Requiem for an Institution:
The End of the Indian Planning Commission

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Overview

The Secretariat Building in New Delhi houses the Cabinet Secretariat of the Central Government of India. (Photo: Laurie Jones)

Bharat Punjabi

The Indian Government’s decision to dissolve the Central Planning Commission in August 2014 marks an important watershed for India’s current government. While the idea of economic planning had some of its origins in the late colonial period, the Planning Commission was set up in 1950 with the first national five-year plan launched in 1951. Until the period of economic liberalization that began in the early 1990s, the Planning Commission prepared five-year plans and controlled planned expenditure.

Historically, the Planning Commission’s mandate had also laid the conceptual foundations for India’s economic development model and the five-year plans were its most important contributions. Though the Planning Commission did not have a constitutional or a statutory mandate, it had tremendous clout because it managed transfers to the states on subjects that were in the concurrent (joint centre and state) list of the Constitution. As a consequence, the Planning Commission had an important role in India.

This IMFG Forum paper brings together three commentaries presented at an event called “The Sun Sets Over the Planning Commission: Where is India’s Economic Policy Headed?” co-sponsored by the Institute on Municipal Finance and Governance, the Centre for South Asian Studies at the Munk School of Global Affairs, and the India Innovation Institute at the Rotman School of Management, all at the University of Toronto. The three contributions to this IMFG Forum paper examine the pros and cons of the replacement of the Planning Commission by the newly established National Institution for Transforming India Aayog (NITI Aayog, hereafter referred to simply as the NITI) and its implications for India’s development policies.

Given that these are early days for the NITI, the contributions to this Forum paper should be seen as preliminary observations on its likely direction rather than a definitive statement on its functioning. The NITI’s website states that it has been set up as a think tank that pursues policy research with the additional objective of fostering cooperative federalism. For that reason, the three authors to this forum strike a cautious note about the future institutional direction of the NITI and its likely role in the governance framework of a rapidly evolving federal structure in India.
A rather skeptical view comes from Mitu Sengupta, who outlines both the NITI’s policy objectives and the governance challenges it faces in a fast-changing federal and democratic context. Sengupta presents a political vignette of the relations between different branches of government, couched in an analysis of the mandates and responsibilities of various departments involved in disbursing development funds to lower levels of government in India. Sengupta’s chief concern is that the replacement of the Planning Commission by the NITI considerably enhances the power of the Prime Minister’s Office in India. The Governing Council of the NITI, which replaced the National Development Council of the Planning Commission, has been given far less power, so by default, this change would increase the power of the Prime Minister’s Office and would be detrimental to the federal spirit of India’s democratic institutions.

Richard Bird discusses how the NITI could affect centre-state economic relations in India and the implications for federalism and local governance. He emphasizes the need to see through key but unimplemented fiscal and governance reform measures such as GST tax reform and changes in the system of intergovernmental transfers. In particular, he advocates implementing the 1992 constitutional amendment that was intended to decentralize power to urban and rural local self-government in India. He argues that both effective decentralization and efficient management of fiscal resources are essential if the Indian government’s vision of competitive and co-operative federalism is to be realized.

Bird’s advocacy for serious fiscal and governance reform acquires special significance in light of the Indian government’s recent initiative to renew the country’s urban areas with the Smart Cities Mission. India’s cities have faced decades of neglect, a prospect that may not see a reversal if measures for much-needed decentralization and the empowerment of India’s local democratic institutions (municipalities and metropolitan planning committees) are not implemented. Bird warns that greater devolution at best remains a tentative solution to uneven economic development, a sentiment echoed by Sanjay Reddy.

Reddy provides a historical overview of the Planning Commission’s role in ensuring balanced economic development and managing centre-state relations in India. He situates the origins of the Planning Commission within the history of development economics and more recent debates in Indian policy circles. He outlines the importance of a central coordinating mechanism to manage challenges with interjurisdictional spillovers, such as climate change. Reddy also highlights the risks of overreliance on decentralized mechanisms in the sphere of federalism by pointing to the pragmatic approach taken by policymakers in China.

Overall, the three commentaries showcase the governance challenges confronting the newly formed NITI Aayog and central government in India. Mitu Sengupta’s warning of the growing concentration of powers in the Prime Minister’s Office reminds us of the dilemmas facing modern parliamentary democratic governments in a federal system. Richard Bird’s cautious optimism about the future of the NITI and a new federalism in India is tempered by his advocacy for developing institutions to address regional economic imbalances and the challenges of rapid urbanization. Reddy’s historical perspective draws attention to the tentative nature of the governance solutions that intellectual tools from a discipline like economics can offer.

All three contributions highlight the dilemmas that researchers working on federalism face in democracies. There are no permanent solutions to the problems of national and subnational governance, simply second-best answers in federal systems underwritten by constitutions.

