

Policy Options Note

2/2014

Rethinking the Role of Planning Commission of India

The Planning Commission of India (Commission), India's central plan body, has been in the eye of storm for quite some time now. It has been accused of ignoring the concerns of states while formulating plans, functioning sans accountability, and proving to be a roadblock in the path of federalism. Moreover, the need of planning in a market economy is being increasingly debated, and so is the utility of a central planner.

This Policy Options Note attempts to track growth of the Commission, since its conception, and probe into some such concerns. It concludes with providing ideas to revamp the Commission to suit the needs of modern Indian economy, while taking into account institutional knowledge¹ accumulated by the Commission, over a considerable period of time.

Formulation of the Commission

The Commission was set up in 1950 by a government resolution (and not a legislation) during the time of then Prime Minister, Jawaharlal Nehru. His idea was to create an arms' length body of experts to advise him on public policy as he would not have been able to get the best from the Cabinet or the ministries. In order to give it some authority, the head of the Commission (Deputy Chairman) was given a rank of Cabinet Minister and the Members were given a rank of Minister of State.

One of the fundamental criticisms of the Commission is this absence of constitutional/statutory authority. Paranjape² speculates that being a novel experiment, the government might have wanted to avoid statutory constraints. However, even after decades, its foundation remains the same in spite of having a vital role in the economy. Members of the Commission are appointed by the Prime Minister on the strength of his personal knowledge and comfort, and without any selection criteria. It is no surprise, thus, that it remains subject to the wishes of government in its composition and working.

Growth into a Behemoth

The Commission was constituted with the objective of setting national growth priorities and determining the systematic course of balanced development. It probably suited the times, given the imminent hunger for rapid development of a newly born Union with weak states. Its roles include a determining devolution of funds to the states, and formulating a plan for most effective and balanced utilisation of the country's resources, in consultation with state governments.

In practice, however, this has often been a one way street. Due to strong Centre and the governments at the Centre and states being led by the same party for a significant period since independence, states have been relegated to following national priorities and directions, neglecting their specific growth capacity and requirements, and have little say in planning and implementation.³

Over time, the Commission has been transformed into a Control Commission having last word on resource allocation to states. Thus, originally envisaged as a purely advisory body, with no authority or administrative roles, the Commission has become an extra-constitutional unaccountable political authority, and a means for the backdoor control of states' economic policies.

Bimal Jalan, former Governor, Reserve Bank of India (RBI), explains that lack of integration and consultation with states could have been due to different governments with different tenures in the states. However, the disconnect has widened so much that the Commission and the Finance Ministry have been accused of practically deciding the plan with hardly any analytical understanding of various dimensions of major issues across the country.

Lack of Accountability

Another major criticism levelled on the Commission is that it has developed into a powerful organisation without having any accountability. The Deputy Chairman, who is the Chief Executive of the Commission, influences a substantial portion of government expenditure, is never questioned directly in the Parliament, except through the Minister of State for Planning and Statistics. The Commission's

practices are also not subject to any review. Year after year, it relies on past allocations to make plans, and does not undertake zero budgeting.

Hijacking the Role of Other Central Bodies

The Finance Commission, and not the Commission, has been charged by the Constitution with the responsibility of transfer of resources from Centre to states. However, in practice, this function has been hijacked by the Commission. Perhaps, because the Finance Commission is an independent constitutional authority and thus not amenable to government diktats, while the Commission is a body which is under the direct control of the Prime Minister, who is also the Chairman of the Commission.

Another constitutional body, the Inter State Council, housed in the Home Ministry, with the responsibility to arbitrate on policies and resource allocation between the Centre and states, has been abrogated by the expanding scope of functions of the Commission.

At present, many central organisations exist, carrying out substantially similar activities. These include (in addition to the Commission), the RBI, the Finance Commission, the Inter State Council, the National Development Council, the Central Statistics Office, the Prime Minister's Economic Advisory Council (PMEAC), the Chief Economic Adviser (CEA) in the Finance Ministry, amongst others. Other than the Commission, the RBI, PMEAC, and the CEA publish annual reports on the state of the economy.

Thus, mandate of these organisations seem to be overlapping at times, as all these perform economic research and advisory functions, to certain extent. A clear understanding of role of each of these organisations, and preferably undertaking of cognate activities by a single organisation, is need of the hour. This will help avoiding inconsistency and confusion.

Need of Planning in Modern Economy

As the country transitioned from a closed economy into a market economy, utility of central planning was questioned, in light of diminishing role of the government and increasing private sector participation in delivering public goods. At the time of its setting up, around 90 percent of the gross investment in the country came from tax receipts. Over time, this has reduced to around 25 percent (the rest being private risk capital). Given this, the need for investment planning by a Commission-like body has been increasingly probed.

