INDICATIVE PLANNING AND PLAN ECONOMIC DEVELOPMENT OF INDIA: A CO-INTEGRATION ANALYSIS

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Abstract

The function of planning in a predominantly market-driven economy has to be symptomatic, co-coordinative and authoritarian. That provides the good reason for India's Planning Commission to engage in preparing development plans for the economy periodically even after liberalisation. However as it can't control investment in the private sector so such planning can at best be at least indicative. So the five year plans are now seek to provide an indicative path of development by setting out the imperatives for alternative growth scenarios in terms of macro-variables. It is still be necessary for planning commission to integrate and coordinate the plans of different ministries and undertakings of the central government, and bring them in line with the medium and long-term goals while keeping within the budget constraint. At the same time, the system of transfers from the centre needs to be reformed. There should be some rethinking on the relative roles of the planning commission and the finance commission. In this paper an attempt has been made to analyze the inter relation between economic development and directive roles of planning process in India.

Keywords: Economic development, liberalization, indicative planning and Planning Policy

JEL Classification: O16, F15, B 20, O21

Introduction

Development planning have played a pivotal role in successful upliftment of millions people out of poverty especially in South Asian countries including India. In exception, in many transitional countries, planned development process sometimes hinders development standards which may be due to violation of the basic rules of the development process and may be over emphasis on planning apparatus. However, in case of contemporary era, the main problem is to balance market economy with the public policy. Even though this problem may not crop up in the early stage of the development but with the expanding market frontiers and the pace towards extreme capitalism, the imbalance in between two sides are seemed to be acute and sometimes question the authenticity of the planning process. In this regard, after gaining independence from British colonial rule, South Asian embraced

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a development strategy whose key components formed the substance of development planning process. However, these countries have changed their development process from inward looking policy to an outward one, especially following the process of liberalization and other components of globalization. This is one hand expends their frontiers of development, on the other hand shift gears of expansion. But the end result is a contradiction between governmental rules, directions and ideology with the market based waves of procedures (Bagchi. 2007. P.45). So in modern form of capitalism and international atmosphere of trade and investment, the planning process needs to be integrated with the market rules as unless they are reformed and recapitalized with the development rules, the planning process may not be able provide optimum result. In this paper an attempt has been made to analyze the inter relation between economic development and directive roles of planning process in India especially pre and post liberalization periods. We seek to enquire in to the relationship between Governmental plan expenditure and national income in India for the periods of 1950-1951 to 1993-1994 through Co-Integration analysis.

Objective of the Paper:

The main objectives of the paper are to

1. To examine the role of planning in different economic structure with special reference to India.

2. To analyse the interrelationship in between the plan expenditure and national income of India.

3. To discuss various 'outcome' or 'attainment' indicators of Indian plan economic development in India.

Hypothesis of the Paper:

The main hypotheses of the paper are:

1. There is no interrelation in between the plan contribution and national income expansion from the time period of initiation of planning process in India.

Methodology:

This paper is based on mainly based on secondary data which are used to study the macroeconomic study purpose. Secondary data is collected from the publications of various organizations viz. Planning Commission of India, EPW research Foundation, CSO, NSSO, etc. Data thus collected is processed and tabulated and then analyzed using statistical and econometrics tools. The co-integration analysis is used to determine the relative interrelationship between planning and economic development. ADF test is used to determine the stationarity of the variables.

Planning Process and Economic System

Economic planning is a cognizant design of development for any nation. This is because different countries have different political as well as economic systems. In the socialist countries the role of the Govt in economic planning is very inclusive and undeviating. "The issue is not whether planning is needed, it surely is but whether the most effective place to do the planning is in a government centralized bureau or at the level of the firm. (Joseph E Stiglitz, 1997) In contrast in a industrially developed capitalist countries of the role of the planning are limited which is so called indicative planning. Between the above two groups of extreme cases we have the vast majority of the third world developing countries of Asia, Africa and Latin America, which have adopted the course of planned economic development in the post-war years with own national state and government. But in all structures, the state plays an active and directives role in planning the development of the national economy. Economic development in these countries is, therefore, planned as well as induced and directed by the market forces (Madhav. 2001. P.78). On the one hand, economic planning to be meaningful cannot be merely of an indicative type nor can it be, in the absence of monopoly control over means of production, of an imperative type. It is to be judicious mix of the two. The state has to adopt a proper mixture of direct and indirect controls.

