

# Economic Planning

*Planning is defined as conceiving, initiating, regulating and controlling economic activity by the state according to set priorities with a view to achieving well-defined objectives within a given time.*

According to **Professor Dickinson**, economic planning is the making of major economic decisions by a determinate authority on the basis of a comprehensive survey of the economy as a whole. Such decisions include what and how much to produce; how, when and where it is to be produced; and to whom it is to be allocated.

With reference to underdeveloped countries, **Subrata Ghatak** defines economic planning as a conscious effort on the part of any government to follow a definite pattern of economic development in order to promote rapid and fundamental change in the economy and society.

## **Essentials of Economic Planning**

According to **Arthur Lewis**, a development plan may consist of the following parts:

1. Survey of current economic conditions
2. List of proposed public expenditures
3. Discussion of likely development in private sector
4. Macro economic projections of the economy
5. Review of government policies

**1. Survey of current economic conditions:** The economic survey shows the changes in respect of population, NI, taxation, government expenditures and BOP, etc. It also tells us the changes needed or expected to occur in these economic variables. The economic survey is usually for one year.

**2. List of proposed public expenditures:** The proposals and suggestions for incurring public expenditures on development projects are invited from various government departments and agencies. After a thorough scrutiny of these recommendations, an order of priority is determined deciding what is to be included, what is to be postponed or rejected as the financial resources are less than required.

**3. Discussion of likely development in private sector:** It is said that both public and private sectors are inter-related and rate of economic development depends more on the working of the private sector than expenditures in public sector. The government reviews the performance of major industries in economic planning, and sets quantitative targets for the plan period. All this involves a brief in-depth analysis of the working and implications of market structure.

**4. Macro economic projections of the economy:** It refers to the preparation of aggregate models which are applied to the economy as a whole. These models

deal with production and consumption as single aggregates. Aggregate models are used to determine the possible growth rates in NI, the division of national product among consumption, investment and exports, the required volume of domestic savings, imports and foreign assistance needed to carry out a given development programme. This involves massive calculations and paper works.

- 5. Review of government policies:** The government through development policy can influence the decisions indirectly in the private sector.

### **Importance / Objectives of Economic Planning w.r.t. Mixed Economy & Under-Developed Countries**

In the following section we will discuss the economic planning with reference to mixed economies and under-developed countries:

- 1. Efficient utilization of resources:** The most essential function of economic planning is to ensure the best use of given resources within the country. Maximum social benefits can only be ensured when the available resources are allocated and utilized in the most efficient manner. Unused or slack utilization of resources will adversely affect the employment and productivity level of the economy. The government has to do some arrangements in order to bring equality between demand and supply. In the market economy, there are wasteful expenditures in the form of selling costs. Sometimes, few producers established their cartels in order to control the market. All this can be undone by the government through effective planning.
- 2. Market imperfections and price distortions:** In market economies, there are certain market imperfections and price distortions both in commodity market and factor market. These distortions rise because of institutional arrangements. As the wage rate in some sectors of the economy exceeds the opportunity cost of the labour. This may be due to trade unions' influence. Moreover, the goods whose demand is less elastic their producers may pursue monopolistic behaviour. There may be dualistic approach in the money market. In the organized money market the rate of interest is kept artificially low or inexpensive credit facilities are provided. While on the other hand, in less organized money market or in agriculture market, the ROI is extraordinary high. This situation also creates price distortion. These market imperfections can only be corrected by efficient economic planning.
- 3. Greater opportunities:** The most common benefit that any democratic country enjoys is that the greater market opportunities are and should be provided to the producer and consumers. But this can be handicapped because of two reasons:
  - (a) Limited life span of an individual
  - (b) Limited resources at the disposal of an individual

Because of these common problems, the individuals undertake those projects which require small amount of resources and the profit can be earned within a short period of time. In this way, the individuals would hardly be prepared to launch big projects like construction of highways, power-stations, land-reclamation, anti water logging and salinity schemes, rail-roads, sea ports, telecommunication, etc. It is the duty of the modern government to provide greater resources at the disposal of individuals. At the same time the government has to reduce excessive-consumption or the disposal of resources in few hands. This can only be ensured under efficient economic planning.

- 4. Maximisation of National Income and Raising Living Standard:** It is the responsibility of modern state to maximise the national income and raise the standard of living. It can only be ensured when the government correctly addresses the economic needs of the country and takes desired actions in economic planning.
- 5. Full Employment:** In economically advanced countries, the government's aim is to provide full employment. All modern governments have, in fact, underwritten employment. If they cannot provide work, they have to give doles. Unemployment is the biggest by product of any capitalist society. The government can redistribute labour and create more work opportunities for both private and public sector.
- 6. Equitable distribution of income:** Economic planning is the most powerful tool of equitable distribution of income. The price-mechanism rewards people according to the resources they possess but contains in itself no mechanism for equalization of the distribution of those resources. Therefore, there is a wide gap between haves and have-nots. Shocking economic inequalities are a marked feature of an unplanned economy. Reduction of economic inequalities is now the avowed aim of a modern welfare state and is impossible without the instrument of economic planning.
- 7. Public oriented goals:** In market economy, only those goods are produced whose demands are backed by money offers. As a result the production of public goods / services, including health, research and education, old-age benefits, poor houses, orphan houses, clean water, sewerage and drainage, free entertainment, art and culture, historical assets, wildlife, forests, security, and defence, are altogether ignored or very less attention is paid. It is planning which distributes the resources between present consumption and future consumption, social development and economic development, etc. As a result the goals of planned economies are more welfare and public oriented.
- 8. Price Stability:** The purpose of economic planning is to reduce the price instability created by business fluctuations. During the period of increasing demand, the price hikes are inevitable due to supply shortages. In under-developed countries, because of low productive capacity, low savings and

investment, and traditional set up, the price starts rising very sharply, and its impact on the developing society is very deep. In order to eliminate the adverse effects of price instability and business fluctuations, the government comes forward and play a vital role in creating a favourable economic condition. This can only be done through wise economic planning.

**9. Larger savings and investment:** The ultimate task of any finance ministry is to boost up the savings and investment, esp. foreign investment. In UDCs on one hand there is a vicious circle of poverty, while on the other, there is an operation of international demonstration effect. In UDCs, there is a general tendency of demonstration effect within the people, and the whole economy's growth is hampered by dualism. Savings remain at the lowest level. The boost in investment, domestic or foreign, depends on the level and duration of economic stability. More stable and viable economic growth planning may motivate the investors in investing and thus increasing the level of employment in the economy.

**10. Provision of Social Services:** In UDCs, the provision of social services forms an important objective of planning. In the fifth five year plan, two important objectives were:

- (a) Development of *rural areas* through various programmes and policies alongwith widespread extension of social services such as schooling, health and clean water facilities.
- (b) Easing of *urban* problems like water supply, sewerage and drainage, electricity, gas supply, housing and transportation facilities, etc.

**11. Aid to victims of catastrophe:** The granting of assistance and the organisation of relief to victims of natural catastrophes, such as flood, earthquakes, tsunamis, tropical storms, drought, etc. are the main the responsibilities of any government.

### **Limitations of Economic Planning**

The following obstacles come in the way of economic planning:

- 1. Measurement of labour force:** In economic planning, the identification and enumeration of gainfully employed population is a difficult task, esp. in agriculture, where the employment is of part-time or seasonal nature. The important contributions to economic activities by women and children raise further complications. In backward economies, it is very difficult to distinguish between voluntary and involuntary unemployment.
- 2. Statistical data:** The biggest problem with economic planning is that the planner has to work with a limited statistical data provided. Moreover, the planner has to work with these data, collected through different surveys, consensus, polls, etc., without much questioning about their reliability and accuracy.

**3. Unused natural resources:** The UDCs are identified of their unused natural resources like land, mines, rivers, forests, livestock, sea, etc. A resource such as land, a mineral deposit, a forest or a rive may not be used in production because it is economically inaccessible. A natural resource is valueless when its cost of extraction is greater than the price the product can command in the market. Therefore, the fullest possible use of natural resources is not a sensible aim of an economic planning, and the extent of the use of land or other natural resources is not a measure of economic efficiency. There are four types of resource idleness:

- (a) Idleness reflecting the inability of the resource to contribute to profitable production,
- (b) Withholding of the resources in the interests of monopolistic exploitation of the market,
- (c) Employment of resources for commercial or private use, and
- (d) Withholding of a natural resource from current production because the owner believes that it will make a more valuable contribution to production at a later date.

**4. Population and real income:** The biggest problem regarding human resources is that in UDCs, the population is growing at a very high rate. Moreover, most of the UDCs population heavily rely on agricultural income. The present rate of population growth in India and Pakistan is not significantly greater than in the United States. But the significant point of contrast is that in the South Asia and Central Asia, there is a heavy reliance on comparatively backward agriculture. Real income is vitally affected by the quality of the population.

