

PAPER I - INDIAN ECONOMY & INDIAN FINANCIAL SYSTEM

Module A: INDIAN ECONOMIC ARCHITECTURE

Chapter 2: Economic Planning in India

Quick Revision

2.1 & 2.2: Introduction and History of Economic Planning

- **Definition:** Economic planning is the process where a central authority makes major economic decisions—such as what to produce, how much, and for whom—based on a comprehensive survey of the entire economic system.
- **Historical Context:** After independence in 1947, India adopted a planned economy to address severe poverty and underdevelopment. This was implemented through a series of **Five-Year Plans**.
- **Institutional Shift:**
 - **Planning Commission (1950-2014):** This was the body responsible for formulating the Five-Year Plans. It was not a statutory body and was chaired by the Prime Minister.
 - **NITI Aayog (2015-Present):** In 2015, the government replaced the Planning Commission with the **NITI (National Institution for Transforming India) Aayog**. NITI Aayog functions as a "Think Tank," providing strategic advice to the government and promoting **Cooperative Federalism** by involving states in the planning process.

Chronology of Key Five-Year Plans



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- **First Plan (1951-56):** Focused on **agriculture, irrigation, and power**. It was a success, achieving a growth rate of 3.6%.
- **Second Plan (1956-61):** Focused on **rapid industrialization and heavy industries** (based on the Mahalanobis model). It was largely successful.
- **Third Plan (1961-65):** This plan was a major **failure** due to two wars (with China and Pakistan) and a severe drought.
- **Plan Holiday (1966-69):** Due to the failure of the Third Plan, three separate Annual Plans were implemented. This period saw the launch of the **Green Revolution**.
- **Fifth Plan (1974-79):** Focused on **poverty eradication ("Garibi Hatao")** and self-sufficiency.
- **Eighth Plan (1992-97):** This was the first plan after the **1991 economic reforms (LPG)**. It gave a greater role to the private sector and was a major success, achieving a growth rate of 6.7%.
- **Twelfth Plan (2012-2017):** This was the **last of the Five-Year Plans**. Its theme was "Faster, More Inclusive, and Sustainable Growth."

2.3: Objectives of Economic Planning in India The primary goals of India's economic planning were:

1. **Economic Growth:** To achieve a sustainable increase in the country's output.
2. **Poverty Alleviation:** To reduce poverty through targeted programs.
3. **Employment Generation:** To create jobs and reduce unemployment.
4. **Social Justice and Reducing Inequalities:** To create a more equal society.
5. **Self-reliant Economy:** To reduce dependence on foreign aid and imports.
6. **Modernisation of the Economy:** To modernize all sectors, including agriculture and industry, and to bring about changes in social outlook.



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2.5 & 2.6: Achievements and Financial Resources

Key Achievements of Planning

- **Food Self-Sufficiency:** The **Green Revolution** in the 1960s was a major success, transforming India from a food-importing nation to one that was self-sufficient in food grains.
- **Industrial Base Development:** The early plans successfully established a strong base of heavy and capital goods industries.
- **Poverty Reduction and Social Development:** The planning era saw a significant reduction in the poverty ratio and an increase in literacy rates.
- **Infrastructure Development:** The plans focused on the simultaneous development of agriculture, industry, and infrastructure.

Financial Resources for the Plans

The Five-Year Plans were funded through a combination of sources, including:

- **Gross Budgetary Support (GBS)** from the central government.
- Contributions from **State Budgets**.
- Resources from **Public Sector Enterprises (PSEs)**.
- **Taxation** (both direct and indirect).
- **Government Borrowing** and **External Aid**.
- **Domestic Private Sector** and **Foreign Direct Investment (FDI)**.



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