Reforming the Planning Commission

An Assessment by the Independent Evaluation Office

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1. Reasons for Setting up the Planning Commission

The Planning Commission was set up on March 15, 1950 vide Government of India Cabinet Secretariat Resolution (Planning) No.1-P(C)/50. The Cabinet Resolution mentions several reasons why a specialized body like the Planning Commission was needed in 1950, the year of its creation:

1. The absence of adequate co-ordination and of sufficiently precise information about the availability of resources.
2. The need for a fresh assessment of the financial and other resources and of the essential conditions of progress necessitated by the integration of the former Indian States with the rest of country and the emergence of new geographical and economic facts.
3. Inflationary pressures inherited from the war, balance of payments difficulties, the influx into India of several million persons displaced from their homes and occupations.
4. Deficiencies in the country's food supply aggravated by partition and a succession of indifferent harvests.
5. The dislocation of supplies of certain essential raw materials have placed the economy under a severe strain.

Additionally, it was to further the “declared objective of the Government to promote 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 reasons specified in the Cabinet Resolution indicate that the Planning Commission was created in response to the unique challenges faced by a nascent democracy and a fledgling economy. It conceived a top down approach to planning that envisaged a dynamic Central Government building up the economic and social order of weak States.

The Cabinet found that the need to mobilize unutilized resources outweighed the need to utilize resources in the most efficient way possible during the turbulent times of 1950. This reasoning is not unique and has been adopted even by traditionally free market economies in time of severe crisis. A good example of this is the economic reorganization of the major powers during the Second World War.

This choice of top down planning is also explained by the political leadership of the 1950s. The Planning Commission was created under the auspices of India’s first Prime Minister, Pandit Jawaharlal Nehru. It therefore had its roots in Nehruvian socialism which envisaged a largely planned economy with the Central Government responsible for a dominant portion of investment in the economy.

The Planning Commission was also chaired by the Prime Minister, a man with widespread democratic legitimacy and nationwide moral authority in the aftermath of the Independence movement. Furthermore, Prime Minister Nehru was the undisputed leader of the Congress Party and led a country where all the States were led by Chief Ministers from the Congress Party. This meant that concerns about impinging upon the rights of the States and diluting the federal structure of the country were not voiced or considered when establishing the Planning Commission.

The Planning Commission therefore became an instrument by which an unchallenged Prime Minister could make far reaching economic plans for the whole country unfettered by Parliamentary considerations. These circumstances also explain how the Planning Commission became the administrator of the Five Year Plans and a monolithic allocator of financial resources, a role it serves till today.

2. Historical Function of the Planning Commission

In light of the economic and political circumstances explained above, the Planning Commission was tasked with a wide range of responsibilities. It was tasked with making recommendations to the Cabinet acting in "close understanding and consultation" with the Ministries of the Central Government and the Governments of the States. The responsibility for taking and implementing these recommendations was placed jointly on the Central and the State Governments.

Towards this end, the Planning Commission was tasked by the Cabinet Resolution No.1-P(C)/50 with the following functions:

1. Make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements;
2. Formulate a Plan for the most effective and balanced utilization of the country's resources;
3. On a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
4. Indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan:
5. Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;
6. Appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and
7. Make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it, or on a consideration of the prevailing economic conditions, current policies, measures and development programmes; or on an examination of such specific problem as may be referred to it for advice by Central or State Governments.

3. Has India Outgrown the Planning Commission?

Since 1950, India has undergone a political and economic transformation. A Planning Commission responsible only to the Prime Minister no longer enjoys the legitimacy that it enjoyed in the turbulent times in which it was created. It is also clear that four of the five factors listed in the Cabinet note as reasons for the establishment of the Planning Commission are clearly inapplicable in the current context.

There can be no argument that factors two through five listed as reasons for the creation of the Planning Commission in Cabinet Resolution No.1-P(C)/50 relating to the integration of

States, war, historical famines and partition respectively are relevant to the country any longer.

Only the first of the listed factors, i.e. "The absence of adequate co-ordination and of sufficiently precise information about the availability of resources" can be argued to persist. Even in this, the situation has unarguably improved tremendously since 1950. The special economic circumstances that explained the adoption of a top down planning mechanism in 1950 can, therefore, not be said to exist today.

In the face of these major political and economic developments, the Planning Commission has failed to adapt itself fast enough. Even though it has abandoned its most overly ambitious mandates to micromanage which went as far as to give it the responsibility to identify the machinery needed to implement its plans, it still continues to have a top down approach to planning and allocation.

A review of the Planning Commission in 2010 identified the following functions that the organization performs in the current day and age.

