UNIT 14 ECONOMIC PLANNING

Structure

14.0 OBJECTIVES

After studying this unit you should be able to :

- define economic planning and explain its rationale;
- explain the nature of Indian economic planning and its long term goals;
- analyse the development strategy followed for planning from time to time;
- review performance of the Indian economy during the five decades of economic planning;
- enumerate the objectives, strategy and constraints of the Tenth Five Year Plan; and
- evaluate the role of the Tenth Plan in India's liberalized economy.

14.1 INTRODUCTION

You have learnt that the Indian economy registered a modest rate of economic growth over a period of three decades since the beginning of economic planning in 1951. The growth rate picked up during the eighties and remained sustained in the liberalization decade of the nineties, but has not been adequate enough to realise the objectives of poverty alleviation, employment generation and reduction in economic inequalities. Hence, even in the liberalized economy that this country now has, there is a strong need for effective state intervention and the instrument of economic planning. In this unit you will learn about the concept of economic planning, its rationale, and the nature of Indian economic planning. You will also have an idea about the development strategies followed by the Indian planners from time to time, the progress achieved during 50 years of planning in India, and the focus and constraints of the Tenth Five Year Plan.

14.2 MEANING OF ECONOMIC PLANNING

Economic planning has assumed different forms in different countries. Hence there is hardly any agreement among economists on the concept of economic planning. Broadly speaking, it has been used in four different senses. In the first sense, the term economic planning implies that there is an economic system in which each production unit does production according to the plan given to it by the central authority. In such a situation, the commodity to be produced and the inputs to be used in production are decided by the planