

**N K SINGH***Sunday , May 01, 2005*

From the ringside

**Can Planning Commission plan for itself?**

In early April, the Planning Commission completed the Mid Term Review of the Tenth Plan. Its outcome will now be placed before the National Development Council. Presiding over the meeting, the Prime Minister emphasised the need to “walk on two legs — one embracing the cluster of high growth and the other addressing the issue of deregulation and planned development.” In doing so, he echoed the sentiments in the Charter of the Planning Commission which was “to combine a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community.”

The Planning Commission was constituted in March 1950 by a Resolution of the Government of India, inter alia, to formulate a Plan for the most effective and balanced utilisation of the country’s resources to determine priorities and resource allocation and the machinery for its implementation and apprise from time to time the progress achieved in the execution of each stage of the Plan. In July 1951, the draft outline of the first Five Year Plan was presented and currently we are engaged in a review of the Tenth Plan. So what has been our experience in the 55 years with the Commission?

The country has certainly made enormous progress, achieved food and foreign exchange sufficiency, strengthened infrastructure and increased its global integration. However, has the Commission adequately adjusted to the needs of altered times? Perhaps not. The Prime Minister aired his views to say that “the Planning Commission has played a historic role in our development and to be a cornerstone of our federal structure it has to be a think-tank and reservoir of research for the Government. It should be responsive to the changing world and to the winds of intellectual enquiry and debate.”

A restructuring exercise initiated five years ago by Jaswant Singh as Deputy Chairman and Montek as Member had come up with many creative ideas. It did not take off. Both Montek and I failed then but the Prime Minister’s recent thoughts create fresh hope for better outcome. So what should be the ingredients for a restructured Planning Commission?

- **FIRST**, the name itself. What is there in a name? Quite a lot. The term Planning Commission conjures notions of a centrally planned economic model with input-output matrix, controls on resource allocation/ production patterns and generally micro-managing the economy. Last year, both at INSEAD, Fountainebleu and Harvard, students repeatedly questioned me on the need for such a Commission in the context of our policy changes. My explanations failed to convince.

The Chinese, responding to altered times, created another entity called the “Commission for Economic Reforms and Restructuring” which is a nodal entity

for co-ordinating economic reform policies. In our set-up there is no nodal entity for co-ordinating the pace and sequencing of policy changes. The Finance Ministry is burdened with Treasury functions. Many other countries have recognised the need for a separate Ministry for Economic Coordination like Japan and Indonesia to name a few. There may be merit in changing the nomenclature to call the Planning Commission the “Commission for Economic Co-ordination and Reform.”

- SECOND, when it comes to the functions, the Government needs to reorganise its expenditure management policies. The Ministry of Finance allocates Non-Plan expenditure largely to meet interest, salary and establishment costs apart from statutory devolutions to States. The Planning Commission on the other hand, allocates the overall sum provided by the Ministry of Finance called the Gross Budgetary Support (GBS) to different Central Ministries and approves the Annual Plan of State Governments. There is need to integrate expenditure management. The classification between Plan and Non-Plan, Revenue and Expenditure needs to be revisited. This has been discussed several times with no outcome. Complicated expenditure allocation makes expenditure audit difficult. The Comptroller and Auditor General examines expenditure in an ex-post sense but monitoring real time expenditure activity escapes attention. There is need to combine the expenditure management functions of the Planning Commission and the Expenditure Department into perhaps a separate entity along the lines of the office of Management and Budget of the US Government or similar institutions evolved in other countries.

- THIRD, in a federal entity like ours, the Planning Commission has acted as a link between the Centre and the States. States look upon the Finance Ministry with some discomfort since their dialogue revolves either on fiscal responsibility or ways and means of accommodation. On the other hand, the Planning Commission is an entity with which they periodically interact, seek accommodation and secure approval for their Annual Plan. This approval itself, in terms of resources, is somewhat notional because the bulk of resources to the States are either statutory devolutions or based upon the recommendations of the Finance Commission, leaving limited scope for manoeuvre. Nonetheless, the Annual Plan discussions are useful for State Governments to mainstream policies with the national approach. Be that as it may, if the Planning Commission is to prove useful to the States, it must become what the Prime Minister describes as a “think-tank”. This requires induction of high quality expertise, representing various disciplines which State Governments would genuinely find useful.

- FOURTH, the current practice of allocating resources to the Central Government lacks imagination. This is because expenditure is incremental expenditure-driven; compliance with zero-based budgeting is mechanical and the historical baggage of schemes leaves little flexibility. Instead of a mechanically driven annual allocation, a more purposive policy dialogue with the Central Ministries would secure coherence of policies.

- FIFTH, how does the Commission become a think-tank? In the first instance, it must shrink and become lean and capable. Given the decline in its standing, induction of high quality talent has become a casualty. No serious academic or expert foregoing their salary will accept even short-term responsibility in the Commission unless their financial sacrifice entails meaningful engagement in

policy formation. This is not possible in the present set-up.

- FINALLY, the restructuring of the Planning Commission must be in tandem with the restructuring of the Finance Ministry as well. The Expenditure Department's fragmented expenditure responsibility is not sensible. Delegation of financial powers to administrative ministries and the duality of responsibility of financial advisors needs to be revisited. Given plentiful foreign exchange and credible regulators for capital markets, Economic Affairs must be restructured to focus on macro-management and catalyse supporting sectoral initiatives.

The Prime Minister has been truthful in acknowledging the need for a basic change in the working of the Commission. In our complex federal set-up, an interactive policy-making body is inescapable. A restructured Planning Commission and Ministry of Finance will enable us to respond more purposefully to our contemporary challenges. We should do so now instead of awaiting the outcome of the proposed Administrative Reforms Commission or the Commission on Centre-State Relations.

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