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In contrast to the Planning Commission, which one spokesperson for India’s ruling Bharatiya Janata Party described as an “instrument of coercion,” it is promised that state governments will be more influential in the NITI Aayog (NITI), with their bottom-up input genuinely valued. Indeed, one of the key justifications for the creation of the NITI is that it will decentralize power to state governments, thus complementing the recommendation of the 14th Finance Commission that a higher share of central tax revenues—a jump from 32 percent to 42 percent—be devolved to states.

The objective of decentralizing power received much emphasis in the cabinet resolution that created the NITI: “The one-size-fits-all approach, often inherent in central planning, has the potential of creating needless tensions and undermining the harmony needed for national effort.” The resolution goes on to proclaim that the NITI will represent “an important evolutionary change from the past” and “will be replacing a centre-to-state one-way flow of policy by a genuine and continuing partnership with the states.”

Additionally, the top two items in the NITI Aayog’s list of objectives speak to the Modi government’s stated intention to devolve power: (1) “to evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives,” and (2) “to foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuing basis, recognizing that strong States make a strong nation.” The prioritization of this issue is reflected on the NITI’s website (http://niti.gov.in/). One of its main pages is named “Cooperative Federalism” (the other is “Knowledge Hub”).

The NITI seeks to achieve its objectives regarding “cooperative federalism” through mechanisms that appear to represent a significant shift from how centre-state relations were conducted under the Planning Commission. First, the National Development Council, which was set up in 1952 by the government of India’s first Prime Minister, Jawaharlal Nehru, has been abolished and replaced by a Governing Council. The National Development Council comprised the Prime Minister, all Union cabinet ministers, Chief Ministers of all states or their substitutes, representatives of the Union Territories, and also the Members of the Planning Commission. It was an advisory body to the Planning Commission, although its advice was not binding.

The Governing Council of the NITI is not very different in terms of either composition or function: it is also an advisory body, and its membership largely mirrors that of the National Development Council. The chief differences between the two bodies, it seems, are (a) that the Governing Council will meet more frequently than did the National Development Council, and (b) that its work will be undergirded by that of Regional Councils “formed to address specific issues and contingencies impacting more than one state or a region,” and also different “subgroups of Chief Ministers” set up to address specific themes. At present, three such subgroups are listed on the NITI’s website: “Rationalization of Centrally Sponsored Schemes,” “Skills Development,” and “Swachh Bharat Mission.” Each subgroup consists of a different constellation of Chief Ministers. There appears to be no particular rationale as to why they were selected (in the future, membership in subgroups will presumably be on a rotational basis).

Before I offer a few cautionary notes about the Modi government’s stated ideal of “cooperative federalism” and the mechanisms in the NITI meant to attain it, it is important to recognize many valid criticisms of how centre-state relations were conducted under the Planning Commission. As political scientist Baldev Raj Nayar points out, economic planning in India evolved in the context of a “single party dominant system,” in which the Congress Party was in power at the centre and in almost every state. Much has changed since then. Regional parties now play a far more important role at the centre (as part of coalition governments) and also in the states.
Another recurrent complaint among critics of the Planning Commission was that the aging institution had not kept in step with tectonic shifts in the political system. Many observers, aside from Bharatiya Janata Party spokespersons, have indicated that relations between the Planning Commission’s leadership and state Chief Ministers had become strained over the years. A former Member Secretary of the Planning Commission delivered this cutting indictment: “States felt that they were on the receiving end of a prescription, something that was dictated to them. They never felt that they were partners in a discussion.”

While it is unlikely that all states were equally hostile to the Planning Commission’s interventions – given that these were guided by the goal of reducing regional disparities – affluent states had a pricklier relationship with the institution. In their case, the charge that the Planning Commission enforced unwanted “one-size-fits-all” policies had merit. For example, Kerala Chief Minister Oommen Chandy complained that schemes such as “Beti Bachao” and “Jan Dhan Yojana” were of little relevance to his state, as it had already achieved high standards in these areas.

Another legitimate criticism of centre-state relations under the Planning Commission is that the interaction of state Chief Ministers with the Planning Commission’s leadership was limited to annual meetings of the National Development Council, which, over the years, became less regular – it has met only 57 times since 1952 – and also less productive. According to a former advisor to the Planning Commission, Santosh Mehrotra, “The NDC was not doing its role. It used to meet once or twice a year. All that they would manage to achieve in the course of a whole day was to read speeches… there was precious little discussion…now there will be regular meetings of the [NITI’s] governing body.” In comparison, the NITI’s promise of multiple points of contact, through Regional Councils and subgroups of Chief Ministers, in addition to frequent meetings of the Governing Council, is a welcome change indeed.

The shift from the Planning Commission to the NITI is anchored in a more fundamental change that bears the promise of restoring balance in the relationship between the centre and the states. While the Planning Commission had the power to allocate funds to ministries and state governments, the NITI is merely a “think tank” bereft of such powers. So, why was the power to allocate funds – which was so central to the Planning Commission’s identity and standing – not transferred to the NITI?

