensation level, quality of worklife, etc. influences human resource plan.
- **Job Analysis:** Fundamentally, human resource plan is based on job analysis. Job description and job specification determines the kind of employees required.
- **Time Horizons:** Companies with stable competitive environment can plan for the long run whereas the firms with unstable competitive environment can plan for only short-term range.

Analyzing Factors for Manpower Requirements on Demand Side

(Demand Forcasting)

The existing job design and analysis may thoroughly be reviewed keeping in view the future capabilities, knowledge and skills of present employees. The job generally should be designed and analyzed reflecting the future human resources and based on future organizational plans. The factors for manpower requirements on demand side can be analyzed by making demand forecasting.

Demand forecasting is the process of estimating the future requirements of manpower, by function and by level of skills. It has been observed that demand assessment for operative personnel is not a problem but projections regarding supervisory and managerial levels is difficult.

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Two kinds of forecasting techniques are commonly used to determine the organization's projected demand for human resources. These are: (a) Judgemental forecasts, and (b) Statistical projections:

(a) Judgemental Forecasts: Judgemental forecasts are also known as the conventional method.

The forecasts are based on the judgement of those managers and executives who have intensive and extensive knowledge of human resource requirement. Judgemental forecasts could be of two types:

(i) Managerial Estimate: Under this method, the managers or supervisors who are well-acquainted with the workload, efficiency and ability of employees, think about their future workload, future capabilities of employees and decide on the number and type of human resources to be required. An estimate of staffing needs is done by the lower level managers who make estimates and pass them up for further revision.

(ii) Delphi Method: A survey approach can be adopted with the Delphi technique. The Delphi process requires a large number of experts who take turns to present their forecast statement and underlying assumptions to the others, who then make revisions in their forecasts. Face-to-face contact among the experts is avoided.

(b) Statistical Projection: Some forecasting techniques are based on statistical methods. Some of them are given below:

(i) Ratio-Trend Analysis: The ratio-trend analysis is carried out by studying the past ratios and the forecasting ratios for the future. The components of internal environmental changes are considered while forecasting the future ratios. Activity level forecasts are used to determine the direct human resource requirements. This method depends on the availability of past records and the internal environmental changes likely to occur in future.

(ii) Econometric Model: Under the econometric model, the previous data is analyzed and the relationship between different variables in a mathematical formula is developed. The different variables affecting the human resource requirements are identified. The mathematical formula so developed is then applied to the forecasts of movements in the identified variables to produce human resource requirements.

(iii) Work-Study Techniques: Work-study techniques are generally used to study work measurement. Under the workload analysis, the volume of workload in the coming years is analyzed. These techniques are more suitable where the volume of work is easily measurable. If the planners forecast expansion in the operations, additional operational workers may be required. If the organization decides to reduce its operations in a particular area, there may be decreased demand for the workers. If there is likely to be no change, present demand for workers will continue. The work study method also takes into account the productivity pattern for the present and future, internal mobility of the workers like promotion, transfer, external mobility of the workers like retirement, deaths, voluntary retirements, etc.

Analyzing Factors for HR Requirements on Supply Side (Supply Forecasting) Supply forecasting is concerned with human resources requirements from within and outside the organization. The first step of forecasting the future supply of human resource is to obtain the data and information about the present human resource inventory. The supply forecasting includes human resource audits; employee wastage; changes due to internal promotions; and changes due to working conditions.

Some of the steps are discussed below:

(i) Human Resource Audits: These are analysis of each employee's skills and abilities. This analysis facilitates the human resource planners with an understanding of the skills and capabilities available in the organization and helps them identify manpower supply problems arising in the near future. These inventories should be updated periodically otherwise it can lead to present employees being ignored for job openings within the organization.

(ii) Employee Wastage: The second step of supply forecasting is estimation of future losses of human resources of each department and of the entire organization. This is done to identify the employees who leave the organization and to forecast future losses likely to occur due to various reasons. Employees may leave the organization for reasons like retirements, layoffs, dismissals, disablement, ill health, death, etc. Reasons for high labour turnover and absenteeism should be analyzed and remedial measures taken. Management has to calculate the rate of labour turnover, conduct exit interview, etc.This helps to forecast the rate of potential loss, reasons for loss and helps in reducing the loss.

