



## ECONOMIC PLANNING IN INDIA

India is a vast country with multiple problems faced by its population. The British ruled the country for nearly two centuries and exploited its resources for their benefit leaving the country reeling under absolute poverty. When the British left India in 1947 there was nothing to be proud of or be happy except for the ‘freedom’. The problems were many before the Indian government. Besides mass poverty there was the problem of food shortage and inflation. Illiteracy, lack of health care, lack of infrastructure etc. were other serious problems facing the country. As a long term strategy, ‘Planning’ for economic development was the answer to solve these problems.



### OBJECTIVES

After completing this lesson, you will be able to:

- define “Planning”;
- explain the need for planning;
- list out the objectives of planning;
- describe the strategy of planning in India;
- explain new economic policy;
- point out the targets set by our planners in terms of various objectives of planning;
- explain the achievements made with respect to the plan objectives; and
- realise the short comings or unfulfilled part of the objectives.

**Notes**

## 2.1 MEANING OF ECONOMIC PLANNING

Economic planning is a process which involves the following steps:

- (i) Preparing a list of the problems facing the economy .
- (ii) Rearranging the list on the basis of priority. The top priority issue which needs to be addressed immediately should be placed at number one and so on.
- (iii) The next step is to identify the problems which are to be solved in the immediate short run and the other problems which are to be addressed over the long period.
- (iv) Fixing a target to achieve the desired goal. The target could be a specified time period within which the problem must be solved. If the problem is to be addressed over long run, then it must be made clear that how much of the problem be solved in the first period (say a year or six months) and so on. Secondly the target could be a certain quantity to be achieved. Say in case of production, the government can fix some target in terms of quantity.
- (v) Estimating the amount of resources needed for achieving the target. Resources include financial resource, human resource, physical resource etc.
- (vi) Mobilizing the resources is another important task. This means that the planners must know the sources of arranging the required resources. For example, in case of financing the plan, the planners must make the budget and spell out the different sources of finding. When the government makes plan, one of its major source of getting funds in the tax revenue. For a business person, one of the sources of finance is the loan from bank. When various sources of funds are available then the planner must also decide as to how much fund to be collected from each of these sources.

Use of the human resource is another important task to execute the plan proposal. The planner must estimate the type of man power and the number of persons required to carry out the task. A proper estimate on this requirement should be given at the outset. Similarly proper estimate of physical resources should also be provided. Physical resources include office buildings, vehicles, furniture, stationeries etc.

- (vii) Once the resources are arranged, implementation and execution process starts in an organize manner to achieve the desired goal. To make sure that everything is running smoothly and to rectify mistakes if any or to modify the style of working to accommodate any change, periodic review must be done till the final achievement is realised.

## 2.2 ECONOMIC PLANNING IN INDIA

India adopted a system of five yearly planning to address its various socio-economic problems. You have already been told about the problems of Indian

economy at the time of its independence. To remind, these problems include mass poverty and inequality, low productivity in agriculture and storage of food grains, lack of industrial and infrastructural development etc. Since these are to be solved over the long period, Indian government adopted five year plan starting from first year plan in 1951 development. The idea was to make a list of important problems to be solved keeping in view the given resources and the capacity to arrange the resources. Then make a review after five years of what has been done and rectify the mistakes accordingly in the next five year plan period and so on.

Some of the great architects of Indian planning include Jawaharlal Nehru, P.C Mahalonobis, V.R Gadgil, V.K.R. V Rao. After becoming the first prime minister of independent India, Nehru established the Planning Commission in 1950. The major function of the Planning Commission was to formulate plans keeping in view the resources of the country and suggesting the best methods to utilize them effectively and in a balanced manner. Planning commission prepared the first five year plan (FYP) for the period 1951-1956. By 2014, India has already experienced more than sixty years of planning with eleventh five year plans being completed are twelfth FYP continuing.

