PART SEVEN

PLANNING IN INDIA

Chapter 62

OBJECTIVES AND ACHIEVEMENTS OF INDIAN PLANS

HISTORY

Planning as an instrument of economic development in India goes back to the year 1934 when Sri M. Visvesvarayya published his book *Planned Economy for India.* This was a bold and constructive blueprint for a ten-year programme fo planned economic development of India. This pioneering work created keen interest in academic circles in the cult of planning. As a result, some more books appeared on the subject. They were Dr. P.S. Loknathan's *Principles of Planning,* N.S. Subba Rao's *Some Aspects of Planning* and K.N. Sen's *Economic Reconstruction.*

In 1938, the first attempt was made to evolve a national plan for India, when the National Planning Committee was set up under the Chairmanship of Pandit Jawaharlal Nehru. The work of the Committee was interrupted due to the Second World War and the political disturbances following the resignation of the Congress ministries. It was only in 1948 that the Committee could release a series of reports on planning in India.

In the next few years, eight leading industrialists of Bombay became convinced of the need for planning and took the initiative of preparing "A Plan of Economic Development for India". It was published in January 1944 and came to be known as the "Bombay Plan". It was a 15-years plan envisaging an expenditure of Rs. 10,000 crores. It aimed at doubling the per capita income and trebling the national income during this period. It proposed to increase agricultural output by 130 per cent, industrial output by 500 per cent, and services by 200 per cent of the 1944 figures during fifteen years.

In August 1944, the Government of India created the Planning and Development Department under the charge of Sir A. Dalal. The Department prepared a short-term plan for post-War reconstruction of the economy and a long-term plan for the economic development of the country.

Almost simultaneously with the Bombay Plan, the 'People Plan' drafted y M.N. Roy on behalf of the Indian Federation of Labour was announced. It envisaged an outlay of Rs. 15,000 crores in 10 years, and aimed at laying the greatest emphasis on the development of agriculture and consumer goods industries through nationalization of all agricultural production and distribution. The People's Plan was thus fantastic and impracticable.

A plan on Gandhian principles was put forward by Principal S.N. Agarwal of Wardha Commercial College. The Gandhian Plan was a modest one with an outlay of Rs. 3,500 crores. It aimed at developing a decentralized self-sufficient agricultural society with emphasis on the development of cottage industries. It was essentially an idealist plan which neglected the development of basic and heavy industries.

In 1946, a Planning Advisory Board was set up by the Interim Government for a rapid review of the projects prepared by the various government departments and to report on them. The Board submitted its report in December 1946.

Immediately after independence, the All India Congress Committee appointed the Economic Programme Committee with Pandit Jawaharlal Nehru as its Chairman in November 1947. The AICC resolution stated : "Our aim should be to evolve an economic structure which will yield maximum production without the operation of private monopolies and concentration of wealth and which will create a proper balance between urban and rural economies. Such a social structure can provide an alternative to acquistitive economy of private capitalism and the regimentation of totalitarian state." This is how the idea of mixed economy came to be formulated in India's economic development. The Economic Programme Committee submitted its detailed proposals on 25 January, 1948 and recommended the institution of a permanent planning commission.

On 6 April, 1948 the first Industrial Policy of the National Government of India was announced, which outlined the future pattern of India's economic development. On 26 January, 1950 the new Constitution of the Republic of India came into force, which enunciated the Directive Principles of State Policy—another milestone to be followed by the State for the economic rejuvenation of the country.

In March 1950, the Planning Commission was set up by the Government of India under the chairmanship of Pandit Jawaharlal Nehru to prepare a Plan for the "most effective and balanced utilization of the country's resources".

The Planning Commission issued the draft outline of the First Five Year Plan in July 1951 and its final version in December 1952. But the Plan covered the period from April 1, 1951 to March 31, 1956, the Second Plan 1956-61, the Third Plan 1961-66, three Annual Plans 1966-69, and the Fourth Plan 1969-74. The Fifth Plan 1974-79 did not complete five years due to the change in Government at the Centre which launched the Sixth Plan covering the period

1978-83. Again, a new Sixth Five Year Plan was started for the period 1980-85 with the change in Government in 1980. It was followed by the Seventh Plan 1985-90, two Annual Plans 1990-92, the Eighth Plan 1992-97 and the Ninth Plan 1997-2002 which is in progress.

OBJECTIVES AND ACHIEVEMENTS OF PLANS

India embarked on the path of planned economic development on April 1, 1951. Since then, she has gone through eight five year Plans and is in the midst of the Ninth Plan.* A critical appraisal of the overall achievements and failures during this period of planning is attempted below.