A salient criticism of the Planning Commission, from its very early years, was that it was competing with or undermining the authority of other government agencies, such as the Ministry of Finance and the Finance Commission, or that it was replicating their functions, leading to inefficiency. Nayar recounts that, over the years, the Planning Commission’s role of allocating funds “became a source of considerable heartburn with several successive Finance Commissions” because it seemed to undermine the Finance Commission’s constitutionally mandated role of dividing national revenues between the centre and states at five-year intervals. In the eyes of some critics, Nayar suggests, “the [Planning Commission] seemed to be on a relentless expansion, in the process turning itself into a replica of the national government, staffed by a huge and stodgy bureaucracy that encroached on the legitimate jurisdiction of other agencies.”

Misgivings about the Planning Commission seemed to intensify, especially after the liberalizing reforms of 1991. In 2011, a high-level committee chaired by former Governor of the Reserve Bank of India, C. Rangarajan, released a report recommending reforms that would reorient the roles of the Ministry of Finance and the Planning Commission. The report envisioned the Finance Ministry as the primary agency for allocating resources, and the Planning Commission’s transformation into an advisory body that would try to keep spending in line with the development priorities of the government. Though not explicitly stated, it suggested “taking away the function of Plan funds disbursal away from the [Planning Commission] and vesting it entirely in the Ministry of Finance, in effect transforming the [Planning Commission] into essentially a think-tank body without any say in the allocation of funds.”

When viewed against this background, it seems evident that the NITI’s creation was influenced by the Rangarajan committee report and other similar
critiques of the Planning Commission – Nayar provides an excellent overview17 – whose main concern was to reduce the institutional footprint of the Planning Commission and re-scale its relationship not only with other Union ministries, but also with states. One might argue, in fact, that the NITI is a weaker institution than the Planning Commission by design: it lacks the power to dictate policy to state governments. Yet while all of these changes make for a good foundation for the flourishing of “cooperative federalism,” there is reason for withholding optimism.

One cause for worry is that the NITI’s Governing Council and its supporting architecture of Regional Councils, ministerial subgroups, taskforces, and so on, will enlarge the power of the Prime Minister rather than that of state governments. This may happen in a number of ways. For instance, whereas the National Development Council was formally distinct from the Planning Commission, and was designed to be a check on the Planning Commission, the Governing Council is an integral part of the NITI and thus falls under the authority of its Chairman, the Prime Minister. This is a vital difference.

The National Development Council may have met infrequently and lost relevance over the years, but it had power and authority in its own right, and an institutional mandate for registering the voice of state governments. It also provided an opportunity for all state Chief Ministers to convene at one site, which had certain advantages. As economist Prabhat Patnaik notes: “Though not a constitutional body, [the National Development Council] had a commanding presence, where the states, deriving strength from one another, made a definite impact. Since its decisions, which included the ultimate approval of plans, were taken through a consensus, the centre was often forced to yield on certain matters… The elimination of the NDC is a major blow to the power of the states.”18

While the powers and responsibilities of the Governing Council are still not clear, it has neither the stature nor the distinct institutional mandate of the National Development Council. Furthermore, while the Governing Council’s various subgroups will lead to a proliferation of points of contact between states and the centre, these manifold interfaces will probably also undercut the ability of states to negotiate with the central government on united platforms or to develop a common voice on issues. Fragmentation may become the order of the day.

Even if the Governing Council will meet more frequently than did the National Development Council, not all Chief Ministers will meet every time, and it is the Prime Minister who will decide on the list of participants. It seems that the Prime Minister will also select the members of every Regional Council, subgroup, and taskforce (if they are selected on the basis of “rotation,” but it is not clear what order will be followed, or why). It is quite possible that the Prime Minister will pick favoured Chief Ministers for the most important subgroups and taskforces. If the Planning Commission’s relationship with state governments often “smacked of dispensing patronage,”19 the preliminaries for much the same exist in the NITI. It does not bode well, moreover, that complaints have already arisen about meetings of the taskforces being conducted “like seminars.”20

There are other indications that the Modi government is not as enthusiastic about empowering states, which is at the heart of cooperative federalism, as it claims to be. Take, for example, Bharatiya Janata Party spokesman Aman Sinha’s statement that the NITI’s purpose is to “bring about a uniformity of policy throughout the country”; the Ministry of Commerce’s stated aim to “name and shame” states that do not comply with the centre’s directives on improving the “ease of doing business”21; and the Modi government’s persistent emphasis on “national security,” which even makes an appearance in the NITI’s constitution. Thus, a broader view of the Modi government’s priorities in the realm of economic policy suggests that its intention is to force greater market discipline on states, pushing them to compete with each other to attract private investment. Such compulsions from the centre may turn out to work against the professed goal of enhancing the voice and autonomy of states.

