

PLANNING COMMISSION/NITI AAYOG AND INDIAN FEDERAL ECONOMY

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ABSTRACT:

Over the years, Planning has become comprehensive and elaborate. One of the dominant features of Indian federalism is the Planning. Being an arm of the central government of India where Prime Minister is the captain or its chairman, Planning Commission's decision is vital and more effective than the others constitutional bodies. It is the real epicentre in Indian federal set up which prepared the Five Years Plan. The method used for this research work has been Historical-Analytical Method and Exploratory method. A comparative analysis has been carried out to find out the conclusion.

INTRODUCTION:

The Preamble reflects the constitutional commitments of the people of India to achieve good governance. It is in this respect that the Planning Commission now NITI Aayog was set up. Planning has evolved as the one of the most important functions of the modern nation-states. It has played a vital role to decide the socio-economic and political development of the states. It has shaped the present and guided the future of a state. India on its independence decided to adopt a comprehensive planning system to accelerate its growth and development. In fact, Planning is one of the most important developments in the post independent era which has shaped the federal relations in Indian federal structure. Over the years, it has become comprehensive and elaborate.ⁱ

Indian federal set-up has been devised to achieve good governance through distribution of powers and one of the most crucial distributions of power between the center-state relations in any federal structure in the world is the financial division. In fact, it decides the stability of the federal set up. India being a federal country is not an exception to it. Finance as Wheare

has put it “is an essential pre-requisite of government.”ⁱⁱ Roy Blough says that “ The stubborn fact that the government and the services of government are possible only if they can be paid for, makes finance one of the central factors determining the success or failure of a federal system of government as well as any governmental system.”ⁱⁱⁱ The principles of fiscal federalism are concerned with how taxing, spending and regulatory functions are allocated among the component parts of a federation, and how intergovernmental transfers are structured among these parts.^{iv} No system of federation can be successful unless both the Union and the States have at their disposal adequate financial resources to enable them to discharge their respective responsibilities under the Constitution.^v The Constitution of India is not an exception to it.

RESEARCH PROBLEMS:

The Constitution of India has adopted federalism as an arrangement which makes provision for power balancing between the federal government and federal units. The challenges for the newly independent India were many. The economy had totally collapsed when the British left India. As Sashi Tharoor writes, ‘after the collapse of the Mughal Empire, India’s share of world GDP was 23 percent but when the British left India it was just above 3 percent.’^{vi} Unemployment, underdevelopment, illiteracy, ignorance, population explosion, communalism, and the other challenges after partition were posing threats to the process of nation building and the unity and integrity of the country.

The year 1990 was a watershed in the history of Indian federation due to the economic and political developments which have affected the federal relations. The following developments after 1990 have changed the directions of Indian economy and polity where the Planning Commission has played a very significant role. The Economic Reforms of 1991 liberalised the Indian economy and at the same time it also created many avenues for the States to take more steps for the welfare programme of the people, within the purview of the constitution. These developments have helped in decreasing the confrontations between the centre-states and thereby the demand for more financial autonomy by the States has decreased. With the enactment of 73rd and 74th Constitutional Amendment Acts, the

decentralisation of power in Indian federal structure has been achieved. The coalition compulsion in Indian federal economy is a fact since 1990.

REVIEW OF LITERATURE:

The centre-state relations in the fields of legislative, executive and financial areas are different fields of interests for the researchers. The Union powers to make laws through ordinance and amendments allow the researchers to observe its impact on federal relations. The one nation one laws is a concept which reflects the centralizing tendencies in Indian federal structure. It is a continuous process of legislation which affects the centre-state relations. Besides these, the role, appointment, power and function of Governor in Indian federal relation, is an area of conflict between the centre-state, which the researchers love to study.

Bagchi Amaresh (2008), *Globalisation and Federalism: Uneasy Partners?* Economic and Political Weekly, Vol-43. This article reveals the center-state financial relation in the era of liberalization and the challenges before it. However, it is limited to the financial relation of Indian federal structure up to the year 2008.

Basham, A L (2004) – *The Wonder that was India*-Pan Macmillan Ltd., London is a beautiful piece of work on ancient India and its socio, political, religious and economic conditions of Indian society. This book is a study of ancient kingdoms of India which helps to understand the federal set-up of ancient India.

Bhambhri, C P (2006), *Sonia in Power-UPA Government 2004-06*, Shripa Publications, Delhi. It is book which illustrates the role of political parties and working of UPA –1 and it helps in finding out the issues of coalition politics which believes in pull and pressure technique.

Bombwall, K.R.,(1967),*The Foundation of Indian Federation*, is an inquiry into the historical background of the growth of federalism in India. This book provides light in to the concept of Indian federal structure and its development.

