The State and Indian Planning*

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When Prime Minister Narendra Modi declared in his Independence Day address that the Planning Commission as a body is to be scrapped, he was possibly sending out multiple messages. One was that he was making a clear break from the economic policy tradition that Nehru and the Congress under his leadership represented. In fact, he did not even acknowledge Nehru as one of India's leading nation builders. The second was that he was committed to a trajectory in which the role of the State would be minimal, in keeping with the slogan "minimum government, maximum governance", and markets and entrepreneurial 'animal spirits' would flourish. And, third, that he would not settle for just renovating and reforming old institutions but wants to build altogether new ones. The third is of significance because what Modi was throwing out of the window was not the Planning commission that ruled under Nehru, but one that had been transformed more than once.

Modi, however, did not make clear the role that he envisaged for the State under his leadership in the economic development effort. Only the naïve can believe that the State has no role in the economic sphere under capitalism. In fact that role can be varied and very different. It can, for example, focus on building the infrastructure that is crucial for capitalist industrialisation, but which the private sector may not have the wherewithal or the incentive to build in adequate measure. It could address the inequities and 'market' failures that are associated with a growth trajectory driven largely by private decision making. It could regulate the private sector to reduce the adverse fall-out of decision making that privileges profit above all else, leading to profiteering at the expense of the consumer, labour and the environment. It could support the private sector and channel its energies by coordinating private investment decisions and directing investments to areas that would maximise both growth and profits. It could emphasise incentivising private investment, even if that implies engineering transfers from the rest of society to the private sector.

In practice governments in market economies play a role that involves some combination of objectives such as the above. The difference between governments is reflected in the combination they choose and which of the objectives within that combination they privilege. Prime Minister Modi's decision to close down the Planning Commission (PC) by no means suggests he wants the State to have a minimal role, slogans to that effect notwithstanding. He has centralised considerable economic power in his own office and put pliant Ministers where it matters, so that he can control the direction of economic policy. He has also portrayed himself as a leader who will remove obstacles such as land acquisition restrictions and environmental clearances to speed up industrial and infrastructural projects. His effort to whittle down independent representation on the National Board of Wildlife, now under challenge in the Supreme Court, reflects his attitude to institutions that could be impediments to his model of development. In Gujarat he rewarded industrialists who were willing to join the effort to build brand Gujarat and brand Modi by implementing prestige projects. As a result, industrialists were falling over each other to win his attention and be chosen to partner Modi's brand of "developmentalism". Modi clearly sees large private investments in any form incentivised at any cost as being essential to building that brand.

So when the Prime Minister declares that he intends replacing the Planning Commisssion with an institution "that caters to the aspirations of 21st century India and strengthens participation of the States", he is thinking of one that would help carry forward his own agenda and oversee the role he thinks the State should play, rather than one that debates and recommend a strategy of development. His tweet to the nation inviting "ideas on what shape the new institution to replace the Planning Commission can take," through an open forum on an officially established website, is a disingenuous way of claiming to have crowd-sourced his own idea.

A history of change

The only question that arises is why the Prime Minister was not satisfied with reshaping the existing Planning Commission to suit his own purpose, rather than scrapping it and creating a wholly new one? In fact the evidence shows that the role and agenda of the Planning Commission has been through many changes since its inception. The Commission was established in an age when the understanding was that a State appointed body that combined the vision of politicians with the expertise of economists, statisticians and scientists, would define a strategy and steer investment in directions that would maximise the growth of output and employment and distribute reasonably fairly the benefits of that growth. Implicit in that view, inspired by the success of Soviet planning in its early years, was the understanding that the Commission would exercise a powerful influence on the government and the government, despite the power configurations characterising the real economy, would have an enormous area of control and wide policy space to take the economy in the direction it wanted.

