

Types of Economic Planning

Planning by Inducements

Planning by inducement is often referred to as '*indicative planning*' or '*market incentives*'. In such type of planning, the market is manipulated through incentives and inducements. Accordingly, in this system there is persuasion rather than compulsion or deliberate enforcement of orders. Here the consumers are free to consume whatsoever they like, producers are free to produce whatsoever they wish. But such freedom of consumption and production are subject to certain controls and regulations. The consumers, producers and other factors of production are induced with the help of various fiscal and monetary devices. For example, if the planning authority wishes to boost the production of corn oil in Pakistan it will provide subsidies, tax holidays and loans to the firms involved in production of corn oil. To encourage savings and investment and discourage consumption a suitable package of fiscal and monetary policies can be introduced in the market. Therefore, the desirable results can be attained with the help of incentives and without the imposition of orders and instructions. Moreover, in such planning there is less sacrifice and less loss of liberty – economic as well as non-economic.

Merits of Planning by Inducements:

- (a) *Consumers' sovereignty* remain intact. Planning by inducements is more democratic as compare to planning by directions.
- (b) There is a *freedom of choice of profession*.
- (c) In planning by inducements, there is *freedom of enterprise*. Producers are free to produce whatever they like but within in the capacity of given rights.
- (d) Planning by inducements is *smooth and flexible*. It is more popular because it enables to incorporate the changes in resources, technology and taste etc. even after the finalisation and implementation of plan.
- (e) Under this sort of planning, the inertia attached with standardisation can be put to an end and producers are free to produce in accordance with the desire of consumers. Therefore, there is a *variety of goods and services* in the market.
- (f) There are *less administrative costs* involved in planning by inducements.
- (g) The problem of shortages and surpluses is solved as there is an existence of *automated market system*. The demand and supply is automatically adjusted and remain in balance under market economy.

Demerits of Planning by Inducements:

- (a) It also *fails to achieve 100% targets* of economic planning.
- (b) Under planning by inducements, there are *profit motives more than welfare* of public. Private entrepreneurs care for those products which yield high profits. Products or services with less profit or no profit do not attract private entrepreneurs. Such products or services include education, health, defence, security, etc.
- (c) The producers may find the *government policies regarding economic affairs not attractive enough to follow*. There may be disputes among entrepreneurs and the government regarding tax rates, investment policies, interest rates, etc.

- (d) The mechanism of market economy *may cause the prices to inflate* esp. with reference to under-developed countries or in case of oligopoly where there is a shortage of certain products like petroleum and gas.
- (e) There may be *disharmony between labour and producer*, and there may be serious industrial disputes.

Planning by Directions

This type of planning is practised in socialist countries like China, Former USSR, Cuba, North Korea, etc. Under planning by direction, there is one central authority which plans, directs and orders the execution of the plan in accordance with the pre-determined targets and priorities. It determines the production figures, delivery schedules, quotas regarding the production of the goods, price controls, use of foreign exchange and allocation of resources like labour, etc. amongst different competing uses. Thus, such planning is comprehensive and encompasses the whole economy. Planning by directions is similar to military or defence plans which are carried through orders and instructions. Thus the strategy of planning through directions coincides with the military strategy. Alongwith the disintegration of former Soviet Union, the methodology of planning by directions has received certain serious setbacks. Now most of the UDCs are tend to adopt market economic system.