Bipan, Chandra and Mukherjee, Mridula, Mukherjee, Aditya-(2007) –*India Since Independence*- Penguin Books Pvt. Ltd. New Delhi reveals about the testimony of modern

Indian politics. It supports in analyzing the political events of pre and post 1990 era and its impact in Indian federal set up.

Das, S. (2001) "*The Nehru Years in Indian Politics*" is a very useful book which reflects the early years of Indian federal system. It helps to observe the initial age of Indian federalism.

Markhandan, K.C., (1985), *Centre-state Relation* covers the basic features of Indian federalism but it is limited to the centre- state relation and it has covered the Indian scenario up to 1985. It provides necessary information to the study about federal politics in India of the pre-1990 period.

Nayar, Baldev Raj, (2007), *Globalisation and Politics* in India is book which describes the federal financial relationship between the centre –states after the economic reform in India since 1991.

Rao, M Govinda, (2005), *The Political Economy of Federalism in India*- Oxford University Press, New Delhi. It is a beautiful piece of work on Indian fiscal federal relations on current problems. It deals with the federal economy of Indian federal politics and helps to understand fiscal federal relations between the centre and states.

Saez, Lawrence, (2002), *Federalism Without a Centre –Sage Publication*, New Delhi. This book is beautiful work on the working of Indian federalism in the aftermath of economic reform in 1991 and its impact on Indian federal economy.

Sharma, D. N. The Weekly, (1960) *Centre-States Financial Relations Role of Finance Commission*, It speaks about the financial relations between the center and the state and the role played by the Finance Commission in Indian fiscal distribution.

Singh, Rabindra, & Rathore Vimlesh(2009) *Dyanamics of Indian Federalism, Mainstream*-Vol.XLVII, No.2. January 24, 2009. They have reviewed the book "Federalism in India: A Quest for New Identity" by Dr Sarita; Regal Publication, New Delhi; 2009. It deals with the working of the federal structure in Indian system of polity in a limited way. It provides us a glimpse of Indian federal culture since the adoption of the Constotution.

Srinivasan, T. N. and Singh, Nirvikar, (2009), “*Indian federalism, Economic Reform & Globalization*” is a helpful article on the financial administration of Indian federalism. It helps in observing centre-states financial relations in the era of globalisation.

Thakurta, Paranjoy and Guha, Raghuraman Shankar, (2008), *Divided We Stand: India in a Time of Coalition*, Sage Publications, New Delhi. This book reflects the coalition politics of India. It helps in understanding coalition compulsions and its role in Indian politics.

PLANNING COMMISSION (PRESENTLY NITI AYOJ):

Planning has evolved as one of the most important functions of the modern nation-states. It has played a vital role to decide the socio-economic and political development of the states. It has shaped the present and guided the future of a state. India on its independence decided to adopt a comprehensive planning system to accelerate its growth and development. In fact, Planning is one of the most important developments in the post independent era which has shaped the federal relations in Indian federal structure. Over the years, it has become comprehensive and elaborate.^{vii}

One of the dominant features of Indian federalism in last 68 years of working of Indian Constitution is the Planning Commission. It has not only decided the fate of Indian federal structure but also guided its future. Though it is an extra-constitutional body, but plays a decisive role in financial distribution of resources between the center and its units. Being an arm of the central government of India where Prime Minister is the captain or its chairman, its decision is vital and more effective than the other constitutional bodies. It is the real epicentre in Indian federal set up which prepared the Five Years Plan.

Pandit Nehru, who was greatly influenced by the socialist pattern of economic practiced in the than the USSR (Union of Soviet Socialist Republic), decided to establish a planned economy in India. So, on a resolution passed by the Council of Minister in March, 1950, Planning Commission was established with a goal to improve the standard of living of the people of India. The resolution gave emphasis on comprehensive planning based on a meticulous calculation of resources. It also clearly mentioned that the role of the planning Commission will be purely advisory in nature. In paragraph six, it said, “The Planning Commission will make the recommendation to the cabinet”.^{viii} While planning, the

Commission will function in close understanding and consultation with the governments at the centre and the states.

THE 1950 RESOLUTION SETTING UP THE PLANNING COMMISSION OUTLINED ITS FUNCTIONS AS TO:

The resolution of 1950 which set up the Planning Commission (PC) has assigned the following functions to the Planning Commissions.