(iii) Internal Promotions: Analysis is undertaken regarding the vacancies likely due to retirements and transfer and the employees of particular groups and categories who are likely to be promoted. The multiple effect of promotions and transfers on the total number of moves should be analyzed and taken into consideration in forecasting changes in human resource supply of various departments.

Estimating the Net HR Requirements

Net human resource requirements in terms of number and components are to be determined in relation to the overall human resource requirements (demand forecast) for a future date and supply forecast for that date. The difference between overall human requirements and future supply of human resource is to be found out.

9.13 CONTROL AND REVIEW MECHANISM

Human resource planning requires considerable amount of financial resources besides time and staff. Small firms may not go for it but large organizations prefer human resource planning as a means of achieving greater effectiveness and long-term objectives. J.W. Walker is of the opinion that, "In making a projection of manpower requirements, selecting the predictor — the business factor to which manpower needs will be related – is the critical first step. Selecting the right predictor in relation to the business is a difficult process. To be useful, the predictor should meet two requirements; first, it should be directly related to the essential nature of the business so that business planning is done in terms of the factor. The second requirement is that changes in the selected factor be proportional to changes in the manpower required in the business." Thus, the human resources structure and system should be controlled and reviewed with a view to keep them in accordance with the plan.

N.K. Singh in his book "*Dimensions of Personnel Management*" has identified 9 steps followed by Indian industries regarding control and review of human resource structure and system. These are:

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1. Considering the decisions regarding additions at the highest level.
2. Sending periodic reports to the top management stating the existing manpower system and changes therein due to internal and external mobility.
3. Using the personnel budgets as a basis for control as they are formulated on the basis of manpower plans.
4. Auditing the human resources and studying manpower utilization can be measured by relating net man-hours actually utilized in work to the standard man-hours planned to be utilized in work.
5. Measuring the efficiency of labour periodically in the form of labour productivity, employeesales ratio, employee-investment ratio, employee-turnover ratio, employee-profit ratio, etc. and compare them with standards of the organisation and actuals of other comparable organizations.
6. Conducting surveys and research studies with a view to find out the level of job satisfaction, morale, employee attitudes, interpersonal relations, etc. and review and correct the situation with the help of the findings of the surveys and studies.
7. Conducting studies with a view to find out the efficiency and validity of recruitment, selection, training, etc.
8. Sending reports regarding absenteeism, irregularities, overtime, etc. to the management.
9. Conducting exit interviews; spotting out the area responsible, finding out the causes and correcting the situation.

Strategies for Human Resource Planners

The objective of manpower planning is to help the organization to achieve its goal. For this purpose, the manpower planners have to develop some strategies. Stainer has suggested nine strategies for the benefit of manpower planners:

1. They should collect, maintain and interpret relevant information regarding human resources.
2. They should periodically report manpower objectives, requirements and existing employment and allied features of manpower.
3. They should develop procedures and techniques to determine the requirements of different types of manpower over a period of time from the standpoint of organization's goals.
4. They should develop measures of manpower utilization as component of forecasts of manpower requirement along with independent validation.
5. They should employ suitable techniques leading to effective allocation of work with a view to improving manpower utilization.
6. They should conduct research to determine factors hampering the contribution of individuals and groups to the organization with a view to modifying or removing these handicaps.
7. They should develop and employ methods of economic assessment of human resources reflecting its features as income generator and cost and accordingly improving the quality of decisions affecting the manpower. These people are known for job hopping, thereby creating frequent shortages in the organization. Manpower planning helps prevent such

shortages. Furthermore, technology changes will often upgrade some jobs and degrade others. Indian Telephone Industries (ITI) had a stronger technology to start with, which later developed into crossbar telephone system. This was later changed to electronic technology. Jobs created and people hired when old technologies were in use became extinct, obsolete and redundant. ITI being a public sector undertaking, could not retrench its workers, and were subsequently retrained and redeployed to supervise the electronic system now in use. Jobs became highly technical necessitating hiring of engineers who had majored in electronics. So, ITI had no use of engineers with civil or mechanical engineering as major. Thus, ITI is in a tight spot so far as shop-floor workers are concerned, whose number is more than the demand for them. Even with regard to electronics engineers, the company is not in a comfortable position. With its existing compensation scheme, ITI is not in a position to attract talented people. This situation could have been avoided if ITI had done HRP. Another facet of the high-talent personnel is management succession planning. Who will replace the retiring chief executive? From what pool of people will top executives be selected and how will these individuals be groomed for their increased responsibilities? HRP is an answer to these and other related questions.