While Sabhlok⁴ argues that planning in a market economy is simply not possible or desirable, Stiglitz⁵ points out that while government planning in market economy is needed, he questions if its most effective location is in the government centralised bureau or at the level of firm. Bagchi⁶ emphasises on the importance of centralised

planning, but wants it to be indicative, coordinative and prescriptive.

Over time, the Commission also realised that to suit the needs of market economy, a transition is needed from centralised to indicative planning where it concerns itself with building a long-term strategic vision of the future and decide national priorities.⁷ However, it continues, as before, with formulation of ambitious plans.

Roadblock in the Path of Federalism

Recently, senior parliamentarians: Yashwant Sinha, N K Singh and B L Munekar, while discussing the issue of fiscal federalism and centralised government planning, suggested that Commission in its existing form was the biggest roadblock in the path of federalism. Both N K Singh and B L Munekar have also served as Members of the Commission in the past and in unison suggested that the Commission should be wound up. They were sharing their views at a lecture on "Fiscal Federalism: An Unequal Balance" organised by CUTS at New Delhi on December 18, 2013, as a part of its public lecture series on "Better Governance for Inclusive Growth" to celebrate its 30th anniversary.⁸

True federalism, as observed by Louis D Brandeis, Associate Judge on the Supreme Court of the US in 1932, is a condition in which a single courageous state may, if its citizens choose, serve as a laboratory, and try novel social and economic experiments without risk to rest of the country. His view of states being 'laboratories of democracy' forms the basis of new federalism philosophy in the US which advocates restoration to states of some of the autonomy and powers which they lost to the federal government, as a consequence of the New Deal.

A central plan body usually indicates strong role for the Central Government and fewer powers to states, thus conflicting with the idea of true federalism. On the other hand, an expert advisory central body indicates greater balance between Central and state governments and recognition of the principles of federalism.

China has the National Development and Reform Commission (NDRC) having broad administrative and planning control over the economy.⁹ The NDRC is a successor to the State Planning Commission (SPC), which had managed China's centrally planned economy since 1952. In 1998, the SPC was renamed as the State Development Planning Commission, which then merged with the State Council Office for Restructuring the Economic System and part of the State Economic and Trade Commission in 2003. Since then, the organisation further shifted its policy from a planned to a socialist market economy. The restructured organisation was then merged into a newly created NDRC, which gained greater responsibility and power in overseeing China's economic development.

Such experiment of a central plan body formulating long term plans was pioneered by the erstwhile USSR, which became a model for all countries, including India, which were following a centrally planned economy.

However, alternatives exist. The General Commission for Strategy and Foresight in France assists the government in determining direction for economic development. The Federal Planning Bureau in Belgium provides expert assistance to the government and issues studies and projections on economic and other issues. In US, other than the state-level plan bodies, the Council of Economic Advisers offers the President objective economic advice on the formulation of domestic and international economic policy.

In India, over time, with evolution of coalition governments, multiple political parties, and realisation that states have different growth capacity and requirements, the demand for greater role of states has grown. However, the Commission continues with its practice of allocating of funds to states, without taking into account their concerns. Thus, it is increasingly being viewed as a roadblock to true federalism.

Knowledge Bank of the Commission

Supporters of the Commission in its current form argue that it is the only body with inter-ministerial knowledge and believe that it has an important role at central level. They suggest that its main functions of allocating resources, designing policies and evaluating performance, will have to be carried out in any case, which will ultimately require staff and resources that Commission has today.

Lack of Specialisation

In its earlier years, Commission's advisers used to be domain experts chosen through stringent selection processes while Members were expected to provide a holistic view. However, there has since been a shift in the composition of advisers who are now mostly officials from the Indian Administrative Service or Indian Economic Service and not necessarily domain experts. Some of them do have domain knowledge, but most get appointed through jockeying to continue to live in Lutyen's Delhi. Even office of the Secretary of the Commission used to be occupied by a serving IAS officer or an economist, but in two appointments in the recent past, retired IAS officers have been appointed, imagination and capabilities of whom, can be captured on the back of a postage stamp.

This is in spite of the Commission's own recommendation in the 9th Five Year Plan policy documents that retirees should not be appointed to any such job, and if at all they are, then they should not be provided government accommodation.