- a. 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 requirement;
- b. Formulate a Plan for the most effective and balanced utilisation of country's resources;
- c. 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;
- d. 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;
- e. 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;
- f. 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
- g. 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 prevailing economic conditions, current policies, measures and development programmes or on an examination of such specific problems as may be referred to it for advice by Central or State Governments.^{ix}

COMPOSITION OF THE PLANNING COMMISSION:

The Planning Commission comes under the Ministry of Planning which deals with several technical matters. It consists of a chairman and a deputy chairman. Prime Minister himself is the chairman and with this capacity he presides over its meeting and gives directions to the Commission on all important policies and decisions. The deputy chairman is a fulltime member who carries out all the planning in detail and takes the commission into a right direction. He is appointed by the Prime Minister. The main functions of the Commission are to formulate Five-Year Plans and Annual plans as well as to monitor and evaluate the plans, programs, projects and schemes. While formulating plans the Commission works with the cabinet and other ministers who are members of it. V.T. Krishnamachari said, “There is close and continuous touch between the Planning Commission, on the other hand, and the Ministers, Cabinet and the Cabinet Committee on the other. This places the Commission under the two-fold obligation: First, it has to maintain secrecy in regard to differences of views between the Commission and Union and State Ministers. It cannot give out what its recommendations are and to what extent they are accepted or rejected; Secondly, it cannot engage in controversies in public about the plan, or reply directly to criticisms. It is for the Government concerned to decide in individual cases what information they would like to place before the public”^x

When the Commission was established, it was supposed to be an advisory body and its recommendations are not binding on the governments whereas both the central and the state governments are responsible for the implementation of the Plans. But with the time it has turned in to a key organ of the government and in fact a department of the central government. As such it is playing a very important role in financial distribution between the centre-states financial relation. It is a huge bureaucratic structure and officials working are a thousand in numbers. And the history of last more than 60 years of Planning and its implementations reveal that implementation is the most failure part of the Commission. Therefore, in 2014 when the Modi government came to power established an Independent Evaluation Office (IEO).

In its first report to the Prime Minister its Director Ajay Chhiber said that “it is clear that the Planning Commission, in its current form and function, is a hindrance and not a help to India’s development. In my experience it is not easy to reform such a large body and it would be better to replace it with a new body that is needed to assist states in ideas, to provide long

term thinking and to help cross-cutting reforms.”^{xi} The IEO in its report assessed the effectiveness of government programmes, institutions and policies and criticised it as a “Control Commission”. It observed that the Commission has exceeded the scope of its authority, particularly its influence on the allocation of funds to state governments, and has suggested that its role as an allocation of resources among the central ministries should be carried out by the finance ministry. On the basis of the report of the IEO, Modi government has replaced the Planning Commission in to NITI Aayog.

PLANNING COMMISSION AND CENTER–STATE FEDERAL FINANCIAL RELATION:

Planning in India has faced with the challenges to fulfil the need of federal system of politics with a view to maintain a balance between the Federal Government and the Units on the one hand and on the other inter-states relations to balance the regional imbalances and aspirations. It is in this regards that a comprehensive Planning system was set-up in India. The Planning Commission and National Development Council play a very important role in formulating Five Year Plans which decide the future of Indian Federation. Though an extra-constitutional body, Planning Commission plays a very vital role in sharing of resources in Indian federal structure. Over the years, it has become comprehensive and elaborate.^{xii} Though the Constitution of India has a constitutional authority to look into the matter of centre-state financial distribution of resources in the form of Finance Commission but the Planning Commission had overshadowed it. It is this extra constitutional body which has decided the distribution of resources in Indian federal economy and accordingly had played a great role in shaping the Indian economy. Sometimes it has been used by the central government to achieve its narrow parochial political interest. The states which are ruled by the opposition parties are worst sufferer of its. They get fewer amounts than the states ruled by the same party in centre and states.

The Table No-1 reflects the share of finance between the centre and the states from the 1st Five Year Plan up to the 11th Five Year Plan. The data reveals that how the share of the states has been decreased day by day and plan by plan. Whereas in the 1st Plan the difference between the centre and the states was -27.96% tilted towards the states, this difference

increased in the 11th Plan 18.34% tilting towards the centre. It means in the 1st Plan the States enjoyed 27.96% more than the centre. This trend changed when it comes to the 11th Plan where the centre has 18.34 % more than the states. It means the centre is enjoying greater share in financial distribution in between the centre and states. The Table clearly reflects that the different Planning Commissions have given a greater role to the Centre than the states.

The Figure No.-2 reflects that this extra constitutional body called PC has increased the share of the centre. The graph of the centre shows that its share has increased in each Plan. It has increased from 36.06% in 1951 to 59.17% in 2007. On the other hand, the share of the states in the planning of PC has decreased from 63.98% in 1951 to 40.83% in 2007. The gap has been increased in each successive Plan between the centre and states. It shows that up to the 5th Plan of 1974-79, the states share was more than the centre in the percentage of sharing between the two. But after the 6th Plan the sharing of centre has taken upwards and has never gone down. The graph reveals that in the beginning the gap which was there between the centre and states has been maintained but in a reverse manner. While it around 30% in the 1st Plan it is around 20% in 11th Plan. It shows that how the centre is playing a greater role in distribution of finance through the Planning Commission.

