

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.

Economic planning, the process by which key economic decisions are made or influenced by central governments.

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.

Objectives of Economic Planning

In the following section we will discuss the economic planning with reference to mixed economies and developing 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. **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

3. 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 along with 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 disasters: The granting of assistance and the organisation of relief to victims of natural disasters, such as flood, earthquakes, tsunamis, tropical storms, drought, etc. are the main the responsibilities of any government.