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PRESIDENTIAL ADDRESS BY DR. Y.V. REDDY

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A TALE OF TWO COMMISSIONS AND MISSING LINKS

Chief Guest, Dr. Raghuram Rajan, Governor, Reserve Bank of India; Professor Indra Vardhan Trivedi, Vice Chancellor, Mohanlal Sukhadia University; Dr. Sukhdeo Thorat, President of the Indian Economic Association; Professor V Loganathan, Vice President, IEA; Dr. Anil Kumar Thakur, Secretary, IEA; Dr. Arun Prabha Choudhary, Local Organising Secretary; Dr. Deepti Taneja, Public Information Officer, IEA; past Presidents of Indian Economic Association; Speakers for Memorial and Special Lectures; Members of the IEA and distinguished participants in the Conference.

Let me begin with a profound thanks to the members of the IEA for electing me and reposing trust in me as the Conference President for the 97th Annual Conference. It is a great honour and I am grateful to all of them.

I have had the good fortune of participating in the activities of the Association over several years, in fact for decades. Having delivered an Inaugural Address, a Valedictory Address and a Special Address in the past, I find myself to be particularly privileged in giving the Presidential Address also. I could not have asked for anything more from my fellow economists. A very big thanks, to all of you.

We are grateful to our Chief Guest Dr. Raghuram Rajan for accepting our invitation despite his very busy schedule at this juncture. He is admired globally for his scholarship

1 Dr. Reddy is grateful to Professor M. Govinda Rao for valuable advice and to Mr. Deepak Narain for valuable assistance.
and for his articulation. More recently, he has distinguished himself as one of the most renowned and successful policy makers. I would venture to say that he is the guiding star of the younger generation of economists who have to take the leadership in economic policy-making for taking our country forward. Governor Rajan, all of us look forward to your inspiring Inaugural Address today.

I would also like to express my gratitude to other distinguished speakers and participants who have obliged us by accepting our invitation.

The subject I have chosen today relates to a tale of two Commissions, namely, the Planning Commission and the Finance Commission. Currently, the future of the two Commissions is a subject matter of intense debate in policy-making circles in India. I do not know whether I can describe the current situation in this regard as “it was the best of times. It was the worst of times”. Perhaps, best for one and worst for the other. But I am almost sure that we are living through what the Chinese call, “interesting times”. Significant institutional aspects of economic management are under review and fundamental changes with long-term consequences are under contemplation now. However, there are significant missing links in the debate on the future of the two Commissions, and my intention is to flag the relevant issues in this regard.

The subject I have chosen to speak is close to both my academic work and professional experience. My first published book was titled “Multilevel Planning in India”. I continued my interest in related subjects at an academic level and while I was working in the UNDP. I had worked in planning at district level, regional level, and state level and interacted closely with the national Planning Commission.

I had to assist the Government of Andhra Pradesh in making its presentations before both the Finance and Planning Commissions. My work in the Ministry of Finance in the Union Government required dealing with the Planning and Finance Commissions, in some ways. I had to interact, though somewhat peripherally, with both the
Commissions, from the Reserve Bank of India. More recently, I have been closely associated with work relating to the Fourteenth Finance Commission.

In some ways, therefore, I had the benefit of exposure to what I may call, multi area level and multi-agency level approach to the intricate tales of both the Planning Commission and the Finance Commission as they evolved over half a century. My presentation today will, therefore, have all the merits and demerits of being a part, though a minor part, of the tale of two Commissions.

In my address today, I will recall briefly the differing origins of the Planning Commission and Finance Commission and narrate the landmarks in their evolution. This will be followed by an exploration of the observed linkages between the two Commissions. After making a brief mention about the current debate, I would argue that there are several missing links in the current debate on the future of both the Planning and Finance Commissions. First, it is not clear whether the debate is more about the future of planning or whether it is about the future of the Planning Commission. In fact, there are several issues relating to how we have planned so far and implemented our plans so far. How do the current proposals for institutional reform address fixing the problems relating to the process of planning and implementation? Second, there are emerging new realities of economic management that the proposed institution or institutions have to grasp and address, requiring new skills and, perhaps, a new set of instruments. Third, both the Commissions operate in a multilevel context, namely, Union, States and local bodies. Proposals for replacing the Planning Commission or expanding the scope of Finance Commission have to be contextualised to multilevel processes.