8. Identification of Gaps in Existing Manpower. Human resource planning identifies gaps in existing manpower in terms of their quantity and quality with the help of suitable training and/or any other steps, these gaps can be filled in time. Existing manpower can also be developed to fill future vacancies.
9. Career Succession Planning. Manpower planning facilitates career succession planning in the organization. It provides enough lead time for internal succession of employees to higher position through promotions. Thus, manpower planning contributes to management succession as well as development.
10. Improvement in Overall Business Planning. Manpower planning is an integral part of overall business planning. Effective manpower planning will lead to improvement in overall planning also. No management can be successful in the long run without having the right type and right number of people doing the right jobs at the right time.
11. Growth of the Organization. Manpower planning facilitates the expansion and diversification of an organization. In the absence of human resource plans, the required human resources will not be available to execute expansion and diversification plans at the right time.
12. Creates Awareness in the Organization. Manpower planning leads to a great awareness about the effectiveness of sound manpower management throughout the organization. It also helps in judging the effectiveness of human resource policies and programmes of management.
13. Beneficial to the Country. At the national level manpower planning facilitates educational reforms, geographical mobility of talent and employment generation.

Limitations of HR Planning

Manpower planning is not always successful, the main problems are described below:

1. **Accuracy of Forecasts:** Manpower planning involves forecasting the demand and supply of human resources. Thus, the effectiveness of planning depends upon the accuracy of Some of the suggestions for making HR planning effective are as given below:

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2. **Integration with Organizational Plans:** Human resource planning must be balanced with organizational plans. It must be based on the organizational objectives and plans. This requires development of good communication channels between organization planners and the human resource planners.
3. **Period of HR Planning:** Period of the planning should be appropriate to the needs and circumstances of the enterprise in question. The size and structure of the enterprise as well as the anticipated changes must be taken into consideration.
4. **Proper Organization:** To be effective, the planning function should be properly organized. If possible, within the human resource department. A separate cell or committee should be constituted to provide adequate focus and to co-ordinate planning work at various levels.
5. **Support of Top Management:** To be effective in the long run, manpower planning must have the full support of the top management. The support from top management is essential to ensure the necessary resources, co-operation and support for the success of the planning.
6. **Involvement of Operating Executives:** Human resource planning is not a function of manpower planners only. To be effective, it requires active participation and co-ordinated efforts on the part of operating executives. Such participation will help to improve understanding of the process and thereby reduce resistance.
7. **Efficient and Reliable Information System:** To facilitate human resource planning, an adequate database must be developed for human resources.
8. **Balanced Approach:** The human resource experts should give equal importance to both quantitative and qualitative aspects of manpower. Instead of matching existing people with existing job, stress should be laid on filling future vacancies with right people. Promotion should also be considered carefully. Career planning and development, skill levels, morale, etc. should be given due importance by the planners.

9.14 SUMMARY

1. In the economy, Human Resources are there, both on the demand as well as the supply side of production of goods and services.
2. On the demand side, Human Beings consume produced goods and services to alleviate poverty, improve health, generate better living conditions, enhance general educational levels and so on and so forth. Therefore, utilisation of goods and services leads to an improvement of quality of Human Resources.
3. On the supply side, Human Resources along with capital form essential ingredients of production systems which transform natural and physical resources into goods and services.
4. Manpower Planning is largely concerned with labour supply, where as employment planning is concerned more with the demand for jobs than with the supply side of the employment equation.
5. According to 2014-15 economic survey, Odisha’s Gross State Domestic Product (GSDP) was expected to grow at 8.78%.

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9.15 SELF ASSESSMENT QUESTIONS

1. Man power planning:with reference to India . Elucidate.
2. Orissa man power planning and economic development. Explain in detail.
3. Explain Man power,Policy at National and Regional levels under five year plans'.