### 2.3 OBJECTIVES OF PLANNING IN INDIA

The various objectives of economic planning in India are drawn keeping in view its socio-economic problems. Accordingly the objectives as follows:

1. Economic growth
2. Increase in employment
3. Reduction in inequality of income
4. Reduction in poverty
5. Modernization of the economy
6. Ensuring social justice and equality.

Let us discuss these objectives one by one .

- 1. Economic Growth :** The objective of achieving economic growth implies that the real national income and per capita income must grow every year at a targeted rate. Real national income is the measure of national income at a given years price or at a constant price. Real per capita income is the average income of individuals in the economy. It is argued that in order to achieve higher standard of living for each individual /household and the society as a whole , both per capita income and national income must grow in real terms. Since income represents purchasing power, increase in income will enhance the purchasing power of people and the country. When purchasing power will





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increase then individuals can buy more goods and services to satisfy their wants. The country as a whole can pay for its purchases from abroad called import. Increase in real income also means that the output level or quantity of output is higher than before. Here output includes output in different sectors of the economy such as agricultural output, industrial output and services to satisfy the needs of India's growing population increase in output every year has to be achieved. To achieve higher rate of output the economy must increase its rate of investment to create infrastructure and capital stock. Infrastructure includes power projects, roads, railways, airports, ports, telecommunication network, buildings etc. Capital stock includes plant, machinery, banking and insurance etc. Investment in all these things is necessary to achieve economic growth in real income, hence the planners of the country set a target for growth in each five year plan keeping in view the growth of population and demand for goods and services etc.

- 2. Increase in Employment:** Employment refers to engagement of the labour force in gainful economic activity such as production of goods and services. Income is generated through the production process where the production process involves employment of factors of production provided by the households. You know that factors of production include land, labour, capital and organization/entrepreneurship. These factors are owned by the households of the country. As factors are scarce resources and needed to produce goods and services, it is important for the government to create opportunities where in they can be properly used/utilized. The production capacity of an economy depends on the amount of the factor resources it possesses. The required amount of output can be generated if these factors of production get employment. The value of the output then can be distributed among the factors as their income in the form of wage for labour, rent to the owner of land and building, interest to the owner of capital and profit to the entrepreneur. If the country is not able to create employment opportunities to gainfully engage the factors of production, the required amount of output can not be produced and hence income can not be generated. Take the example of labour resources in the country. You know that the population of the country supplies labour force who are in the age group of 15 to 59 years. Every year due to increase in population the number of people in the labour force is also increasing. Most of them are also educated. If there is no enough scope to get employment then they will remain unemployed and unutilized. Infact the unemployment situation in India is very bad. Besides causing increase in consumption without corresponding increase in production, unemployment also is a cause of various social problems such as poverty and crime etc. So planners of the Indian economy put creation of employment as a major objective of five year plans.



## INTEXT QUESTIONS 2.1

1. Economic growth means
  - (a) Increase in real national income
  - (b) Removal of inequality
  - (c) Increase in price level
  - (d) None of the above
2. National income can be increased by
  - (a) Increase in population
  - (b) Increase in the rate of investment
  - (c) Increase in unemployment
  - (d) Decrease in price level
3. Who are the owner of factors of production
  - (a) Government
  - (b) Rest of the world
  - (c) Households
  - (d) Firms and industries
4. Labour force comes from the population in the age group of
  - (a) 4 to 14
  - (b) 60 to 75
  - (c) 10 to 15
  - (d) 15 to 59

**3. Reduction in Inequality of Income :** India is a country with diverse economic standard of its population. This means that in terms of income level, India lacks uniformity. A large section of India's population belong to lower income group and termed as poor where as a few are very rich with very high level of income. Income disparity is a major concern of the social angle, women are the worst affected in terms of income standard irrespective of their caste or religion. Similarly the scheduled caste and scheduled tribe population belong to the marginalized section of Indian society as they are at the bottom of the pyramid of development. One of the major reasons of inequality in income is the unequal distribution of asset holding such as per capita land holding, possession movable and immovable property from inheritance etc. A majority of India's population live in rural area and work in agriculture. But a few are big land lords and majority are marginal or small farmers and agricultural labourers. Agricultural labourers are so called because they do not have their own land



