Disband Yojana Bhavan

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GOVIND BHATTACHARJEE

Whatever little we have achieved was not because of, but in spite of the Planning Commission. It is time to wind it up and bury the five-year plans once and for all

Before denouncing the idea as preposterous and heretical, let's take a hard look at the facts. The Planning Commission was created by an executive resolution of the Government of India in March 1950. The Commission is not a constitutional entity, but it enjoys extra-constitutional authority to recommend the transfer of almost half of our annual budgetary allocations to states as plan grants every year. It produces voluminous five-year plans full of fantastic rhetoric and fancy jargon, besides generating a plethora of reports on every conceivable subject. It is also known to entertain the nation by generating astounding statistics, especially in relation to poverty figures. Over the decades, the Planing Commission has grown into a mammoth bureaucracy that needs about Rs 100 crore of public funds annually to run its report-producing apparatus. For the past several decades, it has also become the major driving force behind doling out national resources in the form of ill-conceived and poorly-implemented Centrally Sponsored Schemes, through which the powers that be get access to public funds as well as the licence to misuse these funds for political ends.

There is only one mechanism provided in the Constitution for devolution of Central resources to the states ~ under Article 275, through the Finance Commission. But the spirit of fiscal federalism in the Constitution was hideously defeated by the creation of the Planning Commission and by giving it exclusive powers, without any constitutional backing, to transfer a huge amount of Central resources to states as plan transfers, while limiting the scope of the Finance Commission only to recommend non-plan transfers.

The creation of the Planning Commission necessitated classification of expenditure into plan and non-plan, something again without any constitutional sanction. The device used for plan transfers is Article 282, meant for dealing with exceptional situations. These transfers are discretionary in nature, vulnerable to be influenced more by political rather than economic considerations and enabling the Centre to arm-twist any state, given the huge amounts at stake. When this arbitrary discretion of the Centre over transfer of plan funds was sought to be limited by making these transfers based on the so-called Gadgil formula, the Centrally Sponsored Scheme was the innovation introduced by the Centre to retain its hold over public funds, and to allow it to misuse these funds on cheap, wasteful and supposedly votecatcher plan schemes. A number of such schemes have since proliferated unabated on political considerations, creating aberrations in our public finances all the way. Most of these transfers are also made outside the state budgets, so they bypass the usual budgetary, accounting and legislative controls. More than Rs one lakh crore are thus transferred every year to states outside their budgets, often leading to huge wastes and leakages.

Plan transfers have now become tied to these fancy schemes and their allocations have taken quantum jumps in recent years. In the process, the fiscal space of the states has shrunk, their autonomy has suffered and their flexibility to launch schemes specific to their needs almost completely denuded. Other distortions followed as private sector investment naturally went to states with better infrastructure, widening the economic imbalance and disparity among states.

A debate on what the first four and a half decades of planning since independence had achieved is already passé. Despite such rhetoric as “socialistic pattern of society”, garibi hatao, “growth with stability and distributive justice”, “planning from below” and adoption of fanciful models of growth borrowed from US textbooks, output declined, prices soared, unemployment increased, poverty remained undented and growth continued to languish within the Hindu rate of 3.5 per cent till 1991 when the economy was poised precariously on the verge of failure. This was, in brief, the story of the first seven plans. But as more and more ambitious plans were introduced with ever more allocation of public funds, the Yojana Bhavan bureaucracy flourished, becoming still more powerful by doing the bidding of their political masters. Its style of functioning, however, became curioser and increasingly ran counter to a modern economy.

Over time, the Planning Commission determined what was to be produced in the economy, how much and by what means. After surveying the available resources, a growth target for each sector of the economy was fixed and investments allocated, specifying the type of projects and even the specific production techniques as well. Naturally, it led to an economy characterised by extensive regulation, protectionism and a public sector supposed to dominate the “commanding heights of the economy”. The size of the Government also grew in tandem. Under UPA II, we had 53 ministries overseeing every aspect of our lives. The extensive control only fuelled pervasive corruption all around and stifled growth. Vital sectors of the economy were nationalised, and the rest regulated by an elaborate system of licences and red-tapism that inhibited private investment, making the economy reel under this licence-permit raj. This tyranny of the State only benefited certain entrenched groups but smothered individual entrepreneurship.

In such a collectivised, centralised planned economy, economic democracy, growth and productivity became the ultimate casualties. The market ~ which propels growth in a modern economy ~ was not allowed to flourish. As Professor P R Brahmannda has observed

~ Instead of attacking poverty through a wage-goods model, the authorities chose a number of anti-poverty and public distribution measures, which were simply in the nature of fire-fighting exercised with large leakages. The result was forced impoverishment of the nation that earned the nickname of "Sick Man of Asia". Add to this the growth of black money, an offshoot of corruption, the heightened inequality and disparity, and the picture of an impending disaster was complete. Time magazine has quoted a recent McKinsey Global Institute report suggesting that even in 2012, "as many as 56 per cent of the Indians ~ some 680 million people ~ could not afford most basic needs like food, water, housing, sanitation and health care". The truth of this finding wouldn't be questioned by most Indians, except perhaps the diehard optimists.

Economic reforms were introduced when it was realised that it was the market and not the Government that should drive the economy. In recognition of this fact, the Eighth Plan states in its preface that it was only "indicative" in nature and that the state could at best be a facilitator for investment by the private sector. But despite the declining share of public investment, post-reforms and the promotion of the PPP mode of investment, the role and importance of the Planning Commission did not diminish.

Indeed, Yojana Bhavan's role as the most important extra-constitutional allocator of plan resources has long jeopardised Centre-State relations. As the Commission on Centre-State Relations observed in its report (March 2010) ~ "Following the introduction of economic reforms in the country, the role of Central Planning seemed to have lost much of its relevance. There was a shrinking of the share of public sector investment. States saw an opportunity to regain ground lost to the Planning Commission. However, this hope was belied." And the command and control mindset continued.

Command economies invariably tend to become corrupt because by concentrating economic power and authority, the normal decision-making process is given a go-by. Plans drawn on the basis of insufficient information were approved and implemented with disastrous results. As growth became sluggish, inequality increased, the rural-urban divide widened, resource allocation to different sectors remained lopsided and ad-hocism reigned supreme. The critical issues that affect the common man ~ inflation, poverty and unemployment ~ remained uncontrolled and unfettered. One is reminded of what Frederick Hayek wrote in The Road to Serfdom in 1944 ~ "There could hardly be a more unbearable and more irrational world than one in which the most eminent specialists in each field were allowed to proceed unchecked with the realisation of their ideals".

India certainly deserves better than be led by a set of technocrats far removed from ground realities but wielding unrestrained power and illegitimate authority. It is indeed time to realise that in a diverse country such as ours, where skill, talent and entrepreneurship are abundantly available, Centralised planning does not work. Whatever little we have achieved was not because of, but in spite of the Planning Commission. It is time to disband it and bury the five-year plans once and for all. Responsibility for planning henceforth should be delegated to the elected representatives in the respective States, where it logically and rightfully belongs.

The writer is a Director-General in the Office of the Comptroller & Auditor General of India. The views expressed are personal and not the Government's