

Moving towards Economic Resilience in the 21st Century

There is a silent crisis brewing up around us. Inequality is on the rise, GDP does not create jobs, handful of states make for majority of GDP, capacities and capabilities are stranded, bankruptcy is on the rise, market competition is shrinking, wealth redistribution has failed, rent seeking has increased and the list goes on.

These interlinked issues have become chronic and are destroying opportunities for the demographically youngest nation in the world. Interestingly, the many metrics that are used to measure progress of economy and people do not capture the seriousness of the problem. On the contrary, they often mislead people into believing just the opposite. People retire to their fate and carry on as disenfranchised lot which triggers survivalist instincts that shreds communities and creates isolation. In effect, citizens and consumers are reduced to passive recipients rather than active participants in the life of an economy and society.

In the real world, everything is interconnected. When the economy shrinks, it pulls down polity too and vice versa. Incessant lamenting about state capacity becomes all pervasive and the government starts plumbing through plethora of regulations and policies, often without necessary competency and diagnostics.

Institutions and organizations are part of this larger environment and hence end up mirroring the same behavior that causes the problem. Environment of distrust - between and amongst - government, business and people gets reinforced leading to pockets of vested interests that rally around centers of power.

In effect, this does something more damaging than can be easily perceived. It affects the learning curve in the economy and introduces a large-scale incompetence. In other words, it leads to an economy wide 'Peter Principle'. This is exactly the context that prevails today and therefore it is important for us to think about some fundamental questions.

One of the most important questions is how can we create that equilibrium where economy and all its ingredients are perpetually learning and seeking something holistically better. In other words, how can lasting economic resilience be ushered in for a far more uncertain world than we have seen before.

This discussion is very critical and is umbilically linked to the just concluded discussion on Planning in the 21st Century India, adduced below. As one reads it, one will realize that one of the key things that is needed for better planning is thinking in a different paradigm. Similarly, in the realm of economy too, there is a need to ask following fundamental questions:

- What is the current paradigm of economic thinking?
- How can a new paradigm be imagined?
- What will be the benefits of the new paradigm?

- What entry points (Good jobs, Green Growth etc) can be imagined to actualize the new paradigm and how?

Just to reiterate, in order to make this discussion a fruitful, the discussants are requested to go through the following summary of the previous discussion on Planning.

Summary

E-Discussion

Planning in the 21st Century India: Relevance, Design and Form

A) Background

Every complex organization which has a stake in the present and the future must have a vision and a plan to implement it. A nation which is perhaps the most complex organization human beings have ever invented, therefore, must abide by this virtue at all times. In fact, both 'vision' and 'plan' are interrelated aspects. Better planning provides greater clarity to the vision, and can also help refine it.

India's vision as a society is enshrined in the preamble of her constitution and encapsulated in four words - justice, liberty, equality and fraternity - to be guaranteed through democracy. However, at the time of independence while India embraced political democracy, it remained hesitant in ushering economic democracy. Even till date, it has remained work in progress. This has created myriad challenges in fulfilling the vision for the nation as a whole.

It is in this context that the question of planning assumes special significance for a country like India. Just how did India plan or not under different circumstances has been a matter of great debate and scholarship ever since Planning Commission (PC) was created in early 1950s. This debate reached its crescendo in mid-2014, only to result in the replacement of PC by National Institution for Transforming India (NITI) Aayog in early 2015.

Amongst the reasons that were put forth to justify this transition were many shortcomings of the PC. These included lack of accountability, lack of specialization, negation of federalism, duplication of work, lethargy in action and highhandedness, to name a few.

Given this, numerous debates took place in 2014 at different fora on the future of planning in India and many views were circulated in national and regional press. Some of the key questions that were discussed included reasons that preclude effective planning, questions on the methodology of planning, implementation challenges and reforms that must be introduced to ensure that plans deliver.

A comprehensive collation of views on all these and more questions was compiled by CUTS International through two roundtables and an e-debate. The outcome report was submitted to the Government of India with clear recommendations. This was later subsumed into an e-book titled *Reinventing Planning Commission: The Great Debate* (<https://bit.ly/39K7bVC>).

However, since then the spate of commentaries on planning in India does not seem to have reduced. On the contrary, a great deal of confusion has persisted on the role of NITI Aayog. The latest book titled *Planning in the 20th century and beyond* by Santosh Mehrotra and Sylvie Guichard has also renewed this discussion afresh while throwing interesting perspectives on the past, present and future of planning in India.

Keeping this in view, in March 2020, CUTS International curated yet another e-discussion on the topic *Planning in the 21st Century India: Relevance, Design and Form*. Thirty distinguished participants contributed to the discussion in detail. Including some of those who participated earlier in 2014. With this, so far nearly 100 scholars and practitioners have contributed to the discussion on planning, making it one of the richest discussions on the topic in the country.

Interestingly, while the issues discussed over past six years have largely remained the same, perspectives and views have evolved. The present document captures the summary of the latest discussion.¹ This was catalyzed in response to the context and questions articulated by Arun Maira, Former Member, Planning Commission of India.

In his initial remarks, he puts forth the following:

For more inclusive and environmentally sustainable growth and faster improvement in public services and human development indicators, India, no doubt, needs to improve all round performance of its economy and faster too. Results must be improved on the ground, in the states, districts, and cities. Since the task is huge and resources are limited, better planning would help.

The question is what role a central planning body can play and should play in a federal set-up where there is a constitutional, as well as practical necessity to devolve more power downwards and outwards.

A central planning body, especially if it is not constitutionally empowered to do so, cannot derive its power from an ability to allocate funds. It must become an 'essay in persuasion, not an allocator of funds', in the words of Dr. Manmohan Singh who had called for a reform of India's Planning Commission to make it fit for 21st century conditions.

The fundamental reforms necessary in the economy must be implemented coherently over many years, beyond the 5-year terms of democratically elected governments. Long term

¹ CUTS International will also release the detailed discussion in the form of an e-book.

planning and implementation is necessary. How can this be ensured if the planning body is appointed by elected governments and does not have a mandate beyond them?

Therefore, how do planners prepare and present a coherent and compelling set of ideas of a national plan, which have broad support from citizens, so that it is an essay in persuasion of various governments at the centre and in the states? And an essay in persuasion of non-governmental actors too to align their actions with national priorities.

The models that planners use, explicitly or implicitly, to prepare national plans must be broadened. The limitations of economists' models in predicting even the course of economies has been exposed. Moreover, economists' models leave out too many 'externalities' to accurately represent the realities of complex socio-environmental-economic systems. 21st century planners must be systems reformers, so that they can guide changes in complex systems to improve the well-being of citizens, not just increase GDP. A national planning process must incorporate inter-disciplinary capabilities, and planners must adopt new systems models which are not limited to economic parameters.

Therefore, reforms of national planning must address three questions:

- What are the competencies a central planning body must have to become an essay in persuasion, in a democratic and federal set-up, without powers to allocate funds?*
- What are the new approaches of systems thinking and systems reforms it must learn?*
- Are there any constitutional changes that are essential to strengthen the role of a national planning body as an essay in persuasion and systems reformer?*

B) Opening Interventions

To the three questions posed above, the discussion kicked off with some solutions straight away. It was felt by some that financial or allocation powers are necessary for the planning exercise to be an essay in persuasion. In the initial phase, the discussion on competency focused mainly on the domain expertise that erstwhile PC did not have at the lower levels. It was expressed that domain expertise and institutional memory are important elements of effective planning and that it is also linked to systems thinking. Therefore, to empower the planning body to wield necessary influence, fund allocation powers along with constitutional status was proposed. It was further stated that states should also have planning bodies and that necessary powers be devolved to the local governments for holistic effect.

