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Types of Planning (Part-I)  
 *Planning by Inducements***

Planning by inducement is often referred to as *‘indicative planning’* or *‘market incentives’*.  In such type of planning, the market is manipulated through incentives and inducements.  Accordingly, in this system there is persuasion rather than compulsion or deliberate enforcement of orders.  Here the consumers are free to consume whatsoever they like, producers are free to produce whatsoever they wish.  But such freedom of consumption and production are subject to certain controls and regulations.  The consumers, producers and other factors of production are induced with the help of various fiscal and monetary devices.  For example, if the planning authority wishes to boost the production of corn oil in Pakistan it will provide subsidies, tax holidays and loans to the firms involved in production of corn oil.  To encourage savings and investment and discourage consumption a suitable package of fiscal and monetary policies can be introduced in the market.  Therefore, the desirable results can be attained with the help of incentives and without the imposition of orders and instructions.  Moreover, in such planning there is less sacrifice and less loss of liberty – economic as well as non-economic.

***Merits of Planning by Inducements:***

**(a)**   ***Consumers’ sovereignty*** remain intact.  Planning by inducements is more democratic as compare to planning by directions.

**(b)**  There is a ***freedom of choice of profession***.

**(c)**   In planning by inducements, there is ***freedom of enterprise***.  Produces are free to produce whatever they like but within in the capacity of given rights.

**(d)**  Planning by inducements is ***smooth and flexible***.  It is more popular because it enables to incorporate the changes in resources, technology and taste etc.  even after the finalisation and implementation of plan.

**(e)**   Under this sort of planning, the inertia attached with standardisation can be put to an end and producers are free to produce in accordance with the desire of consumers.  Therefore, there is a ***variety of goods and services*** in the market.

**(f)**     There are ***less administrative costs*** involved in planning by inducements.

**(g)**  The problem of shortages and surpluses is solved as there is an existence of ***automated market system***.  The demand and supply is automatically adjusted and remain in balance under market economy.

***Demerits of Planning by Inducements:***

**(a)**   It also ***fails to achieve 100% targets*** of economic planning.

**(b)**  Under planning by inducements, there are ***profit motives more than welfare*** of public.  Private entrepreneurs care for those products which yield high profits.  Products or services with less profit or no profit do not attract private entrepreneurs.  Such products or services include education, health, defence, security, etc.

**(c)**   The producers may find the ***government policies regarding economic affairs not attractive enough to follow***.  There may be disputes among entrepreneurs and the government regarding tax rates, investment policies, interest rates, etc.

**(d)**  The mechanism of market economy ***may cause the prices to inflate*** esp. with reference to under-developed countries or in case of oligopoly where there is a shortage of certain products like petroleum and gas.

**(e)**   There may be ***disharmony between labour and producer***, and there may be serious industrial disputes.

***Planning by Directions***

This type of planning is practised in socialist countries like China, Former USSR, Cuba, North Korea, etc.  Under planning by direction, there is one central authority which plans, directs and orders the execution of the plan in accordance with the pre-determined targets and priorities.  It determines the production figures, delivery schedules, quotas regarding the production of the goods, price controls, use of foreign exchange and allocation of resources like labour, etc. amongst different competing uses.  Thus, such planning is comprehensive and encompasses the whole economy.  Planning by directions is similar to military or defence plans which are carried through orders and instructions.  Thus the strategy of planning through directions coincides with the military strategy.  Alongwith the disintegration of former Soviet Union, the methodology of planning by directions has received certain serious setbacks.  Now most of the UDCs are tend to adopt market economic system.

***Demerits of Planning by Directions:***

**(a)**   Planning by direction is ***undemocratic*** since the people are ignored all along.

**(b)**  It is ***bureaucratic and totalitarian***.  Under bureaucratic system, the individual’s sovereignty is completely abolished.  Corruption, red tapism, VIP system, tyranny and austerity are the by products of bureaucracy.

**(c)**   Rationing and control result in ***black marketing.***

**(d)**  There are shortages of some goods and as well as surpluses of other goods.  That is, there is an ***imbalance in production output***.