Development Planning in India

The outline of pre-1950 India can be summarized India's status as a land of riches in the history of its deficiency. The mixed reputation has changed in recent centuries, and India is seen these days primarily as a land of poverty, famines, diseases, immorality, caste, untouchability, autonomy and pandemonium. The sixty years of sovereignty brought India a good deal of repute worldwide (Gupta. 1983. P. 246) . However reputation was offset by tragic images of human mortification, poverty and miseries until the beginning of the new millennium and in this parlance balanced regional development is a necessary step towards securing economic justice which is one of the fundamental views of the Indian constitution. Further, the 42nd Amendment of the Indian constitution, made an explicit direction towards a socialist state in India which bolstered the need for balanced regional development. Thus one finds balanced regional development to be a recurring theme in the designing of India's economic policy and planning. At the same time, India's effort to gather speed of industrialization & improve international competitiveness received a boost up with the declaration of the New Industrial Policy in July 1991. Following liberalization, the role of the public sector in the Indian economy has somewhat minimized and is dwindling more and public-private partnership is now emerging as the preferred medium for initiatives in development. Given this background there is urgent need to think for the role for planning in India.

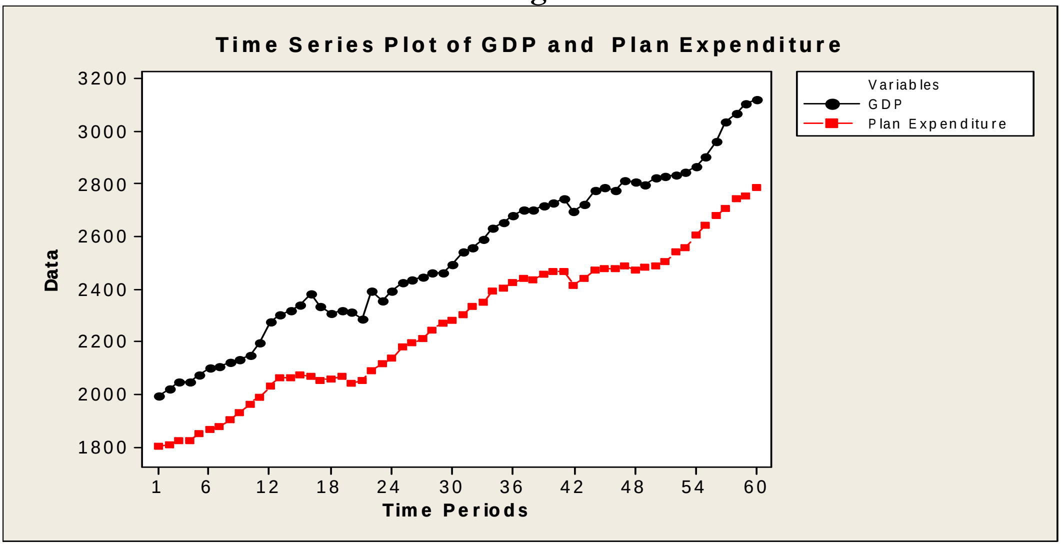
For a country like India where resources are limited, allocation of the resources must be guided by an elegant indicative plan and the state can to play a vital role not only as a facilitator but also as a provider of basic infrastructure and collective physical resources. Thus, planning can be accommodating in a market economy by providing "indication, coordination and recommendation". However the planning in a largely market-driven economy cannot proceed on the same footing as in an economy that is heavily controlled by the state. In the Indian context, this implies that there has to be a clear swing in the focus of planning now as compared to the past. As noted at the outset planners in India are amply aware of the need for such a change. The economic crisis of 1990, however, has altered India's approach to economic policy. With resource allocation left to the market, anxieties were raised that the growth pattern in the post-reform phase would be skewed in favour of the already better-off states. However control over investment in the private sector beyond the purview of the planning commission, development planning can at best be indicative which was recognized after globalization even the Eighth Plan too. That planning now has to be mostly indicative and the state can at best be a provider for private enterprise was reiterated in the three plans that followed the Ninth, Tenth and Eleventh. At the same time, the foundations that helped in implementation of the plans during the controlled economy era also remain almost intact despite their well known shortcomings and irrelevance in the changed economic surroundings. Given this background, there is need a justification and modification review for planning process in India as there are several short comings of planning process of India in the present circumstances. Indian planning focused on three particular features of the planning methodology and the planning process. These are one, the lack of sophisticated plan models to ensure inter-sectoral consistency among production targets set by the plan. Even for an indicative plan, some idea is needed of the projections of key macro-variables in the varied time perspectives. Thus a major function of the planning commission must therefore be to prepare a macro-perspective plans which would indicate the growth and major characteristics of the economy with a longer perspective of plans (Kuznets. 1990. P. 315).