Objectives. There are various objectives that run through one or the other Plan. They are : (1) to increase national income and per capita income; (2) to raise agricultural production; (3) to industrialise the economy; (4) to achieve balanced regional development; (5) to expand employment opportunities; (6) to reduce inequalities of income and wealth; (7) to remove poverty; and (8) to achieve self-reliance. In a broad sense, these specific objectives can be grouped into four basic objectives : growth, modernization, self-reliance and social justice. We critically evaluate the performance of Indian Plans in the light of these objectives.

1. Growth

One of the basic objectives of planning in India has been rapid economic growth. This is measured by the overall growth rate of the economy in terms of real GDP.

The overall growth rate of the economy between 1950-51 to 1996-97 in terms of GDP at factor cost at constant prices (1980-81) had been characterised by extreme variations from year to year. Consequently, the targets of growth rates fixed for various Plans were not achieved except for the First, Fifth, Sixth, Seventh and Eighth Five-Year Plans. In the first Plan, the growth rate of 3.6 per cent per annum was achieved which was higher than the estimated growth rate of 2.1 per cent. During the Second Plan the actual growth rate was a little less 4.3 per cent as against the targeted growth rate of 4.5 per cent. In the Third Plan, the actual growth rate of 2.6 per cent was much lower than the targeted rate of 5.6 per cent. The Fourth Plan also showed a large decline in the actual growth rate which was 3.3 per cent as against the estimated rate of 5.7 per cent. But the Fifth Plan achieved a higher growth rate of 4.8 per cent against the targeted rate of 4.4 per cent. The Sixth Plan had set the target growth rate of 5.2 per cent but achieved a higher growth rate of 5.7 per cent. The Seventh Plan achieved the growth rate of 6 per cent against the envisaged target of 5 per cent. The Eighth Plan achieved a growth rate of 6.8 per cent as against the target of 5.6 per cent. Prof. V.M. Dandekar's[1] calculations show that from 1950-51 to 1980-81 the annual growth rate of GDP was 3.52 per cent and from 1980-81 to 1989-90, it was 5.18 per cent. Thus the most remarkable achievement of Indian planning has been an average annual growth rate of 5.18 per cent during the 1980s as compared to what Prof. Raj Krishna christened the *Hindu rate of growth* of 3.5 per cent till the end of the 1970s. To cap it, the economy has been able to achieve the *Washington rate of growth* of 6 per cent during the Seventh and Eighth Plans.

2. Modernization

Modernization refers to "a variety of structural and institutional changes in the framework of economic activity". A shift in the sectoral composition of production, diversification of activities, an advancement of technology and institutional innovations have all been part of the drive to change a feudal and colonial Indian economy into a modern and independent entity.

National Income. The sectoral distribution of national income reflects the structural transformation of the Indian economy.* The composition of GDP shows significant changes over the period 1950-51 to 1996-97. In 1950-51 (at 1980-81 prices), 56.5 per cent of the GDP originated in the primary sector which dropped to 33.6 per cent in 1989-90 and further to 28.8 per cent in 1996-97. This is a concomitant result of the development process whereby the primary sector gives place to the secondary sector and the tertiary sector of the economy. Consequently, the relative share of the secondary sector increased from 15 per cent in 1950-51 to 27.4 per cent in 1989-90 and to 28.3 per cent in 1996-97. The share of the tertiary sector increased from 28.5 per cent in 1950-51 to 39 per cent in 1989-90 and to 42.9 per cent in 1996-97. This pattern of structural transformation of the Indian economy is disturbing because the tertiary sector has grown faster than the secondary sector, and in the tertiary sector the unproductive segment comprising defence and public administration has grown faster than banking, insurance and business services. Thus the composition of national income has changed steadily over the five year Plans. While the share of the primary sector in GDP has declined, that of the secondary and tertiary sectors has increased. This is in keeping with the pattern observed in developed countries during the process of their development. But this generalisation is deceptive because in India more than 60 per cent of the population is engaged in agriculture

1. V.M. Dandekar, "Forty Years after Independence" in *The Indian Economy : Problems and Prospects* (ed.) Bimal Jalan, Viking. 1992.

* For a detailed analysis, refer to Ch. 72.

whereas less than 5 per cent of population works in agriculture in developed countries. Moreover, income growth in the tertiary sector is much higher than in the primary and secondary sectors. This is bound to lead to large imbalance in income distribution. Further, the tertiary sector does not produce tangible goods, and the increase in income levels of this sector will raise the demand for consumer goods thereby leading to higher inflation.

Industry. The main component in the drive for structural diversification has been towards modernization and diversification of industries. Over the past 50 years, India has achieved a broad-based industrial development. Apart from quantitative increases in the output of industrial products, the industrial structure has been widely diversified covering the entire range of consumer, intermediate and capital goods. Chemicals, engineering, transport, petro-chemicals, synthetics, electronics, etc. have made rapid strides. In most of the manufactured products, the country has achieved a large measure of self-reliance. This is reflected in the composition of the country's foreign trade in which the share of manufactured goods in imports has steadily declined. On the other hand, industrial products of wide range have become a growing component of our exports. Rapid industrialisation has been accompanied by a corresponding growth in technological and managerial skills, not only for operating highly complex and sophisticated industrial enterprises but also for their planning, design and construction. Considerable progress has also been made in industrial research and in absorbing, adapting and developing industrial technology.

The growth of the indigenous industrial entrepreneurial class and the emergence of several new centres of manufacturing industry are the other notable characteristics of industrial development during the five year Plans.[3] Besides the Birlas, Tatas, Dalmias, etc. who existed in the pre-independence period, innumerable business houses like the Escorts, Hero, Bajaj, etc. have established modern industry. Several new towns like Bhopal, Bhilai, Bokaro, Ludhiana, etc. have emerged as prominent industrial centres.

Besides, the development of the public sector has made a major contribution in the modernization of Indian economy. It has played a dominant role in the establishment of such heavy industries as steel, petro-chemicals, non-ferrous metals, petroleum, fertilisers, heavy engineering, heavy electricals, etc. thereby diversifying India's industrial structure.

Modernisation and structural change in the industrial sector is also reflected in the vast expansion of the private sector both in the large and small scale sectors through the development of a network of banking and financial institutions, money and capital markets.

To document the achievements, let us study the rate and pattern of industrial growth over the Plan periods. The industrial sector grew at an average annual compound growth rate of 8 per cent during 1951-65 which slowed down to 3.4 per cent during 1965-70. But recovered to 4.6 per cent from 1970-71 to 1979-80 and increased to 6.6 per cent from 1980-81 to 1989-90. It recorded a high growth rate of 7.3 per cent during the Eighth Plan which fell to 4.6 per cent in 1997-98. The composition of industry on the basis of use-based classification also underwent great transformation. In 1951, the consumer goods accounted for 47.6 per cent of total industrial production which declined considerably to 20.5 per cent in 1990 but rose to 25.0 per cent in 1997-98. In contrast, capital goods production was 3.5 per cent of total industrial production which increased to a high 23.7 per cent in 1990 and declined to 7.3 per cent in 1997-98. Similarly, the share of basic goods increased from 19.8 per cent to 38.4 per cent over the period which declined to 33.8 per cent in 1997-98. The growth rate for basic goods industries was 6.2 per cent during 1959-80 which rose to 10.7 per cent in 1995-1996 but fell to 3.1 per cent in the last year of the Eighth Plan due to sluggish industrial growth. The growth rate of intermediate goods during 1959-80 was 4.2 per cent which rose to 8.1 per cent in 1996-97; of capital goods it increased from 8.1 per cent to 9.3 per cent; and for consumers goods it rose from 4.9 per cent to 5.2 per cent over the period.

Agriculture. Modernisation and structural changes in agriculture have played an important role in the process of planned development. Zamindari and other intermediary tenures have been eliminated. The country has made rapid strides in the production of foodgrains, cash and horticulture crops to meet the consumption requirements of the growing population, the raw material needs of the expanding industry and for exports. For instance, the output of foodgrains increased from about 50.8 m tonnes in 1950-51 to 199.4 m tonnes in 1996-97. This phenomenal increase in the output of foodgrains by four times has been due to the spread of high-yielding varieties of inputs; extension of irrigation facilities and water management programmes; establishment of a system of support prices, procurement and public distribution; promotion of agricultural research, education and extension; and institutional and organisational arrangements to assist small and marginal farmers, share croppers and other weaker sections. Besides, there has been diversification of allied agricultural activities such as horticultural crops like apples, mangoes, oranges, etc. and animal products like milk, eggs and fish which also recorded significant increases. During 1950-51 to 1989-90, Indian agriculture achieved an annual growth rate of 2.38 per cent which was in fact

1. Rakesh Mohan, "Industrial Poli...