The Commission currently has 26 divisions but has only eight Members, resulting in each Member looking at an average three divisions. The Members of the Commission

have also been given specific charge of management of relationships with specified states, and thus, most of their time is taken up in controlling the behaviour of states via granting or withholding resources. As a result, they do not have time to devote to their subject matter briefs in which they are supposed to possess an expertise. They are also not able to study numerous topics required to develop a plan and liaise with several key ministries, which has become necessary in today's complex contemporary environment.

Consequently, the Commission has become weaker with advisers no longer being domain experts because of a shift in their hiring pattern, and the lack of enough Members, which has resulted in a generic approach on important subject matters. Thus, it needs permanent staff with deep understanding of specific areas, which could be from civil services but roped in after a well laid out selection process.

Commission or Ministry?

The Commission's internal systems are run on the lines of a government ministry. It has a Secretary like all other ministries. The Secretary reports to the Deputy Chairman who is a 'minister' with independent charge. All officers report to the Secretary. Members are ranked as 'ministers of state' for protocol purposes, and like ministers of state in other ministries they have no say in the appointments, transfers, evaluations, and quality of the staff in the divisions they are notionally responsible for.

Thus, the organisation is run like a 'ministry' albeit with a 'commission' of a few full-time Members attached to it. These Members are expected to deliver high-quality guidance on the subjects assigned to them and to change the ways in which the Commission engages with the country and plans for its progress. They do not have the resources to do this.¹⁰

In fact, all research projects are awarded by the Commission through the Secretary and the huge administrative staff. A proposal was once mooted in 2010 that every Member be given a budget of ₹2 crore per annum to decide on a research project which they would like to commission, but that proposal fell flat as the bureaucracy opposed the same.

Suggestions from within the Commission

Different opinions on restructuring the Commission can be heard from within the plan body. Suggestions include a significant increase in the number of Members, hiring of domain experts both at the Member as well as adviser levels, creation of new divisions and greater involvement of think tanks in the planning process.

Some have suggested making the Commission a much bigger body having specialised divisions and staffed with more Members and domain experts, to make it more useful. Others have called for establishment of a small, dynamic cell within the Commission to stimulate the

formation of a network of think tanks and establish learning processes between policymakers and knowledge providers.

There have even been calls for recruiting high level generalists to identify gaps in economy, and setting up *ad-hoc* panels with experts to build alternate scenarios.¹¹

Opinion of Experts

Many models have been suggested for revamping the Commission, by different experts, to bring it in tune with the demands of the current market economy.

Paranjape recommended the Commission be turned into a genuinely expert advisory body, without the clout to enforce a specific pattern of development in the country. Some suggested turning the Commission into Systems Reforms Commission, with the job of getting many ministries to work together. This is relevant given that a multi-party government and federal structure requires a set of non-political thinkers who could foresee what was happening.

Suggestions also include limiting Commission's role to data dissemination, with the Finance Commission allocating resources to states. The Administrative Reforms Commission recommended discontinuation with the practice of Prime Minister's formal and mandatory association with the Commission, to reduce clout, and ensure arms-length relation with the government.

Sabhlok calls for first principles review of the Commission and suggested establishing an independent and statutory Governance and Economic Reform Commission that conducts intervention impact assessment of government programmes and provides independent advice on its proposals. Some have suggested turning Commission into an office of chief economist with the primary function to draw on a wide range of economic and commercial expertise and intelligence and develop strategies related to improving the overall competitiveness of Indian economy.

Sinha, while speaking at the CUTS lecture,¹² (referred to above) suggested that the Commission be restructured into Perspective Planning and Implementation Commission, while ceasing to interfere in functioning of state governments. Munegkar suggested that functions of the Commission are well suited to be carried out by the Finance Ministry as instead of planning for the future, the Commission had simply become an agency for incurring expenditure and making budgetary allocation. The panel agreed that Commission could be rechristened into a Department of Planning and Cooperation.

Rajiv Lall, Executive Chairman, IDFC, while speaking at a subsequent CUTS 30th anniversary lecture on 'Economic Governance in India,'¹³ highlighted the need to refurbish the Commission so that it becomes a true national level institution to deal with evolving economic governance challenges.

Pradip Shah, Chairman, IndAsia Fund Advisors, also speaking at the lecture, was critical of the role of the Commission and called for a redefinition of its duties and responsibilities. He suggested that it should become Planning cum Monitoring Commission¹⁴ and possess a very strong monitoring wing that checks the translation of plans into implementation.

Almost a consensus emerges in favour of de-politicisation of the Commission and making it an advisory body, and determination of investment priorities by the states.

Reforms Initiated by the Commission and the Government

It is not that the Commission has not realised its maladies. It has started taking corrective actions by introducing greater stakeholder participation (by adoption of the India Backbone Implementation Network), identifying critical intervention areas (such as improving business regulatory environment and human asset environment for enhancing manufacturing), and designing processes to support states to improve their performance and knowledge of available best practices.¹⁵

The government, via the Interim Budget 2014-15, substantially increased the funds to be released as Central assistance to states, thus giving states greater authority and responsibility. However, going forward, it expects states to willingly bear a reasonable proportion of the costs of implementing flagship programmes. To enable this, states must have a greater voice in design of plans.

The current efforts are not sufficient, and more needs to be done from within the Commission as well as by the government, on a priority basis, to make the Commission relevant in current times and justify spending of public resources.

Conclusion and Suggestions

The Finance Commission, being charged by the Constitution with the responsibility to transfer resources from Centre to states, could do the task of funds allocation to states on a regular basis as well.

The Commission, in order to deal with evolving economic governance challenges, must be transformed into independent expert statutory body with two key roles. First, to advise Central and state governments on critical economic policy issues on the basis of in-depth research, data collection, analysis, identification of alternatives, and evaluation of impact of policy proposals and prevailing policies. Second, to facilitate coordination between different government departments, Central and state governments and different state governments.

In order to perform these functions, the Commission could have offices in all the states.¹⁶ These offices must be connected to an online central repository wherein all the

data, reports, minutes of meetings, recommendations etc. should be uploaded. The Commission's association with the Prime Minister's office must be discontinued. Its Members and officers must be selected through a transparent rigorous process. Its performance must be evaluated against a set of pre-determined identifiable targets (including time-bound advisory process, and evaluating utility of suggestions in real world). The Commission should be capable of evolving with the needs of the economy, and its actions must be open to public scrutiny.

Only if these suggestions are implemented, plans would be made on the basis of first-rate information with greater participation from states, and states could act as laboratories for democracy, as envisaged by Justice Brandeis. An expert body in the form of a revamped Commission would be available to assist in efficient implementation of such plans and evaluation of outcomes, thus acting as a dynamic knowledge organisation and effective facilitator of implementation. This will help in achieving true federalism and could also set the stage for decentralisation of powers within the states and lead to better growth.

Endnotes

- 1 Though institutional memory is quite weak as the Commission has no systematic process to capture and store information. Through random searches one can find some relevant data, but that is dependent on luck and the effort put in by a researcher. For example, CUTS was the knowledge partner to the Commission on the Working Group on Business Regulatory Framework, when it was discovered that many discussions have taken place in the past but the Industries Division could not locate the data. Therefore, one recommendation was to collect all the old reports and analyse them on the processes and the reasons why their recommendations did not fly
- 2 H K Paranjape, *The Task of Ninth Finance Commission - The Planning Commission Tangle*, 1988
- 3 Report of the First Administrative Reforms Commission, 1966
- 4 Sanjeev Sabhlok, *Breaking Free of Nehru: Lets Unleash India*, 2009
- 5 Amaresh Bagchi, *Role of Planning and the Planning Commission in the New Indian Economy: Case for Review*, Economic and Political Weekly, 2007
- 6 *Ibid*
- 7 <http://planningcommission.nic.in/aboutus/history/function.php?about=funcbody.htm>
- 8 www.cuts-international.org/30thAnniversaryLectures/Lecture-Fiscal_Federalism-The_Unequal_Balance.html
- 9 See, <http://en.ndrc.gov.cn/>
- 10 Arun Maira, *India's Reluctant Reformers*, Livemint, March 05, 2014
- 11 http://articles.economictimes.indiatimes.com/2014-02-11/news/47235810_1_planning-commission-policy-reforms-coal-mining
- 12 Supra note 8
- 13 www.cuts-international.org/30thAnniversaryLectures/Lecture-Economic_Governance_in_India.html
- 14 An Independent Evaluation Office has since been set up in June 2013 with a Director General in the rank of a Minister of State
- 15 Arun Maira, *Catalytic change to planning*, Livemint, March 12, 2014
- 16 The Pune International Centre has made similar suggestions. It advocates establishment of 'Independent Evaluation Office' in states, to improve expenditure efficiency and development outcomes. See, *Innovating India, Road map 2014-19*, Pune International Centre

This Policy Options Note is prepared by Pradeep S Mehta and Amol Kulkarni of CUTS International. We thank Sumit K. Majumdar, SL Rao, TCA Srinivasa Raghavan, V Ranganathan, Jayanta Roy and Abhishek Kumar for providing valuable inputs in preparing this note.

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