Another development that may turn out to be a centralizing impulse is the transfer of the erstwhile Planning Commission’s fund allocation powers to the...
Finance Ministry. One might argue that the real purpose of this impending realignment is to enhance the power of the executive government and Prime Minister, not the states. As suggested by an article in *Bureaucracy Today*, a popular magazine among Indian civil servants, the abolition of the Planning Commission means that a significant check on the Finance Ministry’s power has been eliminated: “Earlier, the Planning Commission was the only body that lobbied with the Finance Ministry to protect the Plan expenditure… Since the NITI Aayog does not have that role assigned to it, no one will do that lobbying… The Finance Ministry will be free to slash Plan expenditure and annual budgetary support to the Plan.”

22 It should be a source of immense concern, indeed, that the NITI – notwithstanding all rhetoric to the contrary – will be used to advance the executive government’s policy agenda above and beyond everything else. This danger came into clearer view when its Governing Council was convened to discuss a controversial land acquisition bill while it was still under review by a Joint Parliamentary Committee. Various members of the Committee accused the government of trying to pressure Chief Ministers into acquiescing to the draft law, and of attempting to influence the Committee’s deliberations through the back door. 23 The move seemed to backfire, however, when nearly a dozen Chief Ministers, from states ruled by opposition parties, failed to appear for the meeting, reportedly because they were “antagonized” by its declared agenda. This event led to speculation that the Modi government and its creation, the NITI Aayog, lack not only a genuine commitment to the noble ideal of “cooperative federalism,” but also the wherewithal, in terms of resources and political influence, to realize it. One can only hope that this is not the case.

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Federalism and Fiscal Reform in India: The Possible Role of the NITI Aayog

Richard M. Bird

I was asked to discuss whether the abolition of the Planning Commission and the creation of the NITI Aayog (NITI) is a move towards cooperative federalism in India. Faced with such a question, perhaps the best I can do as one who knows a little, but not much, about India is to repeat what Zhou Enlai reportedly said when asked what he thought of the outcome of the French Revolution of 1789: it is too soon to say.

India is a huge and regionally diverse country with a population of over a billion, 18 national languages with 2,000 dialects, numerous ethnic and religious groups fragmented into many sects, castes, and subcastes, and a political structure with more than three dozen states and territories and over half a million rural panchayats and urban local bodies. Given this diversity, the organizational structure bequeathed by the British and the upheaval associated with the creation of Pakistan, it is not surprising that India was initially established as a federation. What has perhaps been more surprising has been the extent to which India’s federal system, while not easy for outsiders to understand, has not only proved to be sustainable, but also to have allowed the country to be managed fairly well – of course with some ups and downs – for more than 60 years.

The recent creation of the NITI may mark a turning point in some respects: but in what direction? The abolition of the Planning Commission – an inherently centralizing body – combined with the acceptance of the 14th Finance Commission’s recommendation to increase the share of central taxes allocated to the states clearly appears to shift the balance of fiscal power downward to some extent. However, although the NITI is headed by the Prime Minister and stuffed full of ministers, its role is explicitly advisory rather than executive and it has no say in allocating central revenues to the states as the Planning Commission did, so it is not easy to determine how the new system will actually work over time.

Prime Minister Modi stated that one important role of NITI was to foster “cooperative, competitive federalism” between states to improve governance and to encourage them to work together with the federal government to promote growth, employment, and investment. Unfortunately, since neither cooperative nor competitive federalism are clear and precise concepts, combining the two does little to clarify matters. At the moment, perhaps all one can say is that it remains unknown and perhaps unknowable whether Indian federalism will indeed become more cooperative – in the sense, for example, that both centre and states will operate relatively independently but nonetheless work together towards such common objectives as expanding employment and growth. It is equally unclear whether it may at the same time become more competitive – in the sense, for instance, that different states will compete with each other in terms both of how well they do things and perhaps also to some extent in what things they do.

To an economist, one conclusion does seem clear, however. Given the great differences in needs, opportunities, and capacities between states – let alone the much greater differences to be found within India’s enormous range of local governments – if the pendulum does swing toward fostering “competitiveness” in order to improve national growth, one result will almost certainly be increased divergence in regional growth rates and patterns. In order for a politically sustainable “cooperative competitive” federation to be built, a critical requirement is thus likely to be an intergovernmental fiscal system that would enable the poorer states to provide at least basic service levels without holding back the better-performing states.
Increasing growth while simultaneously ensuring that those living in lagging areas are not left behind is a difficult problem in any country, let alone one as complex as India. A more decentralized federal structure may be both politically necessary and potentially economically effective. But if such a system is to be sustainable, it also requires a strong central government capable of developing and implementing policies to support and sustain not only national development (including the provision of adequate service levels throughout the country), but also cooperation between rich and poor regions. No country finds it easy to attain and maintain the tricky balance between central and state levels as well as between rich and poor states, and it will certainly not be simple in a diverse country like India.