Demerits of Planning by Directions:

- (a) Planning by direction is *undemocratic* since the people are ignored all along.
- (b) It is *bureaucratic and totalitarian*. Under bureaucratic system, the individual's sovereignty is completely abolished. Corruption, red tapism, VIP system, tyranny and austerity are the by products of bureaucracy.
- (c) Rationing and control result in *black marketing*.
- (d) There are shortages of some goods and as well as surpluses of other goods. That is, there is an *imbalance in production output*.
- (e) This sort of planning is *inflexible*. Once the plan is prepared, there is no room for alterations in later phases of planning. A part of the plan cannot be changed without simultaneous changes in many interconnected activities. Planning by direction is so complex that it is impossible to change even a part of it as it will involve in altering the whole plan.
- (f) The *fulfilment of plan cannot be guaranteed*, as the planning by direction is hampered by black marketing and corruption.
- (g) Planning by direction also leads to *excessive standardisation* which impinges on consumer sovereignty. In other words, under planning by direction the goods produced are standardised lacking the variety. As in case of USSR, the produced TV, Fridges and Automobiles were identical having no differentiation.
- (h) It also involves *huge administrative costs*, as the planning by direction involves in elaborate census, numerous forms and army of clerks.

Physical and Financial Planning

Physical planning is concerned with physical allocation of resources on the one side, while with the product yields on the other side. Its aim is to bring physical balance in between investment and output. Accordingly, investment coefficients are computed.

These coefficients show how much amount of investment will be required for a given amount of output. Moreover, in such planning it is also analysed that what will be the composition of investment to obtain an increase in output. As, how much iron, how much coal, oil and electricity will be required to produce some specific amount of steel. While making physical planning, an overall assessment is made regarding the real resources of the economy like raw material and manpower.

In financial planning, equilibrium is established between demand and supply to avoid inflation and bring economic stability. The difference between physical planning and financial planning is that the physical planning tells us the size of investment in terms of real resources, whereas the financial planning tells us the size of investment in terms of money. In financial planning, the planner determines how much money will have to be invested in order to achieve the pre-determined objectives. Total outlay is fixed in terms of money on the basis of growth rate to be achieved, the various targets of production, estimates of the required quantity of consumer goods and the various social services, expenditure on the necessary infra structure, etc. as well as revenue from taxations, borrowings and savings.

Centralised Planning and Decentralised Planning

Under centralised planning, all the economic decisions are taken by the central authority or the government. It is the government which formulates economic plans, determines objectives, sets targets and priorities. Every member has simply to carry out the instructions without questioning about its viability. There are more chances of failure as the individuals are not allowed to carry out the plans in accordance to their needs and preferences. It is the government who takes responsibility of the success or failure of the plan. It is the government who takes all the decisions of consumption, production, wages and prices. What amount of investment is to be made?, What should be the price?, What should be the output?, How the products are to be distributed?, How much amount of loans is to be granted?, What should be the rate of interest?, etc. Centralised planning is mostly executed in socialist or communist countries.

Decentralised planning is connected with the capitalistic economies. The decentralised planning is implemented through market mechanism. Decentralised planning empowers the individuals or small groups to carry out their plans for achievement of a common goal. Under decentralised planning, the operation is from bottom to top. The planning authority formulates the plan by having made consultation with different administrative units of the economy. The plans regarding different industries are designed by the representatives of these industries. In such type of planning, the planning authority issues the instructions to central and local bodies regarding incentives given over to private sectors.

Structural and Functional Planning

The planning which is aimed at bringing changes in socioeconomic set-up of a country is termed as structural planning. This type of planning is attributed to the planning which was made in USSR in 1929 when the existing land-lord-system was abolished, collective farming was introduced, trade, industries and transport system was nationalised.

While functional planning is a type of planning where hardly any big change is brought about in the existing socio-economic set-up of the country. It means when planning is made in the presence of existing institutions is termed as functional planning. In France, Germany, UK, etc planning is being made in the existing framework of capitalism.

Indicative and Imperative Planning

Indicative or planning by inducements has already been discussed in a previous section. In the following section we will discuss the three components or approaches regarding indicative planning:

(a) Forecasting Approach: Under forecasting approach, the individuals are provided with the information, through making certain forecasts. Such forecasting serve as a guide to their decision making. The forecasting not only indicate about the feasible future, but they also specify a desirable future in terms of growth rate of the economy.