The figure clearly shows that the percentage of finance has reversed for both the Centre and the States. In the beginning it was the States who had a greater share in the Plans but it has decreased in the 11th Plan. Whereas the Centre had a less percentage in the first Plan but it has increased in the 11th Plan. It means the financial control of the Centre over the Indian finance has increased over the years. It reflects the growth of centralising trends in Indian federal structure. The States are still in a weak position in so far as Indian federal finance is concerned. Another important point that can be observed that during this development in Indian federal finance especially after the 1990 period, the impact of coalition politics is hardly observed. It is because despite the era of coalition the increase of central finance has not stopped rather it has increased considerably.

The Table No.3 shows that from the 1st Plan to the 7th Plan, the average percentage of a share of the Centre is 49.68 and that of the State is 50.32. It is almost equal but one thing is clearly observed that in the 1st Plan the State's share was greater than the Centre but in the 7th Plan it has been reversed. The share of the Centre has increased in manifolds but that of the

States has decreased considerably. The centralisation of Planning is clearly visible from the data presented in the table.

The Figure No.4 is self explanatory about the above data on centre-states financial distribution by the Planning Commission. It is clear from the above data that the centre-state financial percentage of a share was equal during the first phase from the 1st Plan up to the 7th Plan, if we take it in total. Though the State was higher in the 1st Plan and the Centre had less than the States, but till it came to 7th Plan it was balanced. It is due to the increase of the central percentage of a share and a decrease in that of the states' that the balanced pie chart can be seen. But in the long run as shown in the table below the share of the states has been decreased and that of the Union has increased. It clearly explains the financial imbalance in Indian federal

The Post-1990 period took a reverse gear in so far as the States' share of percentage is concerned. The Central share of percentage which was 49.68 percent in Pre-1990 period was increased to 59 .03 percent and that of the States' decreased from 50.32 percent to 40.97 percent. It means around 20 percent gap of the percentage of a share between the two. It is clear from the Table No.5.

The Figure No.6 clearly displays that the financial distribution is tilted towards the centre. The States and the UTs have got their share decreased in this period of Post-1990 phase and the share of the Centre has increased. The States and the UTs who were enjoying a greater share during the initial period have got a small share than the Union in the post-1990 period of Indian fiscal federal distribution.

The Figure No.7 shows that the total financial sharing has reversed in the whole period of 1st Plan to the 11th Plan. It is due to the percentage of the State share in Pre-1990 which was more than 50 percent for the States but after 1990, it has been reduced considerably. The share of the State and UTs was 63.98 percent in the 1st Plan which was reduced to 40.83. It means a difference of around 20 percent is observed here. On the other hand, the share of the Centre was less than 50 percent before 1990 but it has increased after 1990. Therefore, the red line which represents the State was a higher point in the beginning has gone down to the lower point. This has been observed for the Centre in just opposite way. The Centre representing the blue line was lower than the State but the line has increased upwards after the Post-1990 period.

And the gap between the Centre and State is around 20 percent. The centralisation of federal finance is clearly visible in this diagram.

In 2015 the Planning Commission was replaced by the NITI Aayog with a cabinet resolution which is discussed below.

CONCLUSION:

The study reveals that the states are facing financial crunch and the financial disparities have been increased in each plan. The study report of the Planning Commission reveals that the federal units are the losers in each Plan. The central's share has increased whereas the states' share has been decreased. The state should be allowed to have more financial share to fulfill their needs.

From the above findings of the research study, it can be observed that neither the impact of the economic reform and nor the role of coalition politics have greatly changed the trends in the center-state relations. There is hardly any big change in the working of the Indian federal structure can be observed. So far as the federalism in Indian politics is concerned, there is continuity of the trends of the pre-1990 period in the post-1990 phase. But one fact that has been observed that the demand for more financial autonomy has been decreased irrespective of the fact that over the years, the financial centralization has tilted more towards the center. It is because; the era of economic liberalization has allowed the states to attract the foreign direct investment, which helps in the growth of the state economy. It supports the states to carry out different welfare programmes and fulfill the economic needs of the state. Again, it has been observed that in the present era of the coalition, most of the regional parties are partners at the center. They are helping the national political parties like the BJP and the INC by forming National Democratic Alliance and United Progressive Alliance. It has also improved the center-state relations.

In the post-1990 period, the economic reform and the coalition politics have helped a lot to solve the center-state disputes. The contradiction has turned into cooperation. But the trend of centralization which was the main theme of discussion in the pre-1990 phase has its continuity in the post-1990 period also. In almost all fields of legislative, administrative and financial it can be clearly observed but in financial it is observed clearly from the above facts. So the Planning Commission or the NITI Aayog plays a very crucial role in Indian economy.

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