**Origins**
In considering the origin of the Planning Commission, it is necessary to distinguish between planning as an idea and the Planning Commission as an institution.

There was consensus during the pre-independence days that a planned approach to economic and social development was most appropriate for Indian conditions. However, there were differences on the relative emphasis between the role of markets and Government in planned development. Despite these differences, there was a virtual unanimity in the intellectual and political classes, on the need for planned development of the country.

In regard to the Planning Commission as an institution, however, there were substantial differences about the need for such an institution outside the Ministry of Finance. There were two sets of fears expressed in regard to the Planning Commission, namely, that it undermines the role of Ministries in the Government of India, in particular the Finance Ministry. There was also discomfort that it may undermine the role of the State Governments, though this was not a dominant discomfort in the initial years. In view of the differences of opinion, the idea of establishing the Planning Commission by law was given up and it was established through a Cabinet Resolution and essentially as an Advisory Body. The discomfort with the functioning of the Planning Commission was partly responsible for the resignation of the then Finance Minister. In brief, it was a decision driven by the Prime Minister’s ideological inclinations that led to the establishment of a Planning Commission through executive actions.

It is interesting that the demise of the Planning Commission was announced by the Prime Minister of the day on August 15, 2014.

The Finance Commission, on the other hand, was part of the Constitutional design. Its core function has been to deal with sharing of taxes collected by the Union. The Constitution not merely provided but mandated establishment of Finance Commission within two years of coming to the existence of the Constitution, and then within every five years thereafter. An enabling legislation was passed consistent with the
provisions of the Constitution for establishment of a Finance Commission. The composition of the Finance Commission is also indicated in the relevant legislation. Finance Commission, therefore, drew its legitimacy and independence both from the Constitution and a legal framework under the Constitution.

There was only one area of concern in the debates of the Constituent Assembly on the provisions relating to the Finance Commission. The issue related to the authority which should decide on the recommendations of the Finance Commission. It was agreed that the Finance Commission cannot give a final verdict in a democracy and, therefore, a democratically elected body has to finally take appropriate decisions. One view was that the Parliament should decide on recommendations, while the other view was opposed to this since the recommendations pertain to both the Union and the States. Entrusting the power of final decision making to one functionary, namely, the President, to whom the recommendations are addressed, was considered as not being advisable. A compromise was arrived at, whereby the report of the Finance Commission is made to the President of India. The President of India is expected to take a view on the recommendations and place an Action Taken Report before the Parliament. Implicitly, therefore, the President will have to make an assessment of what would be acceptable to the Parliament and also, on a subjective and judgemental basis, of what would be fair to the States. This procedure ensured that actions on the recommendations of the Finance Commission are, by and large, perceived to be taken in the national interest as a whole, encompassing the inclinations of the Union and the States assessed by the President. It is noteworthy that the recommendations of the Finance Commission, insofar as they relate to tax devolution and grants-in-aid are concerned, have invariably been treated as an award and binding, on all concerned.

Evolution

The Planning Commission is a purely advisory body in theory, though, in practice, it evolved into what has been often described as, an extra-constitutional authority. It is expected to function under the overall guidance of the National Development Council
(NDC), a body in which both the Union and the States are represented at the highest level. In a way, therefore, the Planning Commission is a body serving national interests, encompassing those of Union and States. There is, however, an implicit recognition that the Planning Commission essentially reflects the political configuration of the Government at the Union level. This recognition is evident from the fact that the tenures of the Members of the Planning Commission are virtually co-terminus with that of the political leadership at the Union. Hence, it is necessary to recognise that despite the apparent technical nature of its work, the Planning Commission is an integral part of the Union Government and reflects the ideological framework of the Union Government.

The changing importance of the Planning Commission in making economic policy, therefore, reflects the changing political landscape of both the Union and the States but predominantly of the Union Government. The frequency with which the NDC has been convened and the importance accorded to its deliberations varied over a period depending on the level of comfort of the political leadership in the Union with the Chief Ministers of the States. In recent years, there is evidence of loosening of oversight of Planning Commission by the National Development Council, resulting in its closer association with Union Government, than before.