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to cultivate and move from one place to another in search of job on a daily or weekly wage basis. Their situation is worse because of their own illiteracy and lack of scope to organize themselves. One to their low income they do not have anything to begin to their next generation on the other hand landlords enjoy higher returns to their property and due to existence of law of inheritance the property remains with their future generations. Hence, rich remains rich and poor remains poor in the country due to possession and lack of private property respectively. India is badly affected due to this inequality. The poor people are not able to support the market due to lack of purchasing power where too much purchasing power with the rich has caused wasteful consumption to increase. Most of the social evils are created due to inequality. Hence, our planners aimed at reducing the inequality in income distribution through planning.

- 4. Reduction in Poverty :** Another major objective of planning in India is “reduction in poverty”. At the time of independence more than fifty percent of India’s population was poor. By the year 2014, nearly 27 to 28 percent of India’s population is under poverty as per government estimates. You will come to know about the manner in which poverty is estimated in India in the lesson on poverty and employment. For the time being let us confine our notion of poverty to the situation where an individual is unable to satisfy his/her basic minimum needs of life. There are a lot of people in the country who are not even getting a square meal a day. Lack of employment is a major cause of poverty. It is aggravated by unequal distribution of national wealth and income. Poverty is termed as a curse on human dignity and it has seriously tarnished the image of India in the world. Developed countries do not count India seriously due to its inability to remove poverty. It is proper planning to remove poverty completely from the country.
- 5. Modernisation of the Economy :** India has been a country of continuous exploitation by foreign powers such as the Mughals who ruled for more than two hundred years and the British who also ruled the country for another two hundred years. The British in particular, left the country in dire poverty and underdevelopment when they handed over power to Indian government in 1947. Because of the historical reasons Indian economy could not rise from its traditional level of functioning. It remained an agrarian economy and industrially backward. There was no development in new technology and technological upgradation. Lack of modern technology is a major reason for Indian economy to suffer from low productivity in agriculture and lack of industrial development. At the time of independence and for many more years after that, the major contributor to India’s GDP because of underdeveloped industrial and service sector. Combined with his lack of better education and skill development of the population, the occupational structure has also remained biased towards agriculture. Hence, to reverse such trend it is necessary to change the structure

of GDP of India by improving the quality of human resources and developing industries and service sector. This can be done by modernization of the economy.

- 6. Ensuring Social Justice and Equity :** Indian planning also aimed at achieving a socialistic pattern of society. It can be achieved by ensuring its population social justice and equity. In fact all the objectives said above are necessary to achieve social justice. But the sufficient condition for sustaining social justice and equitable distribution of income is to introduce reforms in various sectors by changing the age old systems which have perpetuated poverty and inequality and obstructed development of industrial and service sector or caused low productivity in agriculture. So the planners thought to introduce reforms in agriculture and economic policy so that they facilitate growth and equitable distribution of the benefits of development.



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### INTEXT QUESTIONS 2.2

- One of the reasons of inequality in income is
  - Existence of private property
  - Lack of equal distribution of wealth
  - Both of the above
  - None of the above
- Which of the following sector used to have larger share in India's GDP at the time of its independence
  - Industry
  - Agriculture
  - Service
  - None of the above

### 2.4 NEED FOR PLANNING

A major part of the question about need for planning has been answered in the meaning of planning itself described above. There we said that planning involves various steps for effective implementation and execution. Infact the number of problems facing Indian economy is very high. Each problem is complex in nature and cannot be solved in a short period. Take the example of the problem of poverty. There is no method by which this problems can be solved immediately. The government must collect data to know the number of people affected by poverty and its nature. Collection of data itself is a very huge task keeping in view India's vast geographical area and lack of accessibility to many areas. In a democracy , the government is duty bound to formulate policies after proper debate and discussions which takes time. Then mobilization of adequate resources and provision of



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resources to continue the programme over a long period are two most important things to solve the problem of poverty. Without proper planning it cannot be done. Planning is also necessary to avoid wasteful expenditure, minimize cost meet the target in time and optimal use of resource.