Although India’s federal system has done a surprisingly good job in many ways in the face of great pressures over the last half century or so, it clearly still has many great problems, including:

- A complex and often ineffective intergovernmental finance system consisting of a confusing and often conflicting overlay of Planning Commission grants, Finance Commission allocation of a large share of central revenue, central government conditional grants, and a variety of implicit transfers, all of which are largely financed by…

- An array of distortionary and often poorly administered taxes (as well as overlapping and confusing regulations) at all levels, with the result being…

- An often unsatisfactory governance structure marred by weak and unclear accountability (as well as corruption) in many areas.

It is not surprising that, as many Indian scholars have documented extensively over the years, almost everything the public sector does could be done better, producing better results more efficiently and effectively.²⁸

Although the new government will undoubtedly be pressed to do much about many things for many reasons, if it hopes to turn the ship of state in a new direction in the near future, it will have to focus its efforts on only a few key points. In the fiscal area, where my main expertise – and only real knowledge of India – lies, three such points appear to deserve special and urgent attention.

The first, and in many ways, the most immediately pressing is on the tax side, particularly with respect to the GST (Goods and Services Tax) – or, more properly to the GSTs, both federal and state, that are currently coming closer to full implementation in India.²⁹ Some key design issues must still be resolved with respect to the GST (and may not prove all that simple to do), but the main problem with this important tax reform – a reform critical both for financial stability and for improved federalism – is not how to design it, but how to implement it.

Much more attention needs to be paid to improving tax administration at both the state and central levels. At the central level, high priority should be given to implementing many of the generally sensible recommendations made by the recent Tax Administration Reform Commission.³⁰ This task will be difficult, requiring substantial managerial effort and political support. However, even more effort – little of which has yet been evident – is needed to develop and support better state tax administrations, especially in some of the larger (and often relatively poor) states. Getting GST administration right at both the central and state levels is the key not only to improving tax administration in general, but also to establishing a firm fiscal and federal foundation on which to build a better country.

Second, even if India’s revenue structure can be strengthened, it is also important that governments at all levels spend more effectively and efficiently than they now do. Although many aspects of India’s budgeting and expenditure systems could be improved, perhaps the most immediate task, given that about half of central revenues now flow to the states, is to ensure that the right amounts flow in the right way to the right recipients. Close attention needs to be paid
to establishing and implementing a well-structured intergovernmental transfer system to replace the existing hodgepodge of central-state explicit and implicit transfers. A good framework was laid out in the recent report of the 14th Finance Commission, but a comprehensive effort is needed to extend and update that work. Cleaning up the messy central conditional grants, as the government has already indicated will be done, is a good way to start, but it is a long way from doing the whole job.

Finally, the 1992 constitutional amendments that substantially enhanced the role of local governments should be taken more seriously than has yet been the case. Many Indians still live in rural areas, and there is much that can and should be done to improve their lives and ensure that their children are healthier and better educated. However, the more successful such efforts are, the more likely it will be that rural people will move to urban areas, where there are already huge problems in local governance and finance.

India is urbanizing rapidly, and is likely to continue to do so over the next few decades. As the report of the High Powered Expert Committee on Urban Infrastructure and Services has shown, the most critical local governance and finance problems – and the most important opportunities for change and improvement – are in urban areas. Improving the capacity – fiscal, physical, and human – of the larger urban areas to finance and manage growth, perhaps up to and including the development of city-state regions in large metropolitan areas, is an issue that deserves far more serious political attention and support than it seems to have received to date from either the central or – for obvious political reasons – state governments.

In the face of continuing international and national pressures on the new government to do something about everything for everyone, it will not be easy to focus on such mundane but critical matters as those just mentioned. If one result emerging from the current discussion of the NITI Aayog and fiscal federalism in India is that more attention is paid to such unexciting, complex, and difficult matters, then the NITI Aayog may indeed turn out to mark a positive step on the road towards unleashing India’s potential to grow and develop. But only time will tell.

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Planning is Dead.  
Long Live Planning!

Sanjay G. Reddy

The Prestige of Planning in India and the World

It is easy to forget that the project of planning was something that captured the imagination of the Indian and world public for more than a generation. Indian planning generated tremendous interest because it represented a project of transforming a poor agrarian country through democratic means, in what was hoped might be a short period of time, into a country that was more prosperous and would be better able to provide for the well-being of its people.

