XIth Plan, or XIth version of same Plan?

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Parliament is pre-occupied with the ‘‘mole’’ hinted in Jaswant Singh’s book and in the midst of all this has also passed the Office of Profit Bill. Since the future of several important financial legislations remains in doubt, the only economic issue which has received parliamentary attention is price rise and farmers’ woes. These deserve all the attention. However, before Parliament meets for its winter session, the Approach to the Eleventh Five Year Plan would have been endorsed by the National Development Council. Parliament has been a recipient but never a forum for discussing Five Year Plans. Nor our medium-term economic strategy, which the Plans are designed to articulate. While it is true that Five year Plans do not technically require parliamentary approval and no legislation is involved, they increasingly signal our policy directions. Sectoral issues are sometimes discussed in the Standing Committee. The general debate following the presentation of the Budget focuses primarily on the annual budgetary appropriations. These are not a substitute for a more searching discussion on key economic issues, choices and options. The State of the Economy receives scant attention.

So let me, in a two-part article, pose some issues which deserve broader attention. The first part deals with preconditions while the second concerns policy options.

The Approach Paper, entitled ‘Towards Faster and More Inclusive Growth’, makes many statements about the role of the states and the Centre, leading to an overall impression that the states will be asked to take more ownership and be more accountable for their programmes while at the same time ‘‘backward’’ areas will be brought into inclusive growth. This is an important direction, and we have to think about the structure of fiscal incentives to create this kind of shift.

On the whole, a rethink of the transfer system is needed to reconcile the goals of having performance-linked transfers and inclusive growth, the two priorities mentioned in the plan. On the one hand, performance-linked transfers reward good performance and good performers. On the other hand, inclusive growth needs to ensure that the bad performers are not permanently left behind. How to motivate the lagging states without giving up on them? This is a complex task, with many interested parties, and there are incremental steps that could be taken to at least create more transparency in the fiscal transfers.

Second, on rates of growth, the Eleventh Plan expects an overall growth of 8.5 per cent of GDP, which implies even higher growth in the terminal years, necessitating the investment-gearing ratio to increase from 31 per cent to 38 per cent. This entails increase in the domestic savings rate as well as access to external resources, including a sharp increase in direct foreign investment. Alternative options and growth targets need to be spelt out both in terms of their consequences on poverty reduction and employment generation.

Third, the disability which faces Five Year Plans is that given the present electoral cycle, it commences at the mid-point of the government in office. Given anti-incumbency factors with every change of government, a mid-term appraisal which basically outlines altered priorities and strategies creates discontinuities. Hardly have departments begun serious implementation of the Plan that electoral discontinuities and revised mandates lead to new approaches and strategies. Electoral cycles can neither be retarded nor advanced to synchronise with Five Year Plans and yet these Plans are designed as politico-economic statements of the government in office. Besides, if governments do not complete their full term, fine-tuning these Five Year Plan cycles cannot be easy.

One alternative, of course an extreme one, is not to have Five Year Plans at all but to articulate a medium-term strategy and move to a regime of Rolling Plans, in which priorities and strategies are easier to alter. Besides, project imlementation is an ongoing process and annual budgetary appropriations can be predicted but not assumed.

Fourth, synchronisation of Five Year Plans with recommendations of the Finance Commission is another contentious issue. States find it difficult to foresee the quantum of resources which would be available given multiple sources of resource flows, where the Planning Commission's recommendations are made one year, the Finance Commission another year and the centrally sponsored schemes have their own timeframe for resource flows. The Planning Commission and Finance Commission disconnect is specially worrisome because the total resources available to the states under the Plan depends on the states' own contribution, which comes in part from the Finance Commission and another part from their resources.

Since synchronisation of electoral cycles with Five Year Plans is more complex, the least we can do is to synchronise the Plan with the cycle of the Finance Commission. The Finance Commission is constitutionally mandated and its recommendations viewed as awards, and there may be multiple advantages in linking the Plans and commencing them immediately after recommendations of the Finance Commission. This would enable states to plan on the basis of more predictable resource flows.

Fifth, another issue raised by the Planning Commission is the irrational distinction between Revenue and Capital Expenditure. It has brought out clearly that such a distinction (particularly the target to eliminate revenue deficit completely by 2008) is flawed since expenditures in the critical social sector which have a multiplier effect on development are classified as Revenue Expenditure and indeed, far from being eliminated, should be strengthened. While this dichotomy between Revenue and Capital expenditure is certainly flawed, so is the distinction in many areas between Plan and Non-Plan. Several items booked under Non-Plan expenditure have beneficial development consequences in improving overall investment environment. Reclassification of government accounts must be a critical starting point and this would require coordinated efforts by the Comptroller and Auditor General, Controller of Civil Accounts, Ministry of Finance as well as the Planning Commission.

The exercise to bring greater sanity in such classification will not be easy. There may be merit in government appointing a high-level Accounts Reclassification Committee with a former CAG, Expenditure Secretary and Planning Commission to make recommendations which can be reflected in the Eleventh Plan itself.

We must learn from the past. Devoting attention to these preconditions will lay the foundations of successful Five Year Plans. Nobody wants to Plan to be eleventh version of the same Plan.