C) Rejoinder to opening interventions

1 - First, an explanation was offered that allocation powers don't lead to essay in persuasion. For example, the states listened to PC not because they valued PC's advice but because they wanted funds. A similar outcome may also happen if a planning body gets a constitutional status. Both these things will lead to concentration of power which may be

counter-productive. Therefore, it was felt that the question of competence to perform the role expected of a planning body is the real question to focus on. The fund allocation power even though an attractive option can actually discourage and stifle true innovation.

Key message: Power should not be vested at the cost of competence

2 - The response to this rejoinder led to several opinions on the question of competency. One of the first things that was brought up was the ubiquitous lack of competence – not just in planning but also in other arenas of decision making like government ministries, departments, private sector and even judiciary.

Key message: Culture of mediocrity is all pervasive. Planning is but one part of that environment

3 - It was expressed that one way to move forward is to first simplify the economic structures by doing away with unnecessary rules, regulations and laws ideally through a legislative route and then focus on capacity enhancement, which currently is not a priority anywhere.

Key message: Simplification exercise again needs competence and trust

4 - The question of competence was also discussed in two other ways. Competence needed for implementation and competence that can be derived from certain processes such as Monitoring and Evaluation. With respect to implementation what is needed is an agile and responsive administrative and regulatory machinery, and for this purpose the planning body must do cost-benefit analysis of policies to aid the process of implementation.

Competence in evaluation, on the other hand, will lead to a better assessment of the planned approach. In this context, it was expressed that an institution that does only conceptual planning without a strong monitoring and reporting mechanism will gradually deteriorate into a bureaucracy that is content with incremental budgeting and processes, rather than outcome controls.

The evidence of the failure of Outcome Budgeting (OB) further supported this argument. It was pointed out that it failed because the PC did not have a mechanism to measure the development outcomes of all its processes. This is particularly important to note because in 2005 when the Finance Minister launched the OB, it was clearly stated--together with the Planning Commission—Ministry of Finance will put in place a mechanism to measure the development outcomes of all major programmes. Alas, it never happened.

That said, it was acknowledged that the same governance machinery responds pretty well in times of crisis. Therefore, like armed forces, civil services should also be trained regularly in consonance with a well identified purpose.

Key message: The role of administrative and regulatory machinery needs to be seen from two perspectives – the roles that can be discharged through regular SOPs and roles that require greater deliberation. The latter needs more focus and strategy.

5 - Another dimension that was discussed in the context of competency is the need to appreciate that domain expertise can have a perverse effect also. For instance, deeper knowledge can lead to greater silos. Therefore, the greater the need to have domain knowledge, the greater is the need for an institution with systems thinking abilities. In other words, for public policy to be effective, it must be developed with the condition of the whole system in mind. Additionally, competencies must also evolve according to contexts and time. Therefore, a 'Context and Gap Analysis' must be a regular feature of the planning body.

Key Message: People leading the charge of a planning body and respective verticals should be sound generalists who can appreciate that when paradigms change the dominant ideas of the time are also challenged.

6 - Competencies have to be built after a careful situational analysis. The conversations today are happening in two paradigms. First says, 'grow the pie first and then distribute across centre, states and the third tier'. The other paradigm says, 'distribute the roles in development and growth between centre, states, and the third tier'. This implies that there is less need for the accumulation to precede the redistribution because resources will be generated at all levels simultaneously. In this approach, agency and capability is built at the bottom and the role of the centre/top is to build these capabilities. Incidentally, all periods whether pre 1991, post 1991 or with NITI are in the same paradigm i.e. the one where resources are accumulated upwards and then redistributed downwards.

Key Message: Need to think in another paradigm which can enable growth of the whole by growing wealth and resources at the bottom simultaneously.

7 - The competence required for the Central Planning body also depends on the nature of the task it has to carry on. This is particularly important in the context of the role of the state in a market economy, which enhances the need for considerable planning in the provision of public goods also.