In terms of its functioning, as the Planning Commission evolved, it has been performing five different functions. First, it provided a perspective and a medium-term plan for economy as a whole for important sectors of the economy. Second, it provided advice on allocation of investments, particularly capital expenditures, among the Ministries of the Union Government. Third, it performed the function of advising the Union on the transfer of Union funds to the State governments and, in addition, accorded approval to the State plans. The process also involved approval of the borrowing programme of the State governments. Fourth, on occasions, it was playing the part of representing the interests of the States in the Union government, though this role was very much dependent on the existing political configuration and the personalities involved in the shaping of Union-State relations.
Some landmark developments in regard to the functioning of the Planning Commission should be recognised. The first one relates to the evolution of a formula for distribution of plan funds between the States. This is known as the Gadgil Formula and was subsequently modified and christened as the Gadgil-Mukherjee formula. The formula helped to minimise discretionary elements in transfer of funds to States by Union. However, over the years, the shares of transfers outside of such formula have been increasing. The reduction in formula-based transfers has been an important source of dissatisfaction to the State Governments.

A second important development relates to the nationalization of banks. Bank nationalization provided a window for the Union to utilize the resources in the financial sector for policy purposes. In fact, over a period, the budget speeches of the Finance Ministers contained increasing references to the use of resources available within the banking system or the insurance sector for pursuing public policies. The Planning Commission has not been in a position to effectively guide allocation of such resources which are beyond the budgetary allocations.

The third development, which has taken place mainly at the instance of the Planning Commission, is the recourse to autonomous agencies for implementing government schemes. These autonomous bodies essentially originated as a result of the need to utilise institutional finances for developmental purposes, at the instance of the Union, at the local level. For this purpose, agencies such as Small Farmers Development Agencies were created at the district level. Over a period, these agencies received funds directly from the Union government, thus bypassing the State governments in several ways. This practice has been discontinued since 2014-15, but the agencies continue and they receive funds through budgets of States.

The fourth development relates to the increasing market orientation of public policy. In this context, the Planning Commission took initiatives in regard to implementation of projects through Public Private Partnership (PPP). In a way, therefore,
this initiative amounted to the Planning Commission stretching its mandate to operational matters.

Throughout its functioning, there has been some dissatisfaction within the public sector about the functioning of the Planning Commission. The States resented the tied nature of funds made available by the Planning Commission. The Ministry of Finance felt that the Planning Commission has been demanding a larger and larger share of resources in the form of Gross Budgetary Support (GBS), thus, eroding its capacity to manage the fisc. Union ministries, as well as public enterprises, generally resented the involvement of the Planning Commission in their functioning. Finally, there has been a perception that the Planning Commission’s excessive emphasis on developmental programmes and larger plan outlays for economic and social services has adversely affected allocations for the maintenance of assets, as well as allocations towards basic functions of the government in the general services category.

The Finance Commission’s recommendations, insofar as the revenue sharing and grants-in-aid are concerned, have been treated as awards. While there was some dissatisfaction on the part of both the Union and the States, important recommendations of the Finance Commission were seldom disregarded. However, over a period, additional Terms of Reference (ToR) have been given to Finance Commissions, going beyond the sharing of taxes and recommending grants in aid of the revenues of the states in need of such assistance. The extent to which the Finance Commissions have seriously considered the additional ToR has, however, varied over a period of time.

There are five major developments in the functioning of the Finance Commission. The first and the foremost relates to the narrowing of the remit of the Finance Commission to what has been described as the non-plan component of the fiscal relations between the Union and the States. This has been achieved through the detailing, in the ToR, of the considerations that should govern the Finance Commission’s assessments and recommendations. Second, the system of sharing of taxes was rationalised by the Tenth Finance Commission and tax revenues in the divisible pool were governed by a uniform
percentage. The Ninth Finance Commission’s recommendation entailed devolving 85 per cent of net collection of personal income tax and 45 per cent of Union excise duty revenues. It was suggested that this created an incentive to the Union government to focus on non-sharable taxes. The new arrangement remedied the situation and introduced significant transparency and simplicity to the work of the Finance Commission. Third, the Twelfth Finance Commission recommended that the Government of India should discontinue the practice of borrowing from the market and lending it to the State governments. This is a landmark development in terms of fiscal-federal relations. Fourth, the Twelfth Finance Commission introduced well defined fiscal rules that should govern the fiscal management of the States by insisting on enactment and implementation of fiscal responsibility legislation at the state level. This was reinforced by the Thirteenth Finance Commission, Finally, the ToR of the Fourteenth Finance Commission have not made any reference to the Gross Budgetary Support to plan or to maintaining a distinction between plan and non-plan expenditure.