Stationarity Test of Indian National Income and Plan Expenditure in India:

In this paper the time series data of Gross Domestic product (GDP) at market price and the govt yearly plan expenditure (adjusted with index number of 1993-1994) are used. Two specified variables are Xt and Yt; where Xt is the log real GDP at market price in 1993-1994 prices and Yt is the log value of the govt yearly plan expenditure in 1993-1994 prices.

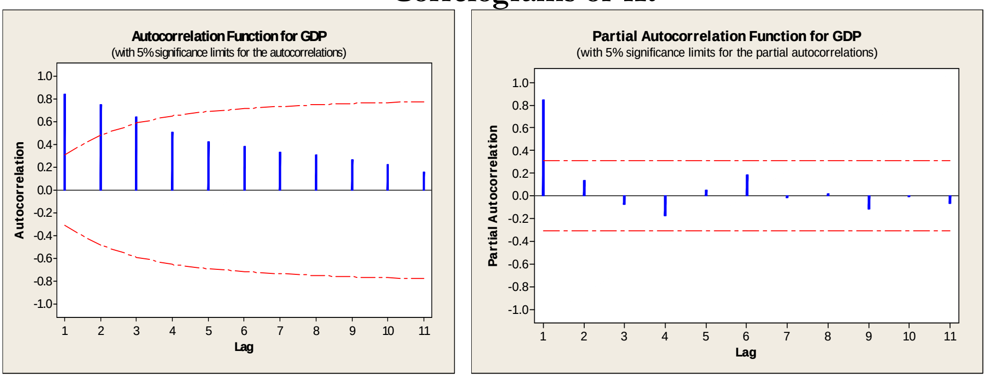
The time plot of the Xt and Yt over periods concerned has been presented through the figure 1

Figure: 1



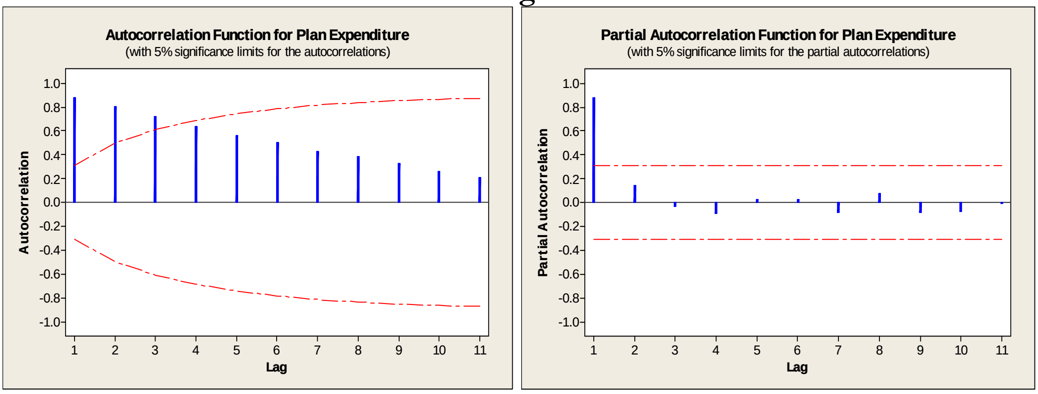
It is observed from the *figure: 1* that both the series exhibits stochastic trends over the periods concerned. These features of the series are pointer of their nonstationarity of Xt and Yt which is also reflected by the their respective correlograms fig:2

Figure: 2
Correlograms of Xt



The correlograms of Xt reflects that ACF exhibits dying out patterns of spikes and the PACFs contains only one significant spikes which reflects the nonstationarity patterns of the stochastic process.

Figure: 3
Correlograms of Yt



Similarly, the correlograms of Yt reflects that ACF exhibits dying out patterns of spikes and the PACFs contains only one significant spikes which replicates the nonstationarity outlines of the stochastic progression.

Augmented Dicky-Fuller Tests (ADF) of the stationarity

The stationarity of the Xt and Yt over periods in India can be tested with the help of ADF test. The relevant regression equations for ADF tests are

$$\Delta Xt = \alpha 1 + \beta 1 + \gamma 1Xt\text{-}1 + \delta 1t \sum_1^n \Delta X_{t-1} + \varepsilon 1t$$

$$\Delta Yt = \alpha 2 + \beta 2 + \gamma 2Yt\text{-}1 + \delta 2t \sum_1^n \Delta Y_{t-1} + \varepsilon 2t$$