But by the late 1960s, and especially after the agricultural and balance of payments crises of the mid-1960s, it was clear that the targets set by the planners were not being reached and the stated objectives of planning were not being served. The configuration of Indian society and State power were such that the assumptions on what the State would or could do proved wrong. That explained in part the disillusionment with and the discrediting of planning as practiced in the immediate post-Independence period. This is not the place to analyse that failure. But it must be said that the failure was only marginally, if at all, the result of the strategy laid out by the Planning Commission during the Second and Third Plans, of what it thought and did during those crucial years. It was more because, much of what the Commission of that time wanted done was not actually translated into practice. Nothing illustrates this more than the failure to implement land reforms and breakdown land monopoly as a first step to raising agricultural productivity and creating a mass domestic market. The Commission and the political leadership was clear that this was a crucial first step, but the nature and configuration of State power in India was such that this step was not taken in full measure.

With the failure of the original conception of planning and the enforced acceptance of a Plan holiday in India during 1966-69, the country shifted to a revised, scaled down role for planning and the Planning Commission. Modi's Independence Day declaration was not the first time the shape and substance of India's Planning Commission has been modified, even if not in the current Prime Minister's drastic slash and burn style. Central to the changed role was a belief that the area of control of the government was far less than earlier expected. Planning was made more 'indicative', suggesting how much the nation should save and invest to realise some targeted rate of growth, how much investment was needed to address crucial infrastructural and sectoral bottlenecks, what are the new opportunities that can be seized, and what needs to be done to address special problems, such as extreme horizontal and vertical inequalities. Less attention was paid to the overall strategy of growth in terms of its pattern and more attention was paid to special projects and schemes with more limited objectives in mind. Central to indicative planning of this kind was the estimation of the resources (financial and real) needed to realise growth targets and a discussion of how those resources could be mobilised. There was no effort to make choices that implied the pursuit of a particular growth trajectory as the Mahalanobis model required.

This dilution took on a qualitatively new dimension when successive governments after 1991 took India down the path of neo-liberal reform, putting in place a policy regime that liberalised trade and investment, deregulated production and prices and privileged the private sector and private initiative. With open economic borders leading to large inflows of volatile financial capital into the country, the sentiments of these investors set bounds on policy, especially fiscal policies determining revenues and expenditures. In this new environment, the State was no longer seen as coordinator and regulator, but more as facilitator. Under this regime the Planning Commission changed its role and mission again without too much fanfare. There were three new areas of emphasis in the Commission's role. The first was to push infrastructural investments—in power, roads, ports, and communications— without having to place demands on the government's budget. This required finding ways of building viable public-private partnerships, incentivising the flow of private finance into long-term capital investments, and deregulating pricing of infrastructural services so as to render these projects viable. The second was to dilute or do away with the regulation of private players to realise social objectives, and substitute that activity with direct public action to ameliorate poverty, generate some employment, ensure a modicum of food security for the poorest and improve a range of human development indicators in the areas of health and education. Finally, the Planning Commission was called up to find ways to get the private sector to work for the poor, by delivering credit, devising insurance schemes of various kinds and taking on the task of social services delivery. The Commission joined the effort to design partnerships of the public and private sectors that involved the use (or procurement) of private capabilities to deliver public services for a fee or guaranteed return. A Commission geared to undertaking these tasks was very different from the body set up to centrally coordinate investment decision making in the 1950s.

A corollary of this transformation was that the Planning Commission was less concerned with prescribing the allocation of the nation's surpluses and more with finding ways of getting resources available in private financial markets to flow to sectors and projects they previously abjured. Through guarantees, viability gap funding and financial innovations such as securitisation the private sector was to be incentivised into lending to and investing in new areas. The Planning Commission had begun to play an important even if indirect role in developing such a framework of financing.

Elements of continuity

These changes notwithstanding, reality and history endowed the Commission's role with an element of continuity. Making a case for the Planning Commission even in an increasingly deregulated economy and market-friendly framework, the now defunct Commission's website speaks of three important roles, among others, that it sees itself as playing. One is that of being the instrument of "indicative planning", concerning "itself with the building of a long term strategic vision of the future and deciding on priorities of the nation," based on which "it works out sectoral targets", and provides a "promotional stimulus to the economy to grow in the desired direction."