(b) Policy Approach: The second component of the indicative planning is concerned with policy approach. Through policy approach, the inconsistent policies of government departments are co-ordinated within a coherent model framework keeping in view the set objectives. Moreover, when once the policies are co-ordinated, they will provide guidelines to the people, consumers and producers.

(c) Corporate Approach: The third way to demonstrate indicative planning is through corporative approach. This approach is practised in France. Here the co-ordination function of indicative planning envisages at two level. In the first place, it requires co-ordination of the behaviour of economic groups like business enterprises and trade unions, etc. which hold power in the market. In the second place, it co-ordinates the relation between private and public activities.

Imperative planning is the planning where the formulation and implementation of the plan is made by the central planning authority. It is also known as 'directive planning'. Under imperative planning, it is the duty of the state to provide necessary supplies like raw material, machines, manpower and entrepreneurs as all such resources are owned by the state. Under socialist economies, where the imperative planning is in practice the planners always prefer future consumption over present consumption. Thus under imperative planning the priorities laid down by the planners always supersede those of masses. There is no consumer sovereignty under imperative planning.

Democratic and Totalitarian Planning

Under democratic planning, the philosophy of democracy is followed. Since formulation to the execution of the plan, the people are taken into confidence. Whenever the plan is prepared, the ruling party makes a dialogue with the public firms and even with opposition party. The purpose of such arrangements is to satisfy different segments of the economy regarding growth and welfare programmes. After the formulation of the plan, an open discussion is made in the parliament. Under democratic planning, whole of the economic activities are performed through price mechanism. The government

influences the private sector through fiscal and monetary policies. Moreover, the government passes anti-monopoly laws to protect the consumer's sovereignty.

In totalitarian planning, there is a central control, and all economic activities are governed by the central authority. In totalitarian planning, all of consumption, production, distribution and exchange like activities are controlled by the central planning authority. Totalitarian allows no consumer sovereignty and democratic freedom.

Fixed Plan

In a fixed plan, the contents of the plan are fixed in relation to a fixed time period. These contents consisting of targets, priorities, strategies and resources, etc. will not be changed during the particular time period for which the plan has been prepared except for severe unforeseen events.

Merits of Fixed Planning:

- (a) There is a boldness in planning. This is the essence of planning that the planners and implementing machinery will not bow down before the obstacles.
- (b) There is effective implementation of plan.
- (c) The targets of fixed plan are certain and this certainty in objectives brings stability to the economy.
- (d) Fixed plans ensure discipline for the planning process.

Demerits of Fixed Planning:

- (a) Fixed plans are inflexible plan. They cannot be altered in later phases.
- (b) There is no revision of economic objectives and targets as there is no alteration allowed under fixed planning.
- (c) If the state is an under-developed country, the fixed plan would give the economy a hard time to achieve the basic objectives like employment, industrialisation, education, health, etc.
- (d) Fixed plans, if not properly formulated and implemented, lead to wastage of resources.

Rolling Plan

Rolling planning refers to the rolling of a plan at intervals usually one year, so that it continues to be a plan of certain number of years. It is usually the medium term plan.

Merits of Rolling Plan:

- (a) Rolling plans are flexible and can be altered in later phases.
- (b) The rolling plan allows for revisions and adjustments. In rolling plan, review of the plan is a continuous exercise.
- (c) Rolling plans enable the planners to keep the time horizon moving, alongwith making revisions and adjustments so as to prepare a new plan every year in accordance with the changing circumstances.

Demerits of Rolling Plan:

- (a) Rolling plan is furnished with uncertainty, as there is no fixation of economic objectives.
- (b) In rolling plans, the planners are always reluctant in taking difficult decisions or taking courageous decisions.
- (c) Under rolling plan, there is a lack of commitment. As there is no fixity attached with the plans, the enthusiasm on the part of planning and administrative machinery will hardly be found.