This should be done keeping in mind both citizens and consumers. Citizens' needs are much broader than consumer needs. It's a truism that none is complete without the other. This necessitates that complex socio-economic-environmental systems need to be understood and balanced. Therefore, not only we should focus on the maxim that says that the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer, but also it is important to see citizens and consumers as two sides of the same coin. The economy, thus, is best structured from bottom up (citizen and consumer driven) and not just from the top down (producer driven). It is therefore also important for the planning body to create a framework of regulation to ensure fair competition in the overall societal context, and not just markets.

Key Message: Planners must be able to address complex balance between the provision of public goods and interests of market actors. This should implicitly mean bottom up or 'citizen-consumer' driven policymaking - something that's possible only through thinking in a new paradigm and with systems approach.

8 - True decentralisation should sit on a rich database. A permanent Fiscal Council can be created which can look at conditional data-based fund devolution. Success of GST Council and unified national Covid response shows this is possible. Therefore, it may be time to give way to Committee for District Planning', a mandatory provision under article 243 ZD of the Constitution and Committee for Metropolitan Planning', a mandatory provision under article 243 ZE of the Constitution. Almost all states have incorporated these central provisions in their respective Conformity Acts but seem to be reluctant to make them operational. Further, Covid-19 has thrown more light on where centralization works, and where local solutions are essential.

Therefore, capacities must be built and used on the ground for all round planning and execution. These capacities must be able to collate multidisciplinary and diverse views so that people collectively are persuaded to take necessary actions because they see the benefits of the actions for themselves.

Key message: Capacities on the ground need to identified and nurtured by planners on the top, only then the process of planning will be effective

9 - Another competency of the planning body should be able to collaborate and coordinate with specialized institutions, state governments, PMO, ministries and departments. It was also expressed that the personalities of the experts in charge can be more relevant than whether the planning body/NITI Aayog should be a Constitutional body or not.

Key Message: Avoid profligacy and multiplicity of institutions to achieve better coordination and collaboration and find right leaders to lead.

10- Competency also depends upon the projects to be executed within given time limit and financial resources at the disposal. Today, we have limited resources and when they are allocated too thinly, there is a risk of actually falling further behind than if the same resources were allocated in a more focused manner.

Key Message: There is a need to identify priorities to maximise impact

11 - Capability must be seen in an integrated way i.e. capability of an institution, capability of its management and capability of individuals. All these can be developed. Indeed, they can change the capability of the system to use resources more effectively, and also to produce outcomes with very limited resources.

Therefore, the 'planning' of 'development' must include a plan to develop capabilities. In other words the 'capabilities' required for a dynamic process of development must be endogenous within the model. And since development of capabilities will create new

equations with resources within the model, input-output models that include capabilities are non-linear. Therefore, the system should be modelled as a 'learning' system, and as a 'complex, self-adaptive, learning system'. Indeed, planners of such systems sit within the system too. As they learn more about how the system learns, and improve their own learning capabilities, they can facilitate the system to be a faster learner.

Key message: The only competitive advantage a country, or organization, can have in a world with uncertainty, is the ability to learn, and change faster than any potential competition.

D) Other solutions that were discussed during the course of the debate

1) - A constitutional federal body already exists as the Inter-State Council. Unfortunately buried in the Home Ministry, with no powers to enforce anything. This could be revived with a ring fenced budget as Charged Item, headed by PM and with all CMs as members, and given an effective secretariat of performing civil servants (not a parking lot or a dumping ground for non-performing ones) plus economists, lawyers, financial specialists, technology and other experts. It could take over the planning function, indeed a missing function today, oversight of CSPs, plus federal coordination on all security, law and order, etc. matters. The GST Council is a good example of cooperative federalism at work, though that too is not without its flaws.

2-) A triad of planning body (specialization in synthesis) + ISC (coordination and collaboration role) and Finance Commission (allocation role) can be considered with effective overall leadership and leadership of each vertical.

E) MOVING FORWARDS

A theme that emerged from the deliberations was that planning is a process of 'learning to do'. In a dynamic world, where there is little time for leaders and policy-makers to 'go back to school' to relearn, they must learn while doing, and also act while they are continuously learning. Policy-makers have no choice but to act with the knowledge and capabilities they presently have.