1. Seeing the 'big picture' and presenting it to the country
2. Injecting fresh thinking into policy-making
3. Allocating money to the States
4. Allocating money to Central Ministries

In performing the first two functions, the Planning Commission acts as a think tank for the Central government as well as the State Governments. Unfortunately, in performing the third and fourth functions listed here, it continues to perform the role of allocating resources to the States and the Central Ministries. In other words, it still continues to be an arbiter for the distribution of the nation's financial resources.

The changed political and economic conditions in the country have sharply brought into focus many problems with the role and functioning of the Planning Commission which has not adapted sufficiently to suit the need of the hour. Some key problems are identified and discussed in the following sections.

4. Key Problems Facing the Planning Commission

4.1 Concerns Regarding Federalism

The Planning Commission, by performing the role of a control commission rather than a recommending body exceeds the scope of its authority which is based on a singular Cabinet resolution. This overreach is especially egregious due to the Planning Commission's influence on the allocation of funds to the State governments which directly impacts Centre-State relations.

It should be noted that the balance in Centre-State relations regarding financial matters as conceived by the Constitution of India was arrived at after tremendous reasoned debate.[1] This balance was established in the Constitution of India through the offices of the Finance

[1] See Constituent Assembly Debates, Volume 9.

Commission. Neither the Constitution nor its framers envisaged a Planning Commission with administrative or control rights over the distribution of funds to the various States. Accordingly, concerns of constitutional propriety and impartiality need to be considered when evaluating the role of the Planning Commission.

The absence of a constitutional mandate, or even the legislative delegation of the authority to assign funds to the States, therefore, strikes at the heart of the balance of power between Centre and States. This concern is exacerbated by the Planning Commission's lack of accountability to anyone but the Prime Minister, who appoints its members.

These issues of constitutionality and accountability therefore pose a threat to federalism as provided for in the Constitution of India. They are examined in greater detail in the following sections.

4.2 Concerns of Constitutional Impropriety

Certain sources of government funds such as income taxes and excise duties are more effectively collected by the Centre rather than by individual States. Therefore, once collected by the Centre, these proceeds have to be apportioned amongst the States for their functioning and to finance developmental activity. The modalities of carrying out this distribution, a role now played to a great extent by the Planning Commission, was extensively debated by the framers of the Indian Constitution.

In their wisdom, the framers created the Finance Commission, a constitutional body with several checks and balances to perform this role. These checks and balances are in the form of provisions that regulate the commission's operational procedures as well as the selection and terms of service of its members to ensure impartiality and independence.

The explicit allocation of the responsibility to determine the distribution of Central funds between the Centre and the various States to the Finance Commission is clear from Article 280, Constitution of India.

Art. 280(2):

It shall be the duty of the Commission to make recommendations to the President as to

- *(a) the distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them under this Chapter and the allocation between the States of the respective shares of such proceeds;*
- *(b) the principles which should govern the grants in aid of the revenues of the States out of the Consolidated Fund of India;*
- *(c) any other matter referred to the Commission by the President in the interests of sound finance*

By assuming the crucial function of allocating resources to the States, the Planning Commission clearly comes into conflict with the role of Finance Commission. By doing so, it circumvents the constitutional protections that were designed to ensure impartial allocation of funds and reduces the independence of the States to manage their finances and to design and implement their own developmental programmes. The Planning Commission, therefore, finds itself in opposition to both the form as well as the intent of the Constitution of India.

4.3 Concerns of Accountability

The members of the Planning Commission are appointed by the Prime Minister. This includes the Deputy Chairman of the Commission who oversees the functioning of the Planning Commission. Unlike the Ministers of Central Government Ministries, the Deputy Chairman is not subject to Parliamentary oversight by means of questioning in Parliament. He is answerable to Parliament only indirectly through the offices of the Minister of State for Planning and Statistics. Since the Deputy Chairman holds Cabinet rank and outranks the Minister of State for Planning and Statistics, the latter cannot be expected to effectively supervise his actions. This means that the Planning Commission is not subject to Parliamentary oversight through its leader like regular Ministries of the Central Government.

Furthermore, unlike other ministers, the members and the Deputy Chairman are also not chosen from amongst members of either House of Parliament relieving them of Parliamentary oversight at the individual level.

This opaqueness vis-à-vis the functioning of the Planning Commission is a matter of concern especially as far as its role as a major allocator of financial resources is concerned. Since the Planning Commission distributes resources between the Centre and the States, its members' lack of accountability to anyone but the head of the Central executive makes this problem especially egregious. Unlike the members of the Finance Commission, whose independence is protected by Constitutional provisions regulating their appointment and terms of service, members of the Planning Commission are susceptible to pressure from the PMO. This outsize influence wielded by the Prime Minister opens up the possibility of actual or perceived partial treatment by the Planning Commission in allocating resources amongst the States which is a very serious threat indeed.

4.4 Concerns Regarding Human Resources and Organizational Structure

The Planning Commission has been criticized for becoming a monolithic bureaucracy no different from other Central ministries in the way it is administered. The members of the Planning Commission, who are eminent experts with domain expertise, find themselves outside the ossified structure of authority.

The organization has also been accused of becoming a 'parking lot' for IAS officers between assignments who have neither the specialized domain level expertise nor the training to carry out long term economic planning. These officers do not report to the expert members, but like every other ministry, report to the Secretary of the Planning Commission who in turn reports to the Deputy Chairman. This means that the expert members have little influence over the large pools of unspecialized bureaucrats who man the organization. The members are, therefore, unable to effectively guide and supervise the work of the bureaucrats and effectively channelize the human resources available to the Commission.

Furthermore, the bureaucrats staffing the Planning Commission do not have any specialized planning competence greater than that of their colleagues who work in the administration of the various States. This leads to a situation where non-experts end up exercising ineffective and unwarranted influence over the spending decisions and developmental priorities of the States.

These factors suggest that the Planning Commission is not suitably structured to be an effective think tank of the government nor is it properly structured to be effective in allocating and supervising the States' finances.

5. Alternatives to the Current Planning Commission

Recent attempts to reform the Planning Commission correctly conclude that the Planning Commission, as it exists, will elude attempts at fundamental reform. The bureaucratic inertia of the organization has stymied several attempts at reform and it is reasonable to assume that it will stymie others. Recent attempts have accepted this reality and recommended that a new wing be created to do what the existing commission is unable to do effectively.

It is believed that such half measures are sub-optimal and that we can do better. A bold and radical step is required. It is, therefore, recommended that the Planning Commission be abolished and its staff returned to their parent cadres.

The functions currently being performed by the Planning Commission can be taken over by other bodies which are better designed to perform those roles. Suggestions for carrying out functions currently performed by the Planning Commission more effectively are given in the following sections.

5.1 The Finance Commission Should Determine the Division of Funds between the Union Government and the Various States

The function of allocating 'plan expenses' which the Planning Commission currently discharges without any constitutional or legislative mandate should be performed by an expert body designed for the specific purpose of allocating Centrally collected funds. Happily, such a body already exists in the form of the Finance Commission which has this authority bestowed upon it by the Constitution of India.

Unlike the Planning Commission, this body contains checks and balances, independence from the PMO as well as accountability and legal sanction build into it by vide Art. 280 (1) and (4) of the Constitution of India and the provisions of The Finance Commission (Miscellaneous Provisions) Act, 1951.

These provide the Finance Commission with strict rules governing the qualifications, conditions for disqualification, terms of office, eligibility for reappointment, salaries and allowances of its members as well as stipulating the procedures and powers of the commission. Unlike the Planning Commission, the Finance Commission is, therefore, a neutral body not beholden to the Prime Minister. It is thus better placed to fairly and expertly apportion resources to the Centre and the various States.

It is important to note that the Constituent Assembly debated the issues of federalism related to the need to protect the independence of the States vis-à-vis their reliance on Central funds. It was only the independence of the Finance Commission and the requirement of Parliamentary approval of its recommendations that quelled strong objections.[2] By usurping the power to allocate funds to the States, the Planning Commission nullifies both these protections thereby negating the result of careful deliberations by the Constituent Assembly.

This appropriation of authority causes problems because there are no constitutional protections that stipulate qualifications and terms of service for the members of the Planning Commission (who are nominated by the Prime Minister) and furthermore, its financial allocations to the States (plan expenses) are not subject to parliamentary approval.

[2] See Constituent Assembly Debates, Volume 9.

By adopting the recommendations of the Rangarajan Committee Report, the distinction between plan and non-plan expenses should be eliminated.[3] The Finance Commission should, as it is empowered and required by Art. 280(2)(a) & (b) of the Constitution of India, determine the division of all centrally collected revenue between the Centre and the States. It should also determine the distribution of funds amongst the various States of the Union while avoiding the micro-management the Planning Commission has been criticised for.

The Finance Commission should, therefore, be made a permanent body responsible for the allocation of centrally collected revenue to the States working with the help of a panel of advisors with domain level expertise.

5.2 The Finance Ministry Should Allocate Funds to the Various Central Ministries

The allocation of funds to the various Central Ministries does not entail concerns of federalism. This means that the body tasked with distributing the revenue allocated to the Centre (by the Finance Commission) amongst the various Central Ministries only needs to be accountable to the Central Government. Accordingly, a Central Ministry such as the Finance Ministry, which is answerable to Parliament through the Finance Minister and is a part of the Union Cabinet, can fill this role, at least as far as concerns of accountability are concerned.

The Finance Ministry has departments responsible for economic and financial management such as the Department of Economic Affairs and the Department of Expenditure. It also has a clear picture of the country's financial resources through the Department of Revenue. In light of this, it is recommended that the Finance Ministry be tasked with the division of funds amongst the various Central Ministries.