Short-term, Medium and Long-term Planning

Short-term plans are also known as '*controlling plans*'. They encompass the period of one year, therefore, they are also known as '*annual plans*'. In annual plans or budgets the financial aspects of the plan, i.e., financial sources and applications are shown. In the annual developmental plans the items pertaining to capital budgets, i.e., the capital revenue and expenditure are listed. The main objectives of short-term planning is to raise the revenue, attain the short-term economic targets, bring price stability, and remove deficit in BOP.

The medium-term plans last for the period of 3 to 7 years. But normally, the medium term plan is made for the period of five years. The medium-term planning is not only related to allocation of financial resources but also physical resources. The main objectives of medium-term economic planning are to raise per capita income, raise the level of employment, create self-sufficiency in the economy, reduce dependence over foreign aid and raise revenues through domestic sources, and to remove regional and intra-regional disparities.

Long-term plans last for the period of 10 to 30 years. They are also known as '*perspective plans*'. The origin of long-term planning goes back to USSR where *Goelro Plan 1920-35* was first formulated and implemented in 1920. The basic purpose of that plan was to electrify the rural areas. The basic philosophy behind long-term planning is to bring structural changes in the economy. Under long-term planning, there is greater freedom of choice and there is a wide scope of planning.

Corrective and Developmental Planning

The planning consisting of fiscal and monetary measures with the aim of removing the imbalances of the economy is known as '*corrective planning*'. As to control inflation, if the government follows a very strict fiscal and monetary package; controls aggregate demand by checking consumption, investment and government expenditure – this will be the case of corrective planning.

On the other hand, the planning which is aimed at developing the whole economy is known as developmental planning. Development planning involves the application of a rational system of choices among feasible courses of investment and other development actions.

Capitalist and Socialist Planning

Capitalistic economy is also known as '*free-enterprise economy*'. Under capitalism, there was no authority governing the planning activity. All the economic activities were controlled by the private sector. The state function was limited to tax collection and defence. There was no public welfare measures, no developmental planning and no labour rights. But with the capacity of time esp. after the great depression of 1930s and development of economic, social and political economic thoughts, the capitalist economies adopt the modern functions like:

- (a) formulating and implementing monetary, fiscal and trade policies,
- (b) promulgating anti-monopoly and anti-cartel laws,
- (c) working for the sake of community's benefits,
- (d) formulating and implementing development plans
- (e) providing basic facilities of health, education, transportation, communication, and recreation, etc.

In socialism, the central planning board formulates the plan which covers the whole economy. The central planning board has unlimited powers regarding allocation of resources and production of goods and services. The central planning authority determines the goals and priorities regarding distribution of national income, employment, economic needs, capital accumulation and economic growth. Under socialism all factories, resources, financial institutions, shops, stores, ware houses, foreign and domestic trades, means of communication and transportation are under government control.

Planning under Mixed Economy

Most economists suggest the operation of mixed economy because both extreme capitalistic and socialistic system are not suitable. Capitalistic or free enterprise economy are characterised by lot of problems including misallocation of resources, market imperfections, monopolies, oligopolies, labour exploitation, widening gap between haves and have-nots, and consumer's exploitation. On the other hand, socialistic form of economy may create the problems like State's monopoly and supremacy, bureaucratic hold, corruption, red tapism, VIP-system, loss of consumer's sovereignty, standardisation of products, poor quality of products, less foreign trade, etc.

While in case of mixed economy, consumer's sovereignty, private property ownership and operation of price mechanism are ensured. The public sector also works parallel to private sector. The public sector in a mixed economy consists of those projects which require heavy funds like railways, air transportation, roads, bridges, fly-overs, underpasses, power generation, irrigation, telecommunication, research, etc. The government also addresses people's basic needs like employment, health, and education. In under-developed countries, the government also provides housing facilities to poor families. To avoid labour exploitation and consumer's exploitation, the government promulgates anti-monopoly and anti-cartel laws. In mixed economies, the government even adopts safety measures against pollution and unhealthy working conditions in factories, offices, etc. In case of agricultural sector, the government provides short term loans to farmers, and imports farm machines.

