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MEANING AND TYPES OF PLANNING

Meaning: There is no agreement among economists with regard to the meaning of the term 'economic planning'.

According to **Prof. L. Robbins** economic planning is “collective control or suppression of private activities of production and exchange.” To **Hayek**, planning means, “the direction of productive activity by a central authority.”

According to **Dalton**, “Economic planning in the widest sense is the deliberate direction by persons in charge of large resources of economic activity towards chosen end.”

Even though there is no unanimity of opinion on the subject, yet economic planning as understood by the majority of economists implies deliberate control and direction of the economy by a central authority for the purpose of achieving definite targets and objectives within a specified period of time.

In developing countries we can identify two main features of economic planning:

- (i) The governments mobilize domestic resources and also raise foreign finance to carry out such projects which are expected to induce productive activities in the private sector. This involve the development of infrastructure and heavy industries.
- (ii) The governments adopt certain monetary and fiscal policies to stimulate private economic activity and to ensure harmony between the social objectives of the government and the behaviour of the private producers and businessmen.

From the above characteristics of planning in mixed developing economy, it is clear that the market and economic planning are complementary to one another.

Planning by Direction:

Planning by direction is an integral part of a socialist society. It entails complete absence of laissez-faire. There is one central authority which plans, directs, and orders the execution of

the plan in accordance with pre-determined targets and priorities. Such planning is comprehensive and encompasses the entire economy.

Planning by Inducement:

Planning by inducement is democratic planning. It means planning by manipulating the market. There is no compulsion but persuasion. There is freedom of enterprise, freedom of consumption and freedom of production. But these freedoms are subject to state control and regulation. People are induced to act in a certain way through various monetary and fiscal measures. Thus, planning by inducement is able to achieve the same results as are likely to be achieved in planning by direction but with less sacrifice of individual liberty.

Financial Planning :

Financial planning refers to the technique of planning in which resources are allocated in terms of money. Financial planning is essential in order to remove maladjustments between supplies and demand and for calculating costs and benefits of the various projects. Thus, Financial planning is thought to secure a balance between demands and supplies, avoid inflation and bring about economic stability.

Physical Planning:

Physical planning refers to the allocation of resources in terms of men, materials and machinery. In physical planning, an overall assessment is made of the available real resources such as raw materials, manpower, etc., and how they have to be obtained so that bottlenecks may be eliminated during the plan. Physical planning requires the fixation of physical targets with regard to agricultural and industrial production, socio-cultural and transportation services, consumption levels and in respect of employment, income and investment levels of the economy. Physical planning has to be viewed as an overall long-term planning rather than a short-term piecemeal planning.

Perspective Planning :

Perspective planning refers to long-term planning in which long range targets are set in advance for a period of 15, 20, or 25 years. A perspective plan, however, does not imply one plan for the entire period of 15 or 20 years. In reality, the broader objectives and targets are to be achieved within the specified period of time by dividing the perspective plan into several short-period plans of 4, 5 or 6 years.

Annual Planning:

Not only this, a five year plan is further broken up into annual plans so that each annual plan fits into the broad framework of the five-year plan. Plans of either kind are further divided into regional and sectoral plans. Regional plans pertain to regions, districts and localities and sectoral plans pertain to plans for agriculture, industry, foreign trade etc.

Indicative Planning :

This is the French system of planning which is based on the principle of decentralization in the operation and execution of the national plans. This type of planning is not imperative but flexible. In indicative planning the private sector is neither rigidly controlled nor directed to fulfill the targets and priorities of the plan. Even then, the private sector is expected to fulfill the targets for the success of the plan. The state provides all types of facilities to the private

sector but does not direct it, rather indicates the areas in which it can help in implementing the plan.

Imperative Planning:

Under imperative planning all economic activities and resources of the economy operate under the direction of the state. There is complete control over the factors of production by the state. The entire resources of the country are used to the maximum in order to fulfill the targets of the plan. There is no consumers' sovereignty in such planning. What and how much to produce – such decisions are taken by the managers of firms and factories on the direction of the planning commission or a central planning authority. Since the government policies and decisions are rigid, they cannot be changed easily.

Totalitarian Planning :

In totalitarian or authoritarian planning there is central control and direction of all economic activity in accordance with a single plan. There is planning by direction where consumption, production, exchange, and distribution are all controlled by the state. In totalitarian planning, the planning authority is the supreme body. It decides about the targets, schemes, allocations, methods and procedures of implementation of the plan. There is absolutely no opposition to the plan. People have to accept and rigidly implement the plan.

Democratic Planning

In democratic planning, the philosophy of democratic government is accepted as the ideological basis. People are associated at every step in the formulation and implementation of the plan. Cooperation of different agencies, and voluntary groups, and associations plays a major role in the execution of the plan. Democratic planning respects the institution of private property. Price mechanism is allowed to play its due role. The government only seeks to influence economic and investment decisions in the private sector through fiscal and monetary measures. The private sector operates side by side with the public sector. Democratic planning aims at the removal of inequalities of income and wealth through peaceful means by taxation and government spending on social welfare and social security schemes. Individual freedom prevails and people enjoy social, economic and political freedoms.

Rolling Plan:

In a rolling plan, every year three new plans are made and acted upon. First, there is a plan for the current year which includes the annual budget and the foreign exchange budget. Second, there is a plan for a number of years, say three, four or five. Third, a perspective plan for 10, 15 or 20 or even more years is presented every year in which the broader goals are stated and the outlines of future development are forecast. The annual one-year plan is fitted into the same year's new three, four or five year plan, and both are framed in the light of the perspective plan.

Fixed Plan:

In contrast to the rolling plan, there is a fixed plan for four, five, six or seven years. A fixed plan lays down definite aims and objectives which are required to be achieved during the plan period. For this purpose, physical targets are fixed along with the total outlay. Physical

targets and financial outlays are seldom changed except under emergencies. Planning in India (Five-Year) and Russia (Seven-Year) is of the fixed type.

Centralised Planning:

Under centralized planning, the entire planning process is under a central planning authority. The authority formulates a central plan, fixes objectives, targets, and priorities for every sector of the economy. The principle problems of the economy – what and how much to produce, how and for whom to be produced etc, are decided by this authority. The entire planning process is based on bureaucratic control and regulation. Naturally, such planning is rigid. There is no economic freedom and all economic activities are directed from above.

Decentralized Planning:

Decentralized planning refers to the execution of the plan from the grass roots. Under it, a plan is formulated by the central planning authority in consultation with the different administrative units of the country. The central plan incorporates plans under the central schemes, and plans for the states under a federal set-up. The state plans incorporate district and village level plans. Under decentralized planning, prices of goods and services are determined by the market mechanism despite government control and regulation in certain fields of economic activity.