Gadgil-Mukherjee Formula

Up to 3rd Five Year Plan (FYP) [1961-66] and during Plan Holiday (1966-69), allocation of Central Plan Assistance was schematic and no formula was in use. The Gadgil Formula comprising (i) Population [60%] (ii) Per Capita Income (PCI) [10%] (iii) Tax Effort [10%] (iv) Ongoing Irrigation & Power Projects [10%] and (v) Special Problems [10%] was used during 4th FYP (1969-74) and 5th FYP (1974-78).

However, since item (iv) was perceived as being weighted in favour of rich states, the formula was modified by raising the weightage of PCI to 20%. The National Development Council (NDC) approved the modified Gadgil formula in August 1980. It formed the basis of allocation during 6th FYP (1980-85), 7th FYP (1985-90) and Annual Plan (AP) 1990-91. Following suggestions from State Governments, the modified Gadgil Formula was revised to Population (55%), PCI [25% {20% by deviation method and 5% by distance method}], Fiscal Management (5%) and Special Development Problems (15%). However, it was used only during AP 1991-92.

Due to reservations of State Governments on revision, a Committee under Shri Pranab Mukherjee, then Deputy Chairman, Planning Commission was constituted to evolve a suitable formula. The suggestions made by the Committee were considered by NDC in December 1991, where following a consensus, the Gadgil-Mukherjee Formula was adopted. It was made the basis for allocation during 8th FYP (1992-97) and it has since been in use. After setting apart funds required for (a) Externally Aided Projects and (b) Special Area Programme, 30% of the balance of Central Assistance for State Plans is provided to the Special Category States. The remaining amount is distributed among the non-Special Category States, as per Gadgil-Mukherjee Formula.