Where the ε1t and ε2t are the white noise error terms and

$$\Delta Xt = (Xt - Xt\text{-}1) \text{ and } \Delta Yt = (Yt - Yt\text{-}1)$$

The optimum lag will be determined through Akaike Information Criterion. Again the estimated regression equation for the ADF tests involving differenced series for Xt and Yt are

$$\Delta^2 Xt = \alpha 3 + \gamma 3Xt\text{-}1 + \delta 3t \sum_1^n \Delta^2 X_{t-1} + \varepsilon 3t$$

$$\Delta^2 Yt = \alpha 4 + \gamma 4Yt\text{-}1 + \delta 4t \sum_1^n \Delta^2 Y_{t-1} + \varepsilon 4t$$

Where the ε3t and ε4t are the white noise error terms

Results of the ADF Tests

The results of the ADF tests for the presence of unit root test in the series concerned are being presented through the table 1

Table 1
ADF Unit Root Tests on Xt and Yt in India

Variable	Null Hypothesis	Lag length	ADF test statistics	Prob	Test critical values 1% 5% 10%
Xt	Xt has a unit root (intercept)	1	-0.377561	0.9034	-3.605593 -2.936942 -2.606857
Yt	yt has a unit root (intercept)	1	-0.916516	0.7727	-3.605593 -2.936942 -2.606857
ΔXt	ΔXt has a unit root (intercept)	0	-8.709518	0.00	-3.605593 -2.936942 -2.606857
ΔXt	ΔXt has a unit root (intercept)	0	-8.410770	0.00	-3.605593 -2.936942 -2.606857

*MacKinnon (1996) one-sided p-values.

The ADF test results shows that Xt and Yt at levels are nonstationary since the null hypothesis of unit roots have been accepted at 1% levels of significance with intercept in maintained equations. But the 1st differencing leads to the ADF test results stationary since the null hypothesis of unit roots have been rejected at 1% levels of significance. Thus the Xt and Yt attains stationarity at their 1st differencing and both are integrated of order 1 i.e. both series are I(1)

Engle Granger Co-Integration Test

The Engle Granger Co-Integration test states that if two variables will be cointregated when the linear combination of two nonstationary variables is stationary. In case of the Indian GDP and Plan expenditure, Xt and Yt are found to be integrated of order two i.e. I(1). Now the linear combinations of these variables are

$Xt = \alpha + \beta Yt + Ut$ (1)
or $Ut = Xt - \beta Yt - \alpha$
and $Yt = \gamma + \delta Xt + Vt$ (2)
or $Vt = Yt - \delta Xt - \gamma$

Now if Ut and Vt are stationary i.e. I(0), then Xt and Yt are cointregated at level or CI (1,1). The Co-Integration of Xt and Yt is examined through the estimating equation.

The regression equations are
Xt = .0035931 + .84679 **Yt**

SE .0011642 .080498
t 3.0862* 10.5194*
P 0.00 0.000
SE = .0070391 **R-Sq** = .73450 **R-Bar-Squared** = .72786
F = 110.6579; **P** = 0.000
Durbin-Watson statistic = .98954
The regression equation is
Again, **Yt** = -.0017341+ .86739**Xt**
SE .0012821 .082456
t -1.3526 10.5194
P 0.184 0.000
S = .0071242 **R-Sq** = .73450 **R-Bar-Squared** = .72786
F = 110.6579; **P** = 0.000
Durbin-Watson statistic = .98839

Now the stationarity of the residuals $\hat{U}_t$ and $\hat{V}_t$ has been examined through ADF tests.

Table: 2
ADF Unit Root Tests on Ut and Vt in India

Variable	Null Hypothesis	Lag length	ADF test statistics	Prob	Test critical values 1% 5% 10%
Ut	Ut has a unit root (intercept)	2	-3.696832	0.0080	-3.610453 -2.938987 -2.607932
Vt	Vt has a unit root (intercept)	2	-3.626525	0.0096	-3.610453 -2.938987 -2.607932

*MacKinnon (1996) one-sided p-values.

From the table 2 we have observed that the null hypothesis of unit root (with intercept in maintain equation) has been rejected at 1% level for both the equations. So the residuals $\hat{U}_t$ and $\hat{V}_t$ are stationry. Here Xt is CI(1, 1) cointregated with Yt and Yt is CI(1, 1) cointregated with Xt.

Dynamic Relationship between GDP and Plan Expenditure in India

After examination of the Co-Integration analysis, we seek to estimate the VAR model to estimation in order to examine the cross equation shocks on the endogenous variables. The estimating VAR model of Xt and Yt are considered as

$$Xt = \alpha_1 + \sum_{i=1}^{k} \beta_{1i} X_{t-1_t} + \sum_{i=1}^{k} \gamma_{1i} Y_{t-1} + U_{1i}$$
$$Yt = \alpha_2 + \sum_{i=1}^{k} \beta_{2i} Y_{t-1_t} + \sum_{i=1}^{k} \gamma_{2i} X_{t-1} + U_{2i}$$

For determination of the optimum leg length we followed the VAR lag order selection criteria.