Throughout their functioning, Finance Commissions had invited criticism on the ground that they have been treating the Union and States asymmetrically, implying a bias in favour of the Union. They also invited criticism that the awards provided excess fiscal space to the Union, as evident from the increasing share of transfers from Union to the States outside the awards of the Commission, with such transfers being described as non-statutory and discretionary. Further, relative weights attached to efficiency and equity in horizontal distribution has been a bone of contention among the states. Moreover, their role in fiscal equalisation was limited due to prevalence of multiple channels of transfers. Finally, there was resentment among some states about the nature of conditionalities attached to some grants-in-aid recommended by the Commissions.

**Linkages**

The scope of the Finance Commissions is limited to fiscal transfers while the scope of the Planning Commission is significantly larger, though advisory. The remit of the Finance Commissions has been determined by Constitutional provisions, though the
President may make additional ToRs to the Commission “in the interests of sound finance”. For the Planning Commission, however, the remit is very broad and determined by the Union government. It is very clear that the Planning Commission, though advisory in nature, covers significantly larger policy space than the fiscal transfers.

There are elements of overlapping or duplication between the Planning Commission and Finance Commissions in regard to the transfer of resources. The Constitution specifies two distinct modes for transfer of resources between the Union and the States. The first is by means of distribution of the net proceeds of taxes. It is the duty of the Finance Commission to make recommendations on the distribution of the net proceeds of taxes between the Union and the States, as well as the *inter-se* allocation of such proceeds between the States. The system of separately recommending the shares of States in the proceeds of income tax and Union excise duties gave way to recommending shares of States in the total net proceeds of all taxes, through an amendment of the Constitution in 2000.

The second is by means of grants-in-aid. The Commission is mandated to make recommendations on the amounts to be charged on the Consolidated Fund of India, as grants-in-aid of the revenues of the States, which are determined, by Parliament, to be in need of assistance. Through an amendment to the Constitution, the Commission is further mandated to recommend the principles which should govern the grants-in-aid of the revenues of the States, out of the Consolidated Fund of India. These include the measures needed to augment the Consolidated Fund of a State, to supplement the resources of the Panchayats and Municipalities in the State, on the basis of the recommendations made by the Finance Commission of the State. The provision relating to the role of the Finance Commission in the finances of local bodies is somewhat confusing. It is a complex arrangement to enable transfer of resources from the Union to local bodies, without violating the Constitutional design of the local bodies solely being the responsibility of the States.
The provisions relevant to the Finance Commission deal specifically with one-way transfers, i.e. transfers from the Union to the States. Article 282, on the other hand, empowers both the Union and the States to make grants out of their revenues, for any public purpose, regardless of the 'purpose' being within the legislative competence of the Parliament or the State Legislature.

There has been considerable debate on the constitutional intent of grants under Article 282, particularly on the aspect of whether the grants to be made under this provision were meant to be made on an exceptional or regular basis. Regardless of the debate, the factual position is that grants made under Article 282, from the Union to the States, have grown over the years and occupy significant fiscal space in the present context.

Grants, whether under Article 275 or Article 282, could be for revenue or capital expenditures, even though the former provision was predominantly used for revenue expenditure and the latter mainly for capital expenditure.

Grants-in-aid have generally been recommended by Finance Commissions in the past, to fill the estimated deficit in the revenue account of States, (in particular, non-plan revenue deficits), in addition to grants relating to disaster management and local bodies. However, the overlap with the Planning Commission arises in respect of sector-specific or project-specific grants in States. Past experience has been varying in terms of sectors covered by grants-in-aid, the conditionalities laid down and the outcomes achieved. There was also some overlap as the Planning Commission gave non-plan revenue deficit grants on occasions, on the grounds that the norms adopted by the Finance Commissions were unrealistic. Over the years, there was more of change than continuity in the sectors identified for grants-in-aid. In terms of the magnitude, the grants provided by the Finance Commission constitute a small part of the total expenditure by the States on the concerned sectors. In some cases, the links between the conditionalities and outcomes have been questioned by some States. If the sector specific grants of the Finance Commission have not been effective, it may be partly because the evolving
circumstances in implementation of schemes cannot be captured by a body that is periodic and has a life span of about two years. It is also relevant to ponder over the extent of expertise available within the Commission in identifying sectors and designing conditions.

