

PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 2: Economic Planning in India

Topics in this chapter

- Definition of Economic Planning,
- History of Economic Planning,
- Objectives of Economic Planning,
- Types of Planning,
- Achievements of Planning,
- Financial resources for 5-year plans.

2.1 DEFINITION OF ECONOMIC PLANNING

In simple terms, **planning** is the skill of reaching a goal using the resources that are available. In the context of a country's economy, the definitions are more formal.

- According to economist **H. D. Dickinson**, economic planning is “the making of major economic decisions - what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole.”
- The **National Planning Committee**, set up in 1938 by the Indian National Congress, defined planning in India as: “Planning, under a democratic system, may be defined as the technical coordination, by disinterested experts of consumption, production, investment, trade, and income distribution, in accordance with social objectives set by



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bodies representative of the nation. Such planning is not only to be considered from the point of view of economics, and raising of the standard of living, but must include cultural and spiritual values, and the human side of life.”

2.2 HISTORY OF ECONOMIC PLANNING IN INDIA

By the 1930s, there was a political agreement that independent India would have a planned economy. In the early 1950s, India officially began its journey of economic planning through **Five-Year Plans**. In times of crisis, like wars, India opted for yearly plans, which are often called ‘**plan holidays**’.

In 2015, the Government of India replaced the **Planning Commission** with the **NITI (National Institution for Transforming India) Aayog**. The reason for this change was that the Indian economy had shifted to a market-dominated system, and the rights of the states needed to be prioritized, which required a new institutional structure.

From 1950 until 2014, planning in India was managed by the **Planning Commission**.

- It was **not a statutory body** (meaning it was not created by an Act of Parliament).
- The **Prime Minister** was the Chairman of the Planning Commission.
- Its plans were approved for implementation by the **National Development Council (NDC)**, which was also chaired by the Prime Minister.

NITI Aayog was established as a “**Think Tank**” to provide strategic and technical advice to the central and state governments. It serves as a platform for bringing states together to work in the national interest, promoting **Cooperative Federalism**.



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The Five-Year Plans: A Chronology

- **First Plan (1951-1956):**
 - **Focus:** Agriculture, irrigation, and power projects. This was a priority as the country was facing large-scale food grain imports and rising prices.
 - **Assessment:** The plan was a success, achieving a growth rate of 3.6% against a target of 2.1%. Five Indian Institutes of Technology (IITs) were established during this period.
- **Second Plan (1956-1961):**
 - **Focus:** Rapid industrialization, with a concentration on heavy industries and capital goods. This strategy was devised by Professor P.C. Mahalanobis.
 - **Assessment:** The target growth rate was 4.5%, while the actual growth was 4.27%. The plan faced challenges due to a shortage of foreign exchange. Hydroelectric power plants and major steel plants in Bhilai, Durgapur, and Rourkela were built.
- **Third Plan (1961-1965):**
 - **Focus:** Agricultural growth and balanced regional development.
 - **Assessment:** This plan was a major failure. It was severely disrupted by two wars (with China in 1961-62 and Pakistan in 1965-66) and a catastrophic drought-led famine in 1965-66. The target growth rate was 5.6%, but the actual growth was only 2.4%.
- **Three Annual Plans (Plan Holiday) (1966-1969):**
 - **Focus:** Due to the poor financial situation after the wars, the government opted for three separate Annual Plans instead of a full Five-Year Plan. This period is known as a “Plan Holiday.”
 - **Assessment:** A new agricultural strategy, which led to the **Green Revolution**, was implemented during this period.
- **Fourth Plan (1969-1974):**
 - **Focus:** Growth with stability and progress toward self-reliance.