**(e)**   This sort of planning is ***inflexible***.  Once the plan is prepared, there is no room for alterations in later phases of planning.  A part of the plan cannot be changed without simultaneous changes in many interconnected activities.  Planning by direction is so complex that it is impossible to change even a part of it as it will involve in altering the whole plan.

**(f)**     The ***fulfilment of plan cannot be guaranteed***, as the planning by direction is hampered by black marketing and corruption.

**(g)**  Planning by direction also leads to ***excessive standardisation*** which impinges on consumer sovereignty.  In other words, under planning by direction the goods produced are standardised lacking the variety.  As in case of USSR, the produced TV, Fridges and Automobiles were identical having no differentiation.

**(h)**  It also involves ***huge administrative costs***, as the planning by direction involves in elaborate census, numerous forms and army of clerks.

***Physical and Financial Planning***

Physical planning is concerned with physical allocation of resources on the one side, while with the product yields on the other side.  Its aim is to bring physical balance in between investment and output.  Accordingly, investment coefficients are computed.  These coefficients show how much amount of investment will be required for a given amount of output.  Moreover, in such planning it is also analysed that what will be the composition of investment to obtain an increase in output.  As, how much iron, how much coal, oil and electricity will be required to produce some specific amount of steel.  While making physical planning, an overall assessment is made regarding the real resources of the economy like raw material and manpower.

In financial planning, equilibrium is established between demand and supply to avoid inflation and bring economic stability.  The difference between physical planning and financial planning is that the physical planning tells us the size of investment in terms of real resources, whereas the financial planning tells us the size of investment in terms of money.  In financial planning, the planner determines how much money will have to be invested in order to achieve the pre-determined objectives.  Total outlay is fixed in terms of money on the basis of growth rate to be achieved, the various targets of production, estimates of the required quantity of consumer goods and the various social services, expenditure on the necessary infra structure, etc. as well as revenue from taxations, borrowings and savings.

***Centralised Planning and Decentralised Planning***

Under centralised planning, all the economic decisions are taken by the central authority or the government.  It is the government which formulates economic plans, determines objectives, sets targets and priorities.  Every member has simply to carry out the instructions without questioning about its viability.  There are more chances of failure as the individuals are not allowed to carryout the plans in accordance to their needs and preferences.  It is the government who takes responsibility of the success or failure of the plan.  It is the government who takes all the decisions of consumption, production, wages and prices.  What amount of investment is to be made?, What should be the price?, What should be the output?, How the products are to be distributed?, How much amount of loans is to be granted?, What should be the rate of interest?, etc.  Centralised planning is mostly executed in socialist or communist countries.

Decentralised planning is connected with the capitalistic economies.  The decentralised planning is implemented through market mechanism.  Decentralised planning empowers the individuals or small groups to carryout their plans for achievement of a common goal.  Under decentralised planning, the operation is from bottom to top.  The planning authority formulates the plan by having made consultation with different administrative units of the economy.  The plans regarding different industries are designed by the representatives of these industries.  In such type of planning, the planning authority issues the instructions to central and local bodies regarding incentives given over to private sectors.

***Structural and Functional Planning***

The planning which is aimed at bringing changes in socioeconomic set-up of a country is termed as structural planning.  This type of planning is attributed to the planning which was made in USSR in 1929 when the existing land-lord-system was abolished, collective farming was introduced, trade, industries and transport system was nationalised.

While functional planning is a type of planning where hardly any big change is brought about in the existing socio-economic set-up of the country.  It means when planning is made in the presence of existing institutions is termed as functional planning.  In France, Germany, UK, etc planning is being made in the existing framework of capitalism.

***Indicative and Imperative Planning***

Indicative or planning by inducements has already been discussed in a previous section.  In the following section we will discuss the three components or approaches regarding indicative planning:

**(a)**   **Forecasting Approach:** Under forecasting approach, the individuals are provided with the information, through making certain forecasts.  Such forecasting serve as a guide to their decision making.  The forecasting not only indicate about the feasible future, but they also specify a desirable future in terms of growth rate of the economy.

**(b)**  **Policy Approach:** The second component of the indicative planning is concerned with policy approach.  Through policy approach, the inconsistent policies of government departments are co-ordinated within a coherent model framework keeping in view the set objectives.  Moreover, when once the policies are co-ordinated, they will provide guidelines to the people, consumers and producers.