The grants by the Union to the States, outside of the recommendations of Finance Commission, essentially at the instance of Planning Commission, have covered several sectors and specific regions within the States. There has been an increase in non-formula based fiscal transfers from the Union ministries, particularly through the mechanism of centrally sponsored schemes. The States contend that these schemes are often formulated without adequate consultation and without keeping in mind state-specific variations and priorities, and that they have led to a significant burden on their resources.

It can be argued that centrally sponsored schemes, implemented with the approval of the National Development Council, have helped to ensure that central funds actually flow to critical sectors and have led to a matching contribution of States’ funds into these sectors. Transfers outside the mechanism of Finance Commissions are advocated for several legitimate reasons, namely, (a) the need to provide specific levels of public services, across the country, based upon the requirements of a welfare State, as per the framework laid down under the Directive Principles of State Policy, (b) norms legislated by the Union Parliament, and (c) obligations in social sectors, arising out of international commitments. These considerations, which are beyond the scope of Finance Commissions, provide the rationale for nationwide approaches to sectoral policies and the need for providing guidance, incentives and disincentives to the States.

In brief, there is an existing overlap in the functioning of the Finance and Planning Commissions, mainly in regard to the fiscal space made available to Union and States respectively, and in regard to the grants-in-aid to States through the recommendations of both. It is in this context of overlap or linkage that the debate about the future of set-up to replace the Planning Commission impacts the work of the Finance Commission.
The link between Planning and Finance Commissions was recognised quite some time back. Consequently, a member of Planning Commission has invariably been appointed as a part-time member of Finance Commission. This practice was expected to ensure coordination in their work. A proposal to ensure that the recommendations of Finance Commission are co-terminus with the Five Year Plans was not acted upon. Similarly, the proposal to make Finance Commission as a permanent body was not acted upon.

Debates on The Future

There were, as already mentioned, reservations about the appropriateness of the design of the Planning Commission since inception. There was also dissatisfaction with the outcomes. One view was that the Planning Commission was simply not doing a good job of planning. Milton Friedman expressed in 1963 that he was not against good planning, but rather against bad planning, as practiced by the Planning Commission. Similar views were expressed by Professor Sukhamoy Chakravarty when he referred to plan weariness and by Professor Raj Krishna when he said that a five year plan was a new edition of the first plan. In the context of fiscal federalism, the Planning Commission was faulted by several states for encroaching upon the policy space of the States especially through the grants-in-aid that it has been dispensing with significant discretion.

Dissatisfaction with regard to the functioning of the institution was also expressed by some of the Chairmen of the Planning Commission. One of the earliest to express his sense of discomfort with excessive bureaucratization was Pandit Nehru in 1963. A few years ago, Prime Minister Rajiv Gandhi is reported to have expressed his lack of respect for the Planning Commission. More recently, in 2009, Prime Minister Manmohan Singh pleaded for reform of the Planning Commission.

There is also an opinion that the Planning Commission did not adapt itself to the changing economic requirements. While the planned development strategy was needed...
to meet the challenges of low levels of saving and investment, poor infrastructure, pessimism in regard to the capacity of the country to export to pay for its imports required in the country, the practice of employing the consistency framework continued even after market based reforms were introduced in 1991. More importantly, centralized planning is the negation of federalism and the practice of according approvals to individual state plans by the Planning Commission, even after the market based economic reforms were introduced strained the federal spirit in some sense.

The general feeling has been that reform has not taken place, both in the way the planning function was performed by the Planning Commission and the manner in which the Planning Commission was organized.

Prime Minister Modi announced the decision to wind up the Planning Commission in August, 2014. There may be new institutional arrangements to perform some functions, but the demise of the institution of Planning Commission, as is generally understood, has been pronounced. In a way, therefore, the option of reforming the Planning Commission is not on the agenda. What is certainly on the agenda is the new institution or institutions that have to be designed to perform some of the critical functions that the Planning Commission was performing.