Table 3
VAR Lag Order Selection Criteria
Endogenous variables: Xt Yt
Exogenous variables: C

Lag	LogL	LR	FPE	AIC	SC	HQ
0	258.9262	NA	9.04e-09	-12.84631	-12.76187	-12.81578
1	313.0387	100.1081*	7.38e-10	-15.35193	-15.09860*	-15.26034*
2	318.0606	8.788406	7.03e-10*	-15.40303*	-14.98081	-15.25037

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level); FPE: Final prediction error; AIC: Akaike information criterion; SC: Schwarz information criterion; HQ: Hannan-Quinn information criterion

This table shows that the lags of order one is sufficient, which conforms by the LR,Scand HQ criterion but AIC and FPE indicates two lags of order. Hence, it is possible to observe the VAR model with the lags interval .1: 2.

Estimation and Results of VAR model

The results of the estimation of the VAR model are being presented through the tables

Table: 4
Result of the VAR Estimation

Dependent Variable	Regressor	Coefficient	Standard Error	T-Ratio
Xt	c	-0.000175	(0.00092	0.19050
	Xt(-1)	**.30594**	**.15583**	**1.9633***
	Xt(-2)	.19361	.13117	1.4760
	Yt(-1)	.19348	.13331	1.4514
	Yt(-2)	**.30580**	**.15474**	**1.9762***
	R^2 = .89992 ; Adjusted R^2 =.89158; F-statistics= 107.8997*; DW = 2.6082			
	c	-0.000379	0.00113	-0.33620

Yt	**Yt(-1)**	**0.67802**	**.16414**	**4.1307***
	Yt(-2)	.34483	.19052	1.8099
	Xt(-1)	-.036109	.19187	-.18820
	Xt(-2)	-.070984	.16151	-0.43951
	R^2 = .85379 ; Adjusted R^2 =.84161; F-statistics= 70.0740* ; DW = 1.9956			

From the *table:4* with Xt as dependent variable $\hat{\beta}_{11}$ and $\hat{\gamma}_{12}$ are significant at 1% level and greater than zero. Here $\hat{\beta}_{11}$>0 indicates that GDP is positively related to the one period lagged value of the GDP and $\hat{\gamma}_{12}$> 0 indicates that two periods lagged plan expenditure also affect the current GDP even in the presence of the lagged GDP in the vector of repressors. It implies the possibility that Plan Expenditure Granger caused GDP in India. The elasticity coefficient $\hat{\gamma}_{12}$= 0.306 implying that the GDP rose by only 31% of a rise in Plan Expenditure in the previous two lagged periods. The VAR Granger Causality/Block Exogeneity Wald Tests also satisfied the significance of Plan Expenditure Granger caused GDP in India.

Similarly with Yt dependent variable $\hat{\beta}_{21}$ are significant and $\sum_{i=1}^{2} \beta_{2i} < 1$, $\sum_{i=1}^{2} \gamma_{2i}$ < 1, so the lagged structure are consistent and the significant F- statistics indicates that the estimated equation is a good fit free from autocorrelation. However, the GDP Granger has not caused plan expenditure (rejected by Granger Causality/Block Exogeneity Wald Tests) but one period lagged GDP helps to increase in the current period GDP.

Stability of VAR Model

The condition of the stability of the VAR model is evaluated by examining the characteristics roots of the following model:

$$A(L)\ Xt = \alpha_1 + \sum_{i=1}^{2} \gamma_{1i} Y_{t-2} + u_{1t}$$

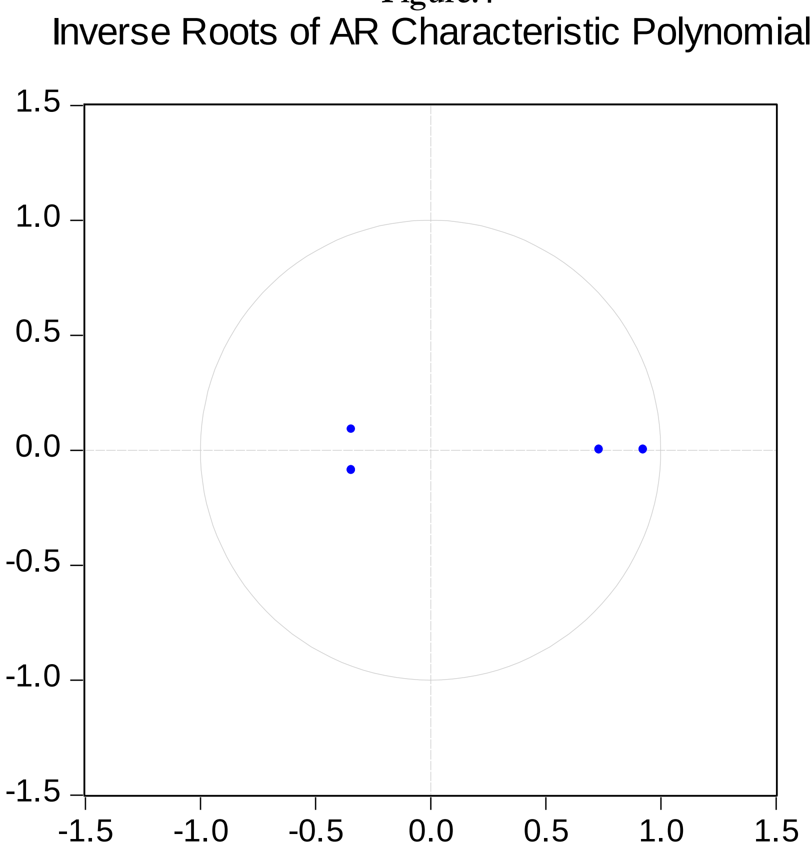
$$B(L)\ Yt = \alpha_2 + \sum_{i=1}^{2} \gamma_{2i} X_{t-2} + u_{2t}$$

Table: 5
VAR stability condition
Endogenous variables: X Y; Exogenous variables: C
Lag specification: 1 2

Root	**Modulus**
0.925509	0.925509
0.735286	0.735286
-0.341119 - 0.088108i	0.352314
-0.341119 + 0.088108i	0.352314

** No root lies outside the unit circle.*
** VAR satisfies the stability condition.*

Figure:4



The absolute value of the roots is less than unity and of which two positive roots are significantly different from zero. On the other hand the no roots lie out circle which testify the stability of the VAR system (Figure:)

Thus from the whole stochastic analysis of the Plan Expenditure and GDP of India analysis reflects that Plan Expenditure Granger caused GDP in India and a rise in plan expenditure will cause a rise in GDP of India. So there is considerable contribution of planning expenditure on GDP right from 1950 to 2010 in India. On the other hand one period lagged GDP helps to GDP of India sustains itself and reduces the pressure of planning commission. So there is a considerable effect of Plan expenditure on the GDP of India but in reverse GDP rise further reduce the Plan expenditure in India.

India Planning and Transformation

While India adopted planning under a strong interventionist circumstances its approach to planning differed in several crucial respects from that of the socialist economies. In India, the means of production have been and continue to be privately owned and regardless of the significant expansion of the public sector, the private sector owns more than half of the resources stockpile and accounts for nearly three-fourths of the annual output. Planning in India has brought about major structural shatters which are viewed as a way of avoiding the unnecessary rigours of an industrial and equally India's development prospects were rated rattier high, domestically as well as internationally (Rao. 2006. P. 452). However, in the nineties with the collapse of USSR and many of the East European socialist economies, the centralized planning as a tool of economic development has come under severe attack. There is a move towards decentralized and indicative planning world over. The spectacular development experience of the East Asian economies also point to the strong role of indirect state intervention through manipulating market mechanism in the development process. The role of planning is as a result, undergoing changes where the private sector is being encouraged much more to achieve the socially desirable outcome. The approached paper of the 11th five year plan also recognised the relative roles of the planning commission in private economy and stated that economic policy is moving in a direction that involves an erosion of the role of the state in the development process. However the objective of accelerating growth cannot be achieved without expanded role for the state in some areas. In fact the role of the government needs to be restructured to reduce direct intervention in, and commitments of scarce public resources to, areas where the private sector operating under competitive markets can deliver.

Budgeting for Planning

Generally the Govt has to incur certain portion of funds every year of funds for fulfilling planning which is different in year wise phasing. However, the resources generally fall much short in India of what would be indispensable to accomplish the plan targets. The situation is such in certain areas that there is no certain plan model to estimate the expenses such as defence budget. Now India's defence expenditure is

2.5% of its GDP. Sometimes it also happens that some certain sudden external shocks aside which replicate the budget expenditure. For example, during 1960s Indian planning suffered two major shocks caused by exogenous factors in the 1960s. The first came in the shape of the war with China in 1962 and the second in the form of successive harvest failures in 1965 and 1967. The first shock caused a sharp increase in India's defence outlays and a severe curtailment in public investment of the government. That would call for planning in terms of building up capability to meet threat perceptions or force planning which are critical for making any meaningful estimates for defence needs (Larson and Kristin 2001. P.23):. If the amount available falls short of the estimated requirements, the planning commission should overcome this by mobilising more resources though raising revenue or cutting expenditure. So in such circumstances planning is not directive rather a force one.