**5. Economic repercussions of social institutions:** Certain social institutions, such as extended family system or joint family system, which are appropriate to a subsistence economy may impede economic growth directly by reducing the rewards of individuals who take advantage of the opportunities presented by wider markets. Subsistence economy is the economy in which people strive for the minimum necessities to support life. The extended family system acts as a serious obstacle to economic progress. A man is much less likely to be willing and able to save and invest, when he knows that he would have to maintain a large number of distance relatives. It minimises the inducement for people to improve their own position. It obstructs the spreading of banking habit since people are unwilling to have banking accounts as there is no willingness to save. However, the economic planner can overcome this situation by introducing private or public insurance or other arrangements to replace the traditional methods for the relief of personal distress or disability.

**6. Implications of restrictive tendencies:** Social, political and administrative restrictive measures are directed against foreigners on the basis of racial, national or tribal differences. Such restrictive measures are often directed also against the members of local population. It may put restrictions on the movement of people

or on the acquisition and exercise of goods or services. It may also be connected with '*xenophobia*', esp. in the tribal areas and villages. This problem is common in Pakistan and hampers the economic development in rural and tribal areas.

- 7. Wage rates and unemployment:** In UDCs, the wage rate is relatively low and there is a high unemployment rate in the economy. Limited employment opportunities may create a pool of urban unemployed. These urban members do not enjoy the security of the extended family system, nor are they related to agricultural sector. They therefore are apt to constitute a more serious social and political problem than the rural unemployed.
- 8. Monopsony in the labour market:** It is a common situation in UDCs in which there are very few employers and they exercise their monopsony powers in the labour market. Labour is more exploited when the wage rate is below the equilibrium point indicating the unsatisfied demands of labour. Whereas in advanced countries, the supply of labour is elastic and there is little scope for monopsonistic exploitation. The planner must address the labour issues like wage rates, overtime, bonus, allowances, perquisites, working hours, safety measures, health and medical facilities, life insurance, transportation, children education, pension and benevolent funds, old age benefits, income tax on salaries, etc.
- 9. Uneven distribution of entrepreneurial faculties:** The material progress of a society is likely to be assisted greatly when there are dynamic entrepreneurial abilities. In economically backward countries, there are difficulties in the way of developing and utilising the entrepreneurial qualities. The government can support small and medium enterprises to come forward and develop new economic opportunities. The government must encourage, both on private and public level, new agricultural or industrial techniques, adoption or adaptation of new improved methods, innovative activities, internship, on-the-job training, etc. in order to raise the level of economy.
- 10. Low level of capital in UDCs:** The biggest problem of less developed countries is that there is a dearth of capital, whether it is physical or financial. The low level of capital is also indicated by statistics of consumption of energy for purposes of production. In developed countries, there is a high consumption of energy, whereas in UDCs, the energy consumption is considerably low. The general implication of low level of capital is a low level of output and a low level of consumption per head. In such economies, there is no assurance of a continuity in supply of goods. Transport costs are very high and limited availability of perishable or bulky goods. Because of low level of working capital and storage facilities, there is a danger of acute shortage of food crops.
- 11. Methods of production:** The methods of production, farming, marketing and domestic operation are not usually the same in all the countries. What is an economic use of resources in one country may be uneconomic in another in which relative factor prices are comparatively different. It follows that the economic

efficiency of methods of production and economic organisation in UDCs cannot be judged simply by comparing them with those familiar in advanced countries. The planner has to jot out all the possible opportunities and focus on major weaknesses, and must plan within the available resources.

**12. International demonstration effect:** In UDCs, there is a strong desire to enjoy as much of attractive way of living in the advanced countries as incomes permit. There is an international demonstration effect. Moreover, the under developed economy is divided into two extreme sections – traditional section and modern section. There are old and new production methods, educated and illiterate population, rich and poor, modern and backward, capitalistic and socialistic, donkey carts and motor cars existing side by side. This situation creates great atmosphere of conflict and contradiction, as a result the economic development is hampered.

**13. Political instability:** Most of UDCs, especially Asian and African countries, are known of their political instability, bureaucratic malfunctioning, corruption on administrative level, and nepotism, like India, Pakistan, Sri Lanka, Bangladesh, Afghanistan, Vietnam, Cambodia, Myanmar, Nigeria, Zimbabwe, Uganda, Somalia, Kenya, etc. Perhaps the biggest challenge for any economic planner is the political and administrative malfunctioning in his way of economic planning.