In contrast, the functions of the Finance Commissions have not been seriously questioned, though there was dissatisfaction about the actual awards by the Finance Commission. There were two suggestions for change in the working of the Finance Commission. Both of them were in the context of the work relating to the Planning Commission. One suggestion was to make the Finance Commission a permanent body to recommend all transfers (Plan and Non-plan) from the Union to the States. In this regard, the appropriateness of distinction between plan and non-plan transfers has been questioned, and most recently, the High Level Expert Committee on Efficient Management of Public Expenditures headed by Dr. C. Rangarajan, set-up by the Planning Commission...
Commission has recommended dispensing with such a distinction. As mentioned already, the Terms of Reference of Fourteenth Finance Commission keep this issue open.

The second suggestion is that the Finance Commission should be made a permanent body to take over the functions of the Planning Commission in regard to transfers from the Union to the States. A working group of the Administrative Reforms Commission in 1968 mooted the idea. This was, however, opposed by several analysts. This suggestion has been reactivated in the current debate on the future of Planning Commission, though as one element of the new arrangements to replace Planning Commission.

The debate in the context of demise of the Planning Commission has concentrated on disaggregating the current functions of the Planning Commission and assigning them to different institutions. The disaggregation of functions suggested is (a) transfer of resources to State governments; (b) allocation of investments among Union Ministries; (c) providing a medium term perspective; and (d) operating as a think tank. However, the main focus of the debate seems to be the issue of transfer of resources to State governments and process of approvals of State plans by the Planning Commission.

The interface between the Finance Commission and Planning Commission arises in regard of transfer of resources to States. One view has been that this function of the Planning Commission could be entrusted to a new institutional mechanism under the aegis of inter-state council, a body envisaged in the Constitution. A second suggestion is to reactivate the National Development Council and entrust this function to an appropriate Secretariat. The third option that has been advocated is to transfer such functions to the Finance Commission by making it a permanent body and by removing the distinction between Plan and Non-plan expenditure.
The current debate on the institutional arrangement for replacing the Planning Commission relates to disappointment with achievements and processes of planning naturally associated with Planning Commission. However, in this debate one does not find significant attention to addressing the issue of improvements in the quality of planning for development. There are several observed deficiencies in planning, in particular, what has been generally described as the problems of implementation. However, the problems of implementation may be on account of the design of the programs by the Planning Commission or the involvement of the Planning Commission in operational matters, including project approvals. They could also be simply because the Planning Commission has not been equipped or could not be equipped to address issues of implementation. An important lacuna in the existing institutional arrangement is that it does not provide for dispute resolutions especially between the Ministries, between the Ministries and the Public Enterprises, between the Union and the States, and between the Public and Private Sectors. In brief, the main focus of debate ought to be to fix the problems with existing processes associated with planning and development and designing an institution that could help the process. A focus on changes in institutional arrangements should be accompanied by a reform of processes relevant to the tasks.

The processes of planning and the institution of planning have to be viewed together and should be subject to change to meet evolving circumstances. An example in this regard is that of the People’s Republic of China. In the People’s Republic of China, the concept of a “plan” was replaced by the concept of “guideline” after the Tenth Plan (2001-2005). It was explained that, in order to more accurately reflect China’s transition from a Soviet-style planned economy to a socialist market economy (socialism with Chinese characteristics), the name of the 11th Five-Year programme was changed to “guideline” instead of “plan”.

Similarly, the State Planning Commission (SPC), which was founded in 1952 for managing China’s centrally planned economy, was renamed in 1998 as the State Development Planning Commission (SDPC), which then merged with the State Council
Office for Restructuring the Economic System (SCORES) and became part of the State Economic and Trade Commission (SETC) in 2003. With this change, the organisation shifted its policy perspective, from catering to a planned economy, to catering to a socialist market economy. It was finally renamed as the NDRC and, with this change, gained greater responsibility and power in overseeing China’s economic development.

**New Realities of Economic Management**

The substance and the operating processes of macro-economic management in India have dramatically changed over the last 60 years. Both the Planning Commission and Finance Commissions have been responding to these changes incrementally. Perhaps, a time has come to recognise that there have been fundamental changes over the period, which requires great sensitivity to the new realities of economic management, in terms of both substance and processes. The design of new institutions should ensure that they have the skills and capacities to capture the new realities. Let me illustrate the new realities.