To facilitate this task, a new Department of Planning can be created within the Finance Ministry. This department would work in consultation with the other departments of the Finance Ministry to allocate resources to meet the capital expenses of the other ministries of the Central Government. Making the Finance Ministry responsible for funding the Central Ministries will streamline the finances of the Central Government and allow for more effective oversight and accountability. This would also allow the Union Cabinet to directly manage the resources available to the Central Government, give it more flexibility in its spending and enable it to implement its programmes through the offices of the various Ministries more effectively.

5.3 A Reform and Solutions Commission Should be Created to Act as the Think Tank of the Government

The task of long term economic thinking and coordination can be performed by a new body established to act solely as a think tank within the government. This institution should be staffed with experts with domain knowledge and kept free from a ministerial administrative structure. It is also recommended that it should have full time representation of major trade

[3] See the Rangarajan committee report on *Efficient Management of Public Expenditure* that it submitted to the Planning Commission in September 2011. The then Deputy Chairman Montek Singh Ahluwalia stated that this suggestion can be reconsidered by the new government taking charge in 2014 since the States would not want to defend non-plan expenses before the Planning Commission. This report advices the new government taking charge to put an end to the practice of State "defending" any expense before the Planning Commission putting this objection to rest.

and industry organizations, civil society representatives, academics etc. so as to capture their concerns and benefit from their expertise in formulating long term strategy.

This think tank of the government can be called the Reform and Solutions Commission reporting to the Prime Minister and with a dotted relationship to Parliament (working through its committees) to highlight its role as a driver of new and dynamic thinking. It should perform three main functions:

a) Serve as a solutions exchange and repository for ideas that have been successful in different aspects of development in various states and districts and in other parts of the world

b) Provide ideas for integrated systems reform

c) Identify new and emerging challenges and provide solutions to preempt them.

Like the Prime Minister's Economic Advisory Council, the National Development Council, the Inter-State Council and the Office of the Chief Economic Advisor in the Finance Ministry, this body should not have the power to compel and force its views on state governments by being able to withhold resources. The recommendations of this body should, therefore, be precatory and it must perform a guiding function rather than the command function currently being performed by the Planning Commission.

In other words, its recommendations must be persuasive and it must present the Central and State governments, Parliament, State legislatures, the public and the private sector with a roadmap of priorities and expert advice.

Having swept aside the legacy of the planning commission, there is also no need for this body to restrict itself to a time horizon as short as five years when setting the nations priorities. Instead, it should look at a ten, twenty or even fifty year horizon to augment the advice of bodies such as the Prime Minister's Economic Advisory Council, the National Development Council, the Inter-State Council and the Office of the Chief Economic Advisor which focus on a shorter time frame.

It is clear that the Indian economy has evolved considerably from the era when a quasi-command economy could be managed by a Planning Commission in New Delhi with the power to mandate and coerce action across the States. The increased complexity of the economy and enhanced capabilities of the States requires planning as well as implementation decisions to be devolved to the State level. The State governments have better information about local requirements and resources than the Central Government and Central institutions. They should, therefore, be allowed to identify priorities and implement reforms at the State level independent of mandatory dictats from Central institutions.

6. Summary

The Planning Commission was created at a time of extraordinary social and economic challenges. At the time of its creation, it got its legitimacy from the stature of its first Chairman, Pandit Jawaharlal Nehru instead of an explicit constitutional or legislative mandate. This created a body that exercises vast powers that dilute the federal character of the nation by determining the allocation of resources to the various States and impinges upon the role of a specialized Constitutional body.

Since the Planning Commission has defied attempts to reform it to bring it in line with the needs of a modern economy and the trend of empowering the States, it is proposed that the Planning Commission be abolished. It is recommended that the Planning Commission's role as an allocator of resources to the States should be taken up by the Finance Commission and the allocation of resources amongst the Central Ministries should be carried out by the Finance Ministry.

It is also proposed that the role of the Planning Commission as a think tank of the Government be carried out by a specialized body staffed by experts with domain knowledge. This is in contrast to the Planning Commission which is manned by generalist bureaucrats who currently comprise the vast majority of its staff. This new think tank should be tasked with giving recommendations and with providing a road map of priorities to Central and State Governments as well as to the private sector. It should categorically be denied the power to impose its views by controlling the allocation of financial resources.

In light of these findings, the following actions are proposed:

1. The Finance Commission should be tasked with allocating centrally collected funds to the Central Government and to the various State Governments.
2. A Department of Planning should be created in the Finance Ministry to apportion funds amongst the various ministries of the Central Government to meet their capital expenses.
3. A Reform and Solutions Commission should be established to act as a think tank of the Government with a relationship into Parliament to replace the Planning Commission.