The widespread acceptance of the project of planned development in India resulted in part from its larger prestige in the world at the time of India's independence. One source of this prestige was the perception that there had been successful planning experiences in other countries, especially the Soviet Union. The role of planning in capitalist countries was given significant impetus by the importance assigned to centralized administration during the Second World War in most countries. A planned economy was also assumed by many to make less likely the seemingly irrational results produced by an “anarchy of capital” during the Great Depression, or at least to offer a hope of moderating the fluctuations of a capitalist economy. Even Joseph Schumpeter, who cast a critical eye on such claims, saw the increasing role of bureaucracy as a permanent fixture of economies.

The development economist Arthur Lewis wrote The Principles of Economic Planning in the 1940s, for the Fabian society in the U.K. The book assessed arguments for and against the use of a planning apparatus in a project of democratic economic management and transformation. Harold Laski and others who influenced a generation of developing country leaders, scholars, and managers, were notable enthusiasts for this endeavour. The French planning apparatus established after the Second World War represented perhaps the most comprehensive such project in a capitalist country, although other countries (notably the Netherlands) also put in place some of the mechanisms and rhetoric of planning.

The Indian adoption of planned development took place therefore in a global context. If there was a mistake involved, it was a widespread one. Of course, planning in India was also taken to contrast with the lack of intentional development serving the Indian people in the colonial context, shaped as it was by an uneven playing field between British and Indian interests. For this reason, even Indian capitalists accepted the need for some variety of planning (evinced most famously by what came to be called the Bombay Plan).

Planning, Technocracy, and Democracy

Ashwani Saith has recently written about the Cambridge economist Joan Robinson and her relationships to India and China, respectively. Robinson's view was that there was a broad democratic experiment taking place in China, whereas her view of India's development path was that it was much too technocratic, and as a result, ultimately reflected elite political preferences as to what should or should not be done (for instance, in reference to the redistribution of assets such as land) or the management of production generally. Although her view of China was undoubtedly naïve, her perspective on India had elements of insight.

Indian economists such as Sukhamoy Chakravarty enjoyed great prestige because of their technical knowledge of mathematical models concerning how to bring about a staged transformation of the country. Their ideas provided part of the intellectual background for the bureaucracy-dominated economy that came to be known as the “license-permit Raj,” which had rather greater attractiveness in theory than it did in practice. Chakravarty and others came to understand the importance of politics in determining the efficacy of economic plans, even if they did not know fully how to cope with the problem.

The enthusiasts for the recent abolition of the Planning Commission have come from a rather different point of view from that of Joan Robinson, but they have in common with her the view that it proved more of an impediment than an aid to development.

Although there were certainly very good reasons to criticize India’s development performance for long
phases, to view the Planning Commission as having been synonymous with misguided state interventionism and excessive top-down controls is too narrow a perspective, as it both neglects the substantial debates which happened within the Planning Commission and the possibilities for reforming its role to work better with a decentralized market-oriented economy, without abolishing it outright.

One can view the shift from the Planning Commission to the NITI Aayog as a rebranding exercise, but it is not merely that. The Planning Commission’s role and responsibility in India, including having overarching influence over so-called plan expenditures (a major component of the government of India’s investment program) and over a number of other associated decisions, is part of what has been rejected by those who favour more decentralized and market-oriented paths. Indeed, this role has been contested for some time. 41

The Planning Commission was intended to provide a systemic view of the development process as well as to be an important decision-making centre. Its abolition will inevitably mean that such powers will shift away from the NITI Aayog, which expressly disavows certain prior roles, particularly centralized expenditure planning.

There is reason for concern that in India, the transition being implemented will lead mainly to certain powers being vested elsewhere, in particular in the Ministry of Finance or in the financial markets, which are even less transparent and less accountable. One of the NITI Aayog’s stated aims is to give the prerogative to India’s states to take development measures in a decentralized and entrepreneurial fashion. This rebalancing of roles cements a shift toward a regime of competition among states to gain the favour of the private sector. 42 Whether the democratic aspect of Indian public decision-making on matters of development is augmented will depend on whether greater freedom for the states to determine priorities can be asserted in the presence of this imperative.

A Systemic View?

There is a need for a systemic view of the development process. The planning process in India was not intended to involve only top-down decision-making, but rather to provide for a process of conveying information and project proposals in both directions between central and state governments. Although the concept of “cooperative federalism,” in which state and central governments play a balanced role, has been trumpeted in relation to the NITI Aayog, there were elements of such an idea in the framework of the Planning Commission too, unavoidable due to the distribution of prerogatives in the Indian constitution. The role of the states could have been expanded without altogether abolishing the Planning Commission, in particular as a centre for monitoring and coordination.

Advocates of the NITI Aayog have argued that it will shift power to the states by sharing and aggregating information on decisions and lessons derived from the states or by coordinating central and state governments’ actions. The extent to which it will in fact bring about such a shift remains to be seen, but there is a requirement, in some contexts pressing, for coordination.