- **Assessment:** This plan was also disrupted by droughts and the Indo-Pak War of 1971-72. It was marked by high inflation and the nationalization of 14 major banks. The target growth rate was 5.6%, while the actual growth was 3.3%.
- **Fifth Plan (1974-1979):**
 - **Focus:** Poverty eradication (“Garibi Hatao”) and self-sufficiency.
 - **Assessment:** The planning process became increasingly politicized. This period saw a growth in socioeconomic inequalities and was disrupted by the Emergency and a change of government at the Centre.
- **Sixth Plan (1980-1985):**
 - **Focus:** Continued focus on poverty alleviation with the motto ‘Garibi Hatao’. It prioritized developing socioeconomic infrastructure in rural areas.
 - **Assessment:** The plan introduced the “target group” approach and various national-level programs. Most objectives were met, with a growth rate of 5.5%.
- **Seventh Plan (1985-1990):**
 - **Focus:** Rapid food grain production, increased job creation, and overall productivity. The **Jawahar Rojgar Yojana (JRY)** was introduced in 1989.
 - **Assessment:** The economy experienced higher growth rates, but at the cost of severe fiscal imbalances and a worsening balance of payments situation. The target growth rate was 5%, while the actual growth was 6%.
- **Two Annual Plans (1990-1992):**
 - **Focus:** The Eighth Plan could not be launched due to the fast-changing political environment. Two Annual Plans were implemented with a focus on maximizing employment and social reform.
 - **Assessment:** This period marked the beginning of privatization and liberalization in India, following the 1991 economic crisis.



- **Eighth Plan (1992-1997):**
 - **Focus:** This was the first plan implemented after the 1991 economic reforms. It recommended redefining the role of the state, giving a greater role to the private sector, decentralizing planning, and emphasizing "co-operative federalism."
 - **Assessment:** The plan was a success. The target growth rate was 5.6%, while the actual growth rate was an impressive 6.7%.
- **Ninth Plan (1997-2002):**
 - **Focus:** "Growth with justice and equity." It emphasized seven Basic Minimum Services (BMS) like safe drinking water, primary health, and primary education.
 - **Assessment:** This plan was implemented during an economic slowdown caused by the South-East Asian Financial Crisis. The issue of fiscal consolidation became a top priority for the first time.
- **Tenth Plan (2002-2007):**
 - **Focus:** This plan set "monitorable targets" for the first time for 11 key indicators of development. It recognized that higher growth alone is not enough; it must improve the quality of life. It also declared the agriculture sector as the "prime moving force" of the economy.
 - **Assessment:** The actual growth rate was 7.7%, close to the target of 8.1%.
- **Eleventh Plan (2007-2012):**
 - **Focus:** Faster and more "inclusive growth."
 - **Assessment:** The plan was launched amidst concerns about high inflation and a stronger rupee. It achieved a GDP growth of 7.5%, which was less than the target of 9%.
- **Twelfth Plan (2012-2017):**
 - **Focus:** The theme was "Faster, More Inclusive, and Sustainable Growth."



- **Key Objectives:** Target growth of 9%, 4% growth in the agriculture sector, and 10% growth in the manufacturing sector. It also emphasized developing a water management strategy, creating a new land acquisition law, and making large investments in infrastructure through Public-Private Partnerships (PPPs).
- **Assessment:** The target growth rate was 8%, while the actual achievement was 6.7%.

2.3 OBJECTIVES OF ECONOMIC PLANNING IN INDIA

The main goals of economic planning in India are broad and open-ended. The most important objectives are:

- **i. Economic Growth:** To achieve a sustainable increase in the economy's output levels over time.
- **ii. Poverty Alleviation:** To reduce poverty. Many programs aimed at helping the poor have been introduced through planning.
- **iii. Employment Generation:** To reduce unemployment. This has always been a fundamental goal and is closely linked to poverty alleviation programs.
- **iv. Social Justice and Reducing Inequalities:** To address the large economic inequalities that existed in India. Economic planning was seen as a way to create a more just and equal society.
- **v. Self-reliant Economy:** To make the Indian economy self-reliant, which meant reducing its dependent and subservient position in the global economy.
- **vi. Modernisation of the Economy:** To modernize all sectors, starting with agriculture by integrating modern farming and dairying practices, and also to bring about changes in social outlook, such as recognizing equal rights for women.