Table: 6
Central Government: Revenue, Expenditure and Fiscal Deficit
(% of GDP at current market prices)

Expenditure Heads	Total Revenues	Tax Revenues	Non-tax Revenues	Recovery of Loans	PSU Disinvestment	Total Expenditure	Interest	Defence	Subsidies	Plan Expenditure	Other Expenditure	Fiscal Deficit
1990-91	10.67	7.56	2.11	1.00	0.00	18.52	3.80	2.71	2.12	4.99	4.90	7.85
1991-92	11.50	7.67	2.44	0.92	0.47	17.06	4.10	2.71	1.88	4.74	3.90	5.56
1992-93	11.02	7.22	2.68	0.85	0.47	16.38	4.20	2.35	1.45	4.90	3.50	5.37
1993-94	9.50	7.22	2.56	0.72	-0.01	16.51	4.30	2.54	1.35	5.08	3.30	7.01
1994-1995	10.12	6.66	2.33	0.63	0.50	15.87	4.40	2.30	1.17	4.68	3.30	5.75
1995-96	9.85	6.90	2.37	0.55	0.03	15.01	4.20	2.26	1.07	3.90	3.60	5.16
1996-1997	9.81	6.85	2.38	0.55	0.03	14.69	4.30	2.16	1.13	3.91	3.10	4.88
1997-1998	9.81	6.28	2.51	0.55	0.06	15.24	4.30	2.32	1.22	3.88	3.50	5.84
1998-1999	9.53	6.01	2.58	0.61	0.34	16.04	4.50	2.32	1.36	3.84	4.10	6.51
1999-2000	9.90	6.60	2.70	0.50	0.10	15.30	4.60	2.40	1.30	3.90	3.10	5.40
2000-01	9.90	6.50	2.70	0.60	0.10	15.50	4.70	2.40	1.30	3.90	3.20	5.70
2001-02	9.70	5.90	3.00	0.70	0.20	15.90	4.70	2.40	1.40	4.40	3.00	6.20
2002-03	10.90	6.50	2.90	1.40	0.10	16.80	4.80	2.30	1.80	4.50	3.50	5.90
2003-04	12.60	6.80	2.80	1.40	0.60	17.10	4.50	2.20	1.60	4.40	4.40	4.50
2004-05	11.80	7.10	2.60	2.00	0.10	15.80	4.00	2.40	1.50	4.20	3.70	4.00
2005-06	9.66	7.55	2.15	0.30	0.04	14.13	3.70	2.25	1.33	3.93	2.92	4.09
2006-07	9.66	8.20	1.94	0.14	0.01	13.62	3.51	2.00	1.33	3.97	2.82	3.33
2007-08	10.95	8.88	2.07	0.10	0.78	14.40	3.46	1.85	1.43	4.14	3.52	2.56
2008-09	9.69	7.9	1.74	0.11	0.01	15.86	3.45	2.05	2.33	4.94	3.10	6.05
2009-10	9.37	7.55	1.82	0.11	0.42	15.99	3.56	2.21	2.13	4.94	3.10	6.05
2010-11	9.84	7.70	2.14	0.07	0.58	15.99	3.56	2.12	1.68	5.38	3.22	5.50

Source: Planning Commission

In the table, the plan expenditure shows a steady relationship with the revenue over the years in India. The revenue, expenditure and fiscal deficit are remaining the same with respect to GDP showing a little tendency of decline. So planning process needs incorporate these deficits to have continuous expansion of the economy.