## 2.5 STRATEGY OF PLANNING

By strategy we mean the use of correct approach /method/formula for achieving the target under planning. In the first plan period of 1951-56, no specific strategy was adopted during this time the government of India gave more emphasis to agriculture keeping in view the fact that majority of India's population depend on agriculture and there was the immediate issue of adequate food grain supply to address food shortage. The first five year plan was a great success as the targeted growth rate was achieved so India was in a position to adopt a long term strategy for planning in future. The development strategy was accordingly spelt out explicitly in the second plan period of 1956-61. The strategy was to give emphasis on – 1. Industrialization, 2. Within industrialization more emphasis on heavy industries.

## 2.6 JUSTIFICATION OF THE STRATEGY OF INDUSTRIALIZATION

In order to address the problems related to poverty, unemployment, economic growth, self reliance etc. The Indian planners adopted the strategy of industrialization in the country in general and establishing heavy and basic industries in particular.

**The arguments offered in favour of industrialization and heavy industries strategy are as follows:**

1. India's population has been over depended on agriculture resulting in crowding of rural area, pressure on land, fragmentation of land holding, underemployment and unemployment with fixed amount of land available for cultivation, more population makes the amount of per capita availability of land very small or nil. This has resulted in inequality in distribution of land and ultimately affecting agricultural production badly. Industrialization is the only answer to shift the surplus labour engaged in agriculture to industries and release the pressure on land.
2. Industrial activities provide more job opportunities than agricultural activities. So industrialization will help getting employment for the jobless in the country.
3. Industrialization is necessary for the growth of agriculture itself . Industries use raw materials from agriculture and agriculture sector needs industrial equipment and machinery such as pump set, tractor, electricity etc.
4. Establishment of basic and heavy industries must be given priority. Examples

of basic and heavy industries are iron and steel, aluminium, heavy chemicals, heavy electrical etc. These are capital goods industries. Every economy needs such type of industries because they procedure machinery and equipment needed to establish other industries which can produce consumer goods for the satisfaction of wants. So the heavy industries are the backbone of the economy.

It should be noted that after the adoption of heavy industry strategy the government of India created public sector to establish and manage such industries. Some of the examples are steel authority of India limited (SAIL), Bharat aluminium company (BALCO), Bharat heavy electrical limited (BHEL), National aluminium company (NALCO), etc.

5. Besides heavy and basic industries, Indian government has also given emphasis on developing the micro, small and medium industries. These industries are defined on the basis of investment limit and can be established by private individuals. The advantage of these industries include: promotion of self employment as well as generating employment furthers, use of local resources, reducing inequality of income as they can be owned by individuals etc.

## 2.7 NEW ECONOMIC POLICY

As said above, the heavy industry strategy was implemented under the ownership and management of the public sector. The government made budgetary provisions for the public sector to create infrastructure and establish industries. The process went on for more than three decades. However, an evaluation of the performance of the public sector by the government itself found that barring a few, more than half of the public sector units have been running on losses. There was gross mismanagement and labour problems falling the public sector units. It was a major shock to the government to find all these short comings of public sector. The failure of the public sector on various fronts was seen as one of the major reasons for lack of all round development of the country in the area of industrialisation, removal of poverty and unemployment etc. Hence in 1991, the central government came out with a new economic policy resolution. The main feature of this policy are:

- (i) Liberalization
- (ii) Privatization
- (iii) Globalization

The policy is also popularly called LPG model of development.