2.4 TYPES OF PLANNING

Planning is a vital part of every economy and can be categorized in several ways.

- From a **territorial** standpoint: Planning can be **regional** or **national**.
- From a **political** standpoint: Planning can be **federal**, **state**, or **local**.
- From the standpoint of **participation**: Planning can be **centralised** or **decentralised**.
- From a **time** standpoint: Planning can be **long-term** or **short-term**.
- From a **focus** standpoint: Planning can be **sectoral** (focusing on a single sector like agriculture) or **spatial** (focusing on development in a geographical area).

Some of the key forms of planning relevant to India are:

1. **Regional Planning:** The United States was the first country to begin regional planning in 1916. This type of planning is implemented at a regional level, targeting a wide geographical area to ensure the best use of space and distribution of human activity.
2. **National Planning:** This concept started with the Soviet Union, which implemented its first five-year plan from 1928 to 1933. It was clear from the beginning that a newly independent India, facing extreme poverty, would need national planning so the government could take an active role in allocating resources for equitable growth and development.



2.5 ACHIEVEMENTS OF PLANNING

India's economic planning, particularly through the Five-Year Plans, has led to several notable achievements, contributing significantly to the nation's development trajectory.

- **Poverty Reduction:** Planning efforts were successful in reducing the poverty ratio by 5%.
- **Increased Forest Cover:** There was an increase in forest cover to 25%.
- **Improved Literacy Rates:** Literacy rates in the country increased to 75%.
- **Economic Growth:** The country achieved an economic growth rate of over 8%.
- **Food Self-Sufficiency:** A major achievement was the Green Revolution in the 1960s, which transformed India from a food-deficit nation into a self-sufficient one in food grains. This significantly boosted farmers' incomes, particularly in regions like Punjab, Haryana, and Uttar Pradesh.
- **Industrial Base Development:** The early plans focused on establishing basic and capital goods industries, aiming to build a self-reliant economy and reduce import dependence.
- **Infrastructure Development:** Planning also aimed at simultaneously developing agriculture, industry, and infrastructure to combat the challenges inherited at independence.

These achievements demonstrate the positive impact of a planned approach in addressing critical socio-economic challenges and laying the groundwork for future growth.



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2.6 FINANCIAL RESOURCES FOR 5-YEAR PLANS

The implementation of India's Five-Year Plans required substantial financial resources, which were mobilized from a diverse set of sources to ensure their successful execution.

The primary financial resources included:

- **Gross Budgetary Support (GBS):** This was a significant component, representing the amount allocated from the central government's budget to fund plan investments. It included the central government's direct contribution, assistance provided to states for their plans, and additional funding for central public sector projects.
- **State Budgets:** State governments also played a crucial role by contributing a portion of their own budgets towards the implementation of the Five-Year Plans within their respective jurisdictions. This ensured collaborative efforts between central and state governments in achieving plan objectives.
- **Public Sector Enterprises (PSEs):** Government-owned corporations and companies were vital in funding and executing projects outlined in the plans. They contributed a portion of their profits or funds towards these investments.
- **Domestic Private Sector:** Privately owned businesses and industries within India also participated in financing and executing projects identified in the Five-Year Plans, serving as an additional source of funding.
- **Foreign Direct Investment (FDI):** Inflows of capital from foreign entities investing in India to establish or expand businesses were utilized to support various projects within the scope of the plans.
- **Taxation:** Both direct and indirect taxes levied on income, goods, and services were a significant source of revenue for the government, contributing to the financing of these development initiatives.



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- **Government Borrowing:** The government raised funds by issuing bonds and securities.
- **External Aid:** Grants, loans, and assistance from international organizations and bilateral partners played a vital role in supplementing domestic resources for crucial developmental projects.

This multifaceted approach to funding underscored India's commitment to achieving sustained economic growth and development over the stipulated planning periods.



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