First, the major instrument of economic development, in the beginning of the planning era, was the allocation of public investment. Now, planning has to be oriented to influencing the flow of funds through incentives and disincentives to the private sector also. Moreover, the role of innovations in developmental process requires a policy framework not entirely related to public investment. There is a need for a strong system of regulation to ensure healthy competition in the markets.

Second, the planning process started with dependence on the commanding heights of the public sector. Now, the focus is on disinvestment and managing the problems of public enterprises, especially in regard to enterprises with significant private shareholding. Both have serious fiscal implications, but the processes involved are very different.
Third, the role of financial markets in the allocation of resources has increased dramatically and the response of public policy will have to be much more interactive, rather than allocative.

Fourth, the economy is considerably more open than earlier, with strong trade and financial linkages with the global economy. This tends to restrict the space available for public policy interventions. Globalisation requires domestic policy to be more sensitive to external developments. These impose constraints, both on the fiscal space and on the space available for planning in the sense that it is traditionally understood, and, perhaps, the constraints on the space for such planning are significantly higher.

Finally, redefining the role of the State vis-à-vis the economy has resulted in greater emphasis on the operations of the general Government in the provision of public goods. Most activities, relating to provision of public goods, are, by their very nature, essentially in the domain of sub-national governments. Both - multi-level planning and fiscal relations between national and sub-national governments - have to necessarily reflect the redefined role of the general Government in macro-economic management.

There is an increasing realisation that, in the pursuit of development, the provision of public goods should not be neglected, since adequate provision of such public goods is critical - both for efficient functioning of the markets, as well as for welfare. Some of the critical public goods are treated as non-plan and non-development expenditures and, thus, escape the attention of process of planning as currently understood.

Multi-Level Context
The functioning of Planning Commission is often viewed in the context of overall strategies of development significantly in the context of union-state relations. However, it performs several functions in a multi-level context.

First, the Planning Commission operates as a body that designs a national approach to planning and development based upon the deliberations of the National Development Council. It is an instrument by which national priorities are operationalised through plans at several levels. Second, it operates as a planning body for the Union government in terms of advising on developmental strategies and, in particular, recommending allocation of resources among the sectors and Ministries. Third, it operationalizes the transfer of resources from the Union to the States outside the recommendations of the Finance Commission, as part of its effort to fulfill the framework approved by the National Development Council. It also approves the plans of the State governments. In doing so, it interacts with the State planning departments. Fourth, it has financed and helped establish Planning Boards at the state level. The Planning Boards at the State level are advisory in nature, much like the Planning Commission at the Central level. Planning Boards at the State level, in practice, confine themselves to recommending the allocation of resources at the State level. Fifth, the Planning Commission has been taking interest in putting in place Committees for District Planning under Article 243ZD of the Constitution and Committees for metropolitan planning under Article 243ZE under the Constitution. The current debate is, by and large, confined to the institutional arrangements to replace the Planning Commission, but it is essential to address the issue of planning at the State, District and Metropolitan levels, in a comprehensive manner.

There is a multi-level context in regard to the Finance Commissions also. Article 243-I requires every State to constitute a Finance Commission to review the financial position of the Panchayats and Municipalities to enable making available resources to the local bodies. Further, there is a link between the national Finance Commission and the Finance Commissions of the States. Through the amendment carried out to Article 280
of the Finance Commission, the national Finance Commission is expected to recommend the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

Clearly, a comprehensive view of the institution to replace Planning Commission will have to take into account all the existing planning structures and systems at the State and sub-State levels, in addition to taking cognizance of the relevant Constitutional provisions pertaining to both, the Planning functions and Finance Commissions, at the national and state levels.

**Conclusion**

Friends, I have narrated a tale of two Commissions. One of them, namely the Finance Commission will move on. The other – the Planning Commission - has ended. The challenge is to craft the beginnings of a tale of a new institutional set up. We economists have a role, not a predominant one, but certainly an important one, in crafting a new set-up to replace and improve upon Planning Commission.

Thank you.
Select References:


5. CUTS International (2014), “Policy Options Note: Rethinking the Role of the Planning Commission of India”