However, they are often reminded of Einstein's advice: "To try harder to solve an intractable problem with the same way of thinking that caused the problem is madness". Therefore, good planners and policy-makers must be good 'double loop learners', a concept introduced by Chris Argyris. 'Single loop learning' involves improvement of knowledge and practice without changing the underlying theory. On the other hand, double loop learning questions the validity of the underlying theory and requires the adoption of a new theory to produce the desired results. Double loop learning is like 'redesigning an aeroplane in which one is flying'. The underlying theories that guide planners and policy-makers are like an aeroplane within which they are flying, seeking solutions. When it becomes evident that the 'aeroplane' is not designed to fly through the rough weather ahead, one has to redesign the aeroplane while it is flying. One must continue to be in action while also changing the

structures of thought guiding the action. In Argysis' terms, double loop learning must be switched on along with single loop learning.

The way this is done in practice, experts in the field of 'organizational learning' say, is by applying the method of 'double loop learning' while tackling a challenge that needs to be addressed. In other words, apply the method in action.

The major challenge India has is the failure, so far, of its economy to generate enough 'good jobs' for its huge population of young people—the largest in the world. They were expected to be the source of India's 'demographic dividend'—provided of course they were employed in jobs which provided them with sufficient incomes, or in their own enterprises from which they could earn sustainable incomes. This has not been happening. Labor economists have been warning, for over a decade, that the employment elasticity of India's GDP growth was amongst the lowest of all large economies; when it should have been the highest to provide for India's growing population of young people. While some tried to discredit the numbers, the pouring out of millions of poorly employed migrants from the bottom of India's economy has shown the reality. Whatever jobs or small enterprises they were engaged in were extremely fragile. The arduous journeys of migrants back to their villages, from which they had come seeking to benefit from the economy, have revealed a 'demographic disaster'.

Demographics change over decades, not within years. Economic structures are also built over decades. The 'migrant problem' is not a failure of the present government, nor of the NITI Aayog, which have been in place for seven years. The migrant tragedy is a consequence of faulty economic structures built over decades. The underlying paradigm of economic growth, and the approaches to planning adopted even by the previous government and the Planning Commission, must be blamed too.

India must develop a new economic framework—a 'new normal', and not recover the old one while it is urgently providing relief to the hundreds of millions of displaced workers and tiny entrepreneurs whose livelihoods that have been put into ICU by the pandemic.

India's policy-makers, planners, and economists, must engage in double loop learning while they urgently create conditions for sustainable livelihoods for all Indian citizens. They must change their 'theories-in-use' of economic progress. For example, small enterprises that use less capital and provide more employment must flourish, and not be denigrated because they do not have 'scale'. Economic policies must facilitate the movement of migrant labour, rather than be so focused on facilitating the movements of 'migrant capital', which globalisation policies have been so focused on to enable capital and large companies to cross international borders while migrant workers were being shut out. Rural areas must not be neglected in the effort to create a 'modern economy' in which it is imagined that 'India will no longer live in its villages', thus denigrating the very practical concepts of economic growth that Mahatma Gandhi and his advisers had promoted. Cooperative enterprises owned by the producers themselves, and create wealth for the workers, must be promoted, not only enterprises that flourish in the stock market to create wealth for investors.

CUTS is engaged in a project to understand economic realities on the ground in several job-intensive industries. The study is revealing the flaws in many proposals for reforms that are not well informed by reality but seemed to be based only on limited information, or ideology: for example, the belief that suspending labour laws will somehow benefit India's investment prospects.

Solving India's 'jobs problem', which must be done very urgently is an opportunity to reexamine nostrums of the 'old normal' economics and planning. Double loop learning is essential for solving the problem. Applying the 'old normal' of economic thinking and ways of planning, would be madness as Einstein warned.

Pradeep S. Mehta
Secretary General, CUTS International

Abhishek Kumar
Honorary Adviser, CUTS International