Long term Perspective in Planning and Budgeting

Instead of focusing only on the upcoming year the budget should have a longer term outlook and dedication broadening beyond one year. Since five years may be too long and the budget should be set in a more time frame, so many countries in the world now regularly prepare their investment plan as an integral part of their annual budget making. In a multi-year budgeting framework these plans should also reveal the private investment patterns relative to what was assumed in the original five year plans (Parikh. 1993 P. 656). Along with multi-year budgeting reform is needed also in the system of expenditure classification in the government budgets. In case of Malaysia, the national planning mechanism comprising long-term perspective planning (10-20 years), medium term (5 years) and short term (annual) ensures that the country meets the overriding development goal of national unity. The long-term perspective planning includes the First Outline Perspective Plan that contained the New Economic Policy (1971–1990), the Second Outline Perspective Plan (OPP2) containing the National Development Policy (1991–2000) and the Third Outline Perspective Plan, which accommodates the National Vision Policy (2001 – 2010). Thus in India, although there is no apparent link between the annual budgets and the five year plans, expenditures set out in the budget are required to be classified in a manner that carries a positive impact to the contrary. In the absence of any link between the budgets and the five year plan, the rationale of development is not served.

Crises of Confidence

The frequency of crises in recent years has drawn attention to the weaknesses in the international financial system. Each of the major crises in the 1990s - Mexico in 1994, East Asia in 1997, Russia in 1998 and Brazil in 1999 and global financial crisis of 2007-2008 had features peculiar to itself but they all shared an important common characteristic. They were crises of confidence originating in the capital account and therefore very different from earlier episodes of payments problems in developing countries which typically arose in the current account. The vulnerability of Indian economy to such crises has increased from the 1990s as it had liberalized restrictions on capital movements in order to integrate more fully into global financial markets and improve their access to international capital flows. Any financial crisis may form an economic disaster the ultimate effect will be on both budgeting and planning models. So Planning process of India urgently needs to comply with the market directives while forming and implementing the plan model. The reforms currently underway in the banking sector and in the capital market, combined with the agenda for reform identified for the insurance sector, represent a major structural overhaul of the financial system. It will certainly bring India's financial system much closer to what is expected of developing countries as they integrate with the world economy (Premchand, 2001. P. 43). It is essential to continue these reforms along the directions already indicated and to accelerate the pace of change as much as possible. It is also important to recognize that financial sector reforms by themselves cannot guarantee good economic performance. That depends upon a number of other factors, including especially the maintenance of a favorable macroeconomic environment and the pursuit of much needed economic reforms in other parts of the real economy.

Fiscal Autonomy of the States and Transfer System

A major factor that has impeded the realisation of the goals of planning has been the tendency on the part of the centre to manage state events from central level. Soon after planning was launched, powers of controlling manufacturing investment in the private sector were occupied by the centre complemented by the control over financial institutions. Even though some liability for delivering public services was dispersed to the states by the constitution, the states were supposed to follow the dictates of the centrally designed plan. However things seemed to change with liberalisation. Demanding cooperative federalism, the states seemed to be regaining their autonomy in economic policymaking. It was expected that the twin imbalances that marked the federal fiscal system would be taken care of through transfers mediated by the finance commission. The results achieved have however fallen short of expectations in important respects. So in implementing economic reforms needed to push the economy forward there is no alternative but to reform the fiscal institutions of the federal system. In the path of this transition from plan to market economy, it is needed to reforms Indian fiscal policies and institutions.

Conclusion

It is widely recognized that India's planning process has been one of the most consistent among such efforts undertaken in the Third World. The Plan efforts have contributed significantly in many fields, most notably in the increase in food production. However, a number of problems still remain. The desire for planning at multiple levels remains largely unrealized despite the commitment made by successive governments. This contradiction has seriously undermined the concept of making planning more democratic and responsive to people's aspirations. Further, regional inequalities and income inequalities persist in India despite planned economic development. This is a serious problem, which if uncorrected, can lead to more strain on the political fabric of the Indian state. Centre state relations, particularly in regard to planning functions and powers to mobilize financial resources, have been under stress. At the same time public resources are needed to be used optimally and thus planning is needed even in a market economy. However, the function of planning in a predominantly market-driven economy has to be symptomatic, co-coordinative and authoritarian. That provides the good reason for India's Planning Commission to engage in preparing development plans for the economy periodically even after liberalisation. The Co-Integration analysis of plan expenditure of India and GDP also indicates that there is a close relationship in between them and Plan expenditure leads to expansion of GDP in pre-liberalization periods. However, as it can't control investment in the private sector so such planning can at best be at least indicative. So the hypothesis that there is no interrelation in between the plan contribution and national income expansion from the time period of initiation of planning process in India is rejected as directed by the VAR model. But the five year plans are now seek to provide an indicative path of development by setting out the imperatives for alternative growth scenarios in terms of macro-variables. It is still be necessary for planning commission to integrate and coordinate the plans of different ministries and undertakings of the central government, and bring them in line with the medium and long-term goals while keeping within the budget constraint. At the same time, the system of transfers from the centre needs to be reformed. There should be some rethinking on the relative roles of the planning commission and the finance commission.

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