The second is that of playing "a mediatory and facilitating role" in the allocation of central resources between the states and ministries of the central government, given the resource constraints that a lenient tax regime under liberalisation had generated. While the Finance Commissions were substantially responsible for determining the share of resources that went to the sates, the Planning Commission came to have a residuary role, even when flows increasing occurred through centrally sponsored schemes. Further, in a system the states resented, the Commission was also given a role in overseeing the use of the resources that the states had access to through devolution of central taxes and their own resource mobilisation. Annual negotiations over state plans provided the means to such monitoring.

Finally, the Commission saw itself as developing a 'holistic and integrative approach' to various social sector schemes in areas critical to human development such as rural health, drinking water, rural energy needs, literacy and environmental protection. An examination of India's record in these areas would reveal how much still needs to be done to bring the country on par with many similarly placed countries, let alone the more developed nations.

Among these roles the Planning Commission saw itself as playing, the first remains important in a world in which developing countries seek to accelerate growth by targeting dynamic segments of the global market. Export-based growth cannot be successful only with transnational investments. It is not enough to stand on the ramparts of the Red Fort and call on international firms to come and "make in India". State bodies with expertise and seeing power greater than that available to individual corporations have been in contexts like Japan and South Korea crucial to identifying the dynamic, rapidly growing segments of the global market that can be successfully targeted given the specific advantages of the country concerned. These bodies are also important in devising the incentives and rewards that can encourage domestic private firms to enter these areas, acquire the necessary technology and skills and establish a foothold in global markets. If the Planning Commission was not adequately addressing this task, the solution did not lie in closing it down and sending out the signal that government 'interference' in private decision-making was not appropriate. What may have been appropriate was to ensure that the manpower and resources required to serve as a coordinator of investment decisions in a globalized world was available with the Commission.

The usefulness of the second of the roles the Commission ascribes to itself, of monitoring the performance of states and coordinating the development agenda in a large, quasi-federal country, has perhaps been over-emphasised. But, while this system needed reforming, it served some purpose given the large inter-state inequalities that needed to be addressed. Given immense regional diversity in resources, infrastructure and levels of development, the Commission played a role in highlighting the importance of stimulating specific forms of activities and undertaking specific investments in different states, so as to encourage convergence – a political necessity to sustain the unity and integrity of a multinational state with many languages and diverse cultures.

Finally, by emphasising the need to provide adequate resources to build the social infrastructure needed to improve India's poor human development record and devise ways of maximising benefits from the resources made available, India's planners served as the conscience keepers in a market-driven environment that privileges profit and power. It was a source of pressure, however weak in recent times, to hunt for resources and make the allocations needed to address unacceptable deprivation. The Planning Commission's poverty estimates may have been the target of ridicule. But the fact that it regularly monitored poverty incidence as defined by it and tracked other forms of deprivation and progress on the human development front made it an agency that kept a check on the extent of deviation from the desired realisation of the most basic of goals.

The argument here is not that the Commission in recent years had performed adequately, let alone acquitted itself well, in these limited areas of influence it had defined for itself. It is merely to state that the Commission had at least identified for itself a residual role of considerable importance in what was an anti-Statist theoretical and policy environment. By choosing to dump the Commission rather than strengthen and expand this role Prime Minister Modi has implicitly signalled that he does not want even the minimal check and balance that an organisation like the Planning Commission can exert.

As mentioned earlier, Narendra Modi's track record in Gujarat does suggest that the role he envisages for the State is that of facilitating accumulation by making large scale transfers to selected players in the private sector. Some of these players are already large business groups with a Gujarat connection and a willingness to declare allegiance to Modi. Others, like many politicians now in the BJP, are creations of Modi and those around him. The most visible among the latter is Adani, whose rise to corporate stardom reads like a fairy tale. Evidence published in sources such as Forbes Asia, that is otherwise blatantly pro-business, suggests that the largesse of the state government, in the form of large tracts of land handed over for virtually nothing, of being given the responsibility to implement large prestige products, and of being a beneficiary of a range of concessions offered in lieu, play a role in such stories of ascendance. That sounds less like planning and more like cronyism. If it's a body that can design such schemes and take them through to commercial production and profits that the Prime Minister wants, a Planning Commission of any kind will not serve. Which is perhaps why a body with that name and tradition had to go.

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