### Meaning of and Need for Liberalization

Liberalization means withdrawal of controls and regulations by the government on establishment and running of industries in the country. Till 1991, all the public sector units were practically under the government even if they were called



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autonomous bodies. There were lot of interventions by the ministries of the government in functioning of the public sector. This resulted in politilization and fall in professionalism and inefficiency. In order to overcome this problem the government decided to stop political intervention in the running of the public sector units by signing a memorandum of understanding. According to this the management of public sector units will be given autonomy to function but they will also be accountable.

Another important feature of liberalization is to do away with the licensing system. Earlier it was mandatory for any private individual or organization to seek permission from the government to start any industrial activity. There was heavy rush and long queue before the window of the concerned government department to get a license. This system slowly gave rise to delays in getting license. Government officials started taking bribes to clear files. Such corrupt practices brought bad name to the government. So in 1991 government decided to abandon the licensing system and allowed the interested individuals to start their industrial activity without any permission. However, permission is still required only in case of strategic industries such as medicine, defence equipments etc.

**Meaning of and Need for Privatization**

Privatization implies opening of the door of industrial activities to the private sector which was exclusively reserved for public sector only except nuclear enemy and defence. Since basic and heavy industries were strictly under public sector there was no room for competition. The quality of product and services deteriorated due to lack of competition from other companies. As a result the consumers were the major looser because they did not get quality products and the delivery system and other services were also very poor. So the government decided to allow and encourage the entry of private sector in the areas earlier reserved for public sector only. As a result private sector entry was seen in tele communication, civil aviation etc. The government also decided to disinvest some of the public sector companies by selling part of their assets to public.

**Meaning of and Need for Globalization**

Globalization is a process in which attempts are made by the different countries in the world to allow free flow of goods and services, labour technology, investments etc. India is a member of world trade organization (WTO) which is the nodal agency to promote globalization. In 1991 industrial policy, India adopted soft attitude towards foreign companies to do their business in India in order to promote competition. It also committed itself to abolish or reduce tariff on import of commodities. On the otherhand, India also adopted policies to promote exports. The government also allowed foreign companies to hold 51 percent share or more

in case of their collaboration with Indian companies so that they can function freely and as the owner. This will also facilitate transfer of latest technology into Indian territory.



### INTEXT QUESTIONS 2.3

1. Liberalization aims at retaining the licencing system. True or False
2. Privatization policy will help in enhancing competition in the market. True or False
3. Globalization aims at imposing tariff on imported goods. True or False

## 2.8 ACHIEVEMENTS OF ECONOMIC PLANNING

Economic planning in India was started in 1951. As said earlier, there were certain objective of economic planning which include: achieving economic growth in terms of increase in real national and per capita income, increase in the level of employment, removal of inequality in the distribution of income removal of poverty, ensuring social and economic justice etc. By 2014, India has completed 63 years of planning and has entered into twelfth plan period. It is high time to know the achievements of planning keeping in view its objectives. Let us discuss them.

### 1. Achievements in Economic Growth

Achieving economic growth was a major objectives of planning. To achieve growth it is necessary to achieve increase in national income and per capita income as well as increase in production of agricultural and industry sectors. A review of different plans shows that, the first five year plan was a success as it achieved a growth rate of 3.6 per cent against a target of 2.1 percent growth rate in national income. Then except for 5<sup>th</sup> and 6<sup>th</sup> plans, during the other plan periods i.e. from second to eleven five year plan the targeted growth rate in national income could not be achieved.

Similarly, The per capita income has attained growth but the rate of growth has been very slow. For example : During the first 30 years of planning the per capita income grew at a very slow rate of 1.2 per cent per year. Recently this growth rate has increased to some extent. Coming to agriculture, the food grain production has gone up from 51 million tones at the beginning of the first plan to 257.4 million tones in 2011-12. Particularly the production of rice, wheat has been spectacular, but production of pulses and oil seeds etc., has been below target.

In terms of industrial development, a major achievement has been the diversification of Indian industries. There has been expansion of transport and communications, growth in generation and distribution of electricity and considerable progress in steel, aluminium, engineering goods, chemicals, fertilizers and petroleum products.



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During the planning period, the per capita availability consumer goods and other essential items has increased considerably. The goods worth mentioning here include-cereals, sugar, milk, egg, edible oil, tea, cloth and electricity.

**2. Creation of Infrastructure**

India has achieved a great deal in the area of creation of infrastructure. There has been large expansion roads and railway networks. Domestic air travel has increased significantly. Expansion of irrigation and hydro-electric projects has given boost to agricultural production. There has been growth in establishment of towns and cities due to increase in urban infrastructure. Communication network in the form of mobile telephony, internet has expanded tremendously.

**3. Development in Education**

One of the brightest areas of achievements of planning has been the development in education in India. There has been a significant increase in the enrolment of children at school level. There are 378 universities and 18,064 colleges in India which is a good development for higher education. India has also 1.52 lakh higher secondary and 10.43 lakh primary and upper primary schools.

**4. Development of Science and Technology**

Another significant area of achievement has been the growth in science and technology including the increase in technical and skilled manpower. India's march in space research has been noticed by the developed countries. It has made impact in the field of nuclear energy as well. Today India's Dependence on foreign experts for consultation has reduced. On the contrary it is now able to send technical experts to many foreign countries in the middle east, Africa etc.

**5. Expansion of Foreign Trade**

Due to industrialization in the country, India's dependence on import of capital goods has delivered. Many items, which were imported earlier are being produced domestically. Due to industrial progress, India is also able to export manufacturing and engineering goods.

**INTEXT QUESTIONS 2.4**

1. During which plan period, the actual growth rate of national income was more than the targeted growth rate.
  - (a) Second plan
  - (b) First plan



## MODULE - 1

### Indian Economic Development



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## Economic Planning in India

pressure in the society. It is also the root cause of inequality in distribution of income as people who possess black money grow richer at the cost of common citizen.



### WHAT YOU HAVE LEARNT

- To solve its various economic problems India adopted Five year plans starting from 1951.
- The objectives of planning include : economic growth, increase in employment, removal of inequality and poverty and achieving social justice and equity.
- India adopted the strategy of industrialization with emphasis on basic and heavy industries to achieve the desired objectives.
- Even if the national income and the per capita income of India have recorded growth rates during planning period, the growth rates are below the target.
- India's progress in infrastructure, education, science and technology and foreign trade has been note worthy.
- Significant drawbacks of planning in India include inability to eradicate poverty, inequality and unemployment completely.
- Corruption in public places and prevalence of black money are major threats to development in India.
- In 1991 the government adopted new economic policy in order to rectify the problems associated with public sector to promote industrialization and to achieve faster economic growth.
- The new economic policy is called LPG model i.e. Liberalization, Privatization and globalization.
- LPG policy aims at removing licensing policy, promoting competition in the market and encouraging free trade in the world.



### TERMINAL EXERCISE

#### Short answer type questions

1. Give the meaning of planning ?
2. Write two objectives of planning in India ?
3. Name two types of resources needed for planning with examples ?
4. Give one justification for adopting the strategy of industrialization ?



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**Long answer type questions**

1. Explain the steps involved in the process of planning ?
2. Discuss the objectives of removal of inequality and poverty ?
3. Which strategy did India adopt to achieve the plan target and why ?
4. Explain the objectives of economic growth and increase in employment under planning in India ?
5. Explain 3 achievements of economic planning in India ?
6. Evaluate the performance of planning in removing poverty and inequality ?
7. Write a short note on achievement of planning with respect to economic growth?
8. Comment on the development of infrastructure in India?
9. Give reasons for adopting a new economic policy?
10. Explain the LPG model of the government to promote economic growth?



**ANSWERS TO INTEXT QUESTIONS**

**2.1**

1. (a)
2. (b)
3. (c)
4. (d)

**2.2**

- 1 (a)
2. (b)

**2.3**

1. False
2. True
3. False

**2.4**

1. (b)
2. False