There are spillovers in the consequences and actions taken by individual units. In the past, in the earlier frame of comprehensive government planning for development, the strategy of import-substituting industrialization was very much conceived of in terms of the rationing of scarce resources by the central government and its authorities, which would determine how to best use those resources, whether foreign exchange, domestic savings, or human resources. Such a view has diminished appeal. However, there are spillovers in the consequences of actions across time, across states or regions, and across sectors, and it can be important to take into account the interdependencies that result.

One obvious case involves climate change. India may not yet have a sufficiently coherent policy with
respect to climate change and, in particular, how to transform the Indian economy so that fewer pollutants are emitted (in contrast perhaps to China, which despite its status as a major emitter, has taken some steps in that direction). This is a matter of vital interest for India, as it is going to be on the “receiving end” of climate change, for instance, because of the delicate nature of the monsoon, on which hundreds of millions of people depend.

Gilbert Rist refers to the current moment in which development is thought of in terms of the development goals (such as the Millennium Development Goals and now the Sustainable Development Goals) as being a period in which development is “in shreds” due to the thematic balkanization of concerns which it represents. In this approach, everyone’s agenda is referred to but there is no systematic conception of what development as a concept means, let alone a reference to how these goals are to be achieved. There are goals, but there are no plans. Rather, there is a fond hope that the aggregation of decentralized actions will bring about comprehensively desirable results.

An illustration of the inattention to systemic considerations is provided by the reported approach of the NITI Aayog to poverty estimates. This has become a highly politicized subject. Whereas in the past India was thought of as having some of the best-defined and estimated poverty statistics for a developing country, today there is a free-for-all; two different government-constituted committees have been unable to bring any real order to the debate. Media reports suggest that the NITI Aayog now proposes to do without poverty estimates altogether, although there is the possibility that they will be generated in the future by a different government agency. It is difficult to conceive how a comprehensive view of the development process can emerge without statistics on poverty. It is hard to rationalize such a decision except on the view that it is sufficient to focus on growth since all other good things are assumed, axiomatically, to follow from it. The impression given is of a willingness to “fly blind” because of the authority accorded to certain preconceived ideas over evidence-based analysis.

**From Decision-Making Body to Think-Tank?**

Was the abolition of the Planning Commission inevitable as a result of market-oriented reforms? The impetus for the abolition of the Planning Commission’s role in resource allocation decisions, which had become increasingly formal, had been growing. Accordingly, the decision to eliminate the institution altogether rather than change its role appears to have been decided upon because of the powerful rhetorical signal it sent of an intended change in direction. However, a number of elements of the supposed substantive contrast appear overblown. In particular, the idea that the NITI Aayog will be a “think tank” presents much less of a contrast to the Planning Commission than it might seem, given the latter’s long and distinguished history of collaboration with thinkers of diverse stripes and its provision of a setting for debates, often of a very forceful kind, between different points of view.

Debates taking place under the aegis of the Planning Commission over the future of the Indian economy concerned basic issues of economic direction relating to the role of markets, private enterprise, and free trade. The parties to these debates included eminent economists such as Milton Friedman and Joan Robinson. The idea that the new “think tank” will replace an operational entity acting on the basis of a preconceived ideology is difficult to sustain.

**The Centres of Power**

It will be interesting to observe whether, and in what ways, power shifts among levels and branches of government, as well as between government and the private sector, due to the adoption of a more “presidential” style of government and pro-business policies. It is certainly a matter of good sense and responsibility to define a budget and ensure that expenditures are in accordance with intentions and circumstances. There are often, however, other agendas pursued by the guardians of fiscal probity,
who are typically preoccupied with short-run financial considerations rather than with developing a sufficiently sizable and coherent investment program for long-term development.  

In recent years, the Planning Commission in India came much closer to promoting an agenda that favoured private-sector and financial interests than had been the case in the past. Eliminating its role in expenditure determination and orienting it toward ideas creation and sharing could have been accomplished without eliminating it altogether as a centre of gravity within the governmental constellation. There is a need to anticipate and analyze the effects of alternative investment or policy choices within a democracy, for which there must be some institutional site.

Does China Offer an Example?

The National Development Council (NDC) of China has been an explicit reference point for the proponents of the NITI Aayog. However, there are major differences. There is nothing comparable to China’s NDC in India and it is hard to see how there could be without significant changes to the structure of India’s democratic polity. The current Prime Minister’s call to “Make in India” and the Governor of the Reserve Bank of India’s appeal to “Make for India” both implicitly involve a call to emulate China, because India’s growth pattern has not been centred on manufacturing and has not greatly generated employment.

China has developed successfully while adopting eclectic policies (“Capitalism or Socialism with Chinese Characteristics”) and having no evident governing theory. This approach contrasts with the perspective of those promoting the NITI Aayog, which seems rather more committed to a highly particular theory. The focus of the government is on attracting private investment flows to the country and in generating an encouraging atmosphere for private investment generally. This emphasis leads to the discourse of “sound finance,” of “getting out of the way,” and of “enabling” such investment by providing required permits, facilitating access to land, or other means.

Much as these ideas have an important role to play, this focus leads to inattention to many of the other important considerations that ought to be present in defining and executing a development strategy. The role of the Planning Commission was precisely to bring in the range of relevant concerns and to ensure their place in the long-term economic strategy of the country. Having an eye toward the coherence of policies and their cumulative effects remains relevant, even in a development strategy that gives a central role to the market. Are we presented with old wine in new bottles? We can hope. Better this than throwing away the old wine altogether.

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Endnotes

1 Aayog is a Hindi expression meaning “policy think-tank.”

2 Throughout this paper, the authors have used the term “centre-state relations” in the Indian context to refer to what may be analogous to federal-provincial relations in the Canadian context.


7 Ibid.

8 See the NITI Aayog’s website, retrieved from: http://niti.gov.in/content/subgroup_constitution.php, accessed July 30, 2015.


11 Beti Bachao, Beti Padhao (Save Girl Child, Educate Girl Child) is a Government of India scheme to improve the well-being of girl children. The Jan Dhan Yojana (People Money Scheme) is another Government of India program aimed at improving poor people’s access to financial services.


16 B.R. Nayar, Economic Planning after Economic Liberalization, forthcoming, p. 27.


24 Revision of remarks originally prepared for Panel Discussion on “The NITI Aayog: Moving Toward Cooperative Federalism in India?” held at Rotman School of Management, Toronto, April 27, 2015.
25 Both the question and the answer may, it seems, have been related to the (then recent) French riots of 1968, rather than the 1789 revolution (retrieved from: http://www.historytoday.com/blog/news-blog/dean-nicholas/zhou-enlais-famous-saying-debunked). But why ruin a good quip with facts?


28 See, for example, the well-known book by Arvind Panagariya, *India: The Emerging Giant* (New York: Oxford University Press, 2008). Panagariya has been named as first vice-chairman of the NITI Aayog. See also the almost contemporaneous examination of fiscal federalism in India by M. Govinda Rao and Nirvikar Singh, *The Political Economy of Federalism in India* (New York: Oxford University Press, 2006).


30 See Government of India, Ministry of Finance website, retrieved from: http://finmin.nic.in/the_ministry/dept_revenue/tarc_report.asp.


32 The author would like to thank Bharat Punjabi for the invitation to the important symposium at the University of Toronto which gave rise to this comment and for his sustained and stimulating conversation on this subject and others.

33 The representation of Indian planning in popular media – including children’s books – testifies to this. See, for example, C. and G. Louden, *Rain in the Winds: A Story of India* (New York: Charles Scribner’s Sons, 1953) or S. Dhar, *This India* (New Delhi: Publications Division, Ministry of Information and Broadcasting, Govt. of India, 1973).

34 Most people today do not think of the Soviet Union as a great developmental success, but it was thought of as such by many at the time, and its example as a result reverberated around the world – including seemingly capitalist countries of considerable and growing means such as the United States. (This was evident for instance in the Progressive Party platform of 1948, which stated that “Public ownership of these levers will enable the people to plan the use of their productive resources so as to develop the limitless potential of modern technology and to create a true American Commonwealth free from poverty and insecurity.”) Well into the 1970s, the Soviet experience continued to be presented as one of successful planned development. For a discussion of such arguments see, for example, M. Dobb, M., *Economic Growth and Underdeveloped Countries* (New York: International Publishers, 1963), and A. Nove, *The Soviet Economic System* (London: Allen and Unwin, 1977).


39 That is, the regime of licences and regulations governing economic activity in India between 1947 and 1991.


46 This is also true for other entities, such as the Reserve Bank of India, the central bank, which has recently been pursuing greater independence and the adoption of inflation targeting as a policy – at the very moment that this policy has become much more controversial in the rest of the world because of the recognition of the role such policies may have played in asset price inflation prior to the crash of 2008, and the consequent advocacy of the need for central banks to be involved in “macro-prudential regulation” and to take asset market fragility as an explicit concern. One of the lessons that appears to have been learned from the 2008 crisis around the world is that one has to have a more modulated approach to central bank independence and goals, but this message does not appear to have been much heard in India.

47 In the Netherlands, the Bureau for Economic Policy Analysis (known in Dutch as the Central Planning Bureau, although it has never actually undertaken central planning) was formed in 1945 with Jan Tinbergen as its founding director and most important early figure. Every time there is a general election, the Bureau produces detailed estimates of the cost of major political parties’ programs to contribute to the democratic debate in the country. Recently, a Dutch economist said to me that “progressive” economists of the Netherlands are sometimes critical of the Bureau’s approach because it uses only one model, which some believe restricts the range of plausible assumptions that would be better represented with more model diversity. It is noteworthy that that one of the Bureau’s assigned roles is to inform democratic debate in the country.