

## “Types of Economic Planning”

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Planning for Development: India & the North East

Aparna Sengupta  
Associate Professor  
(HOD), Department of Economics.

### **Perspective Planning and Annual Planning: -**

On the basis of time, planning can be classified into perspective and annual plans.

#### **Perspective Planning : -**

Perspective planning refers to long term planning where targets are fixed for long period say 15 to 25 years. But it does not imply one plan for the complete period. In a true sense, broader objectives are to be achieved in a fixed period by dividing the perspective plan into short-run plans of 4 to 6 years. Perspective planning is a blueprint regarding the objectives and targets of long run growth. The long –run objectives are so divided into short-run that one by one all the objectives are achieved in the long long-run. In other words Short-run plans pave way for the achievement of long-run motives. For instance in India, under five years plans, the objectives of employment and national income have been determined on the basis of short and long-run.

#### **Demerits of Perspective Planning: -**

- 1) The Perspective plan has so many administrative difficulties due to which the fulfillment of the objectives becomes difficult.
- 2) Such a plan is of rigid nature because necessary or desirable adjustments to unforeseen changes or corrections of errors may not be made. **According to Myrdal**, perspective planning should, therefore, be started during the experimental period.

#### **Annual Planning or Prospective Planning: -**

Annual planning or Short term planning refers to 4 to 6 years plans which are further divided into annual plans so that each annual plan may fit in short-run plan and each short-run plan may ultimately fit in the long-run plan. Plans are further divided into regional and sectional plans. Regional plans are linked with regions, district and localities which are further divided into sectional plans for agriculture, industry, transport, foreign trade etc. The sectional plans are again divided for different branches like iron and steel, food-grains, exports etc.

#### **Demerits of Annual Planning:-**

- 1) Planning becomes expensive.
- 2) Planning may be used to serve individual interest rather than the interest of the enterprise.
- 3) Planning may not work in a dynamic environment and reduces creativity.

### Planning by Direction: -

Planning by direction is an integral part of a socialist society. It assumes complete absence of **Laissez Faire**. Under planning by direction, planning authority takes charge of the productive resources and use them in accordance with social priorities.

In other words there is one central authority which plans, directs and orders the execution of the plan. Market forces are not allowed to operate freely. Both Saving and Investment are strictly controlled by the planning authority.

Planning by direction is comprehensive and embraces the entire economic life of the country. **Russia** provides the best example of planning by direction.

### Arguments against Planning by Direction: -

1. **It provides no consequence of actions:** - Is always unsatisfactory because the modern economic system is so complex, that to take quick and right decision by the planning authority becomes impossible.
2. **Imperfect result:** - Planning by direction seems accurate and perfect at the time of formation but fulfillment may be upset due to lack of revision necessitated by circumstances.
3. **Inflexible:** - All schemes are finalized ones for all and there is no scope for revision and modification. Thus it becomes rigid.
4. **Costly affair:** - It requires the services of thousands of economists, statisticians and an army of clerks for its implementation, for which large funds are spend.
5. **Absence of Consumer sovereignty:** - There is no place of consumer's sovereignty. Both consumers and labour markets are determined by the planning authority.
6. **Only temptation for higher standardization:** - standardization is no doubt engine of growth but production of only one type of standard goods in each line of production is inimical to the growth initiative and enterprise. There is no urge to innovate.

### Planning by Inducement:

Planning by inducement is consistent with democratic planning. It means Planning by manipulating the market and involves no compulsion but only persuasion. There is freedom of enterprise, freedom of consumption and freedom of production subject to some regulation and control.

The planning authority induces the people in rough monetary and fiscal measures and through appropriate price policies to act in certain desired ways. Cheaper price is an

inducement for the consumer and subsidy is an inducement to the producer often referred as '**indicative**' or '**market incentive planning**'

**Difficulties:-**

1. **Difficult to adjust demand and supply:** - Since the actual working of the plan is left to the market forces, surpluses or shortages are common phenomenon. Necessity of price control or rationing are the forms of direction, so planning by inducement merges in to planning by direction.
2. **Not suitable to the requirement of underdeveloped countries:** - Inducement planning is not conducive to the requirement of less developed countries. It is very difficult to raise the rate of capital formation in an underdeveloped country because of the low levels of income and saving. People have a tendency to utilize their saving in unproductive channels.
3. **Methods of Monetary and Fiscal measures are weak:** - The instruments of monetary and fiscal control are too weak and mild to bring desired changes.

**Conclusion: -**

Both these planning techniques are complementary. They cannot be placed into water-tight compartments. Whether a country should adopt the method of planning by direction or planning by inducement depends entirely on the system of govt. When a socialist country will adopt planning by direction, on the other hand a Capitalist economy will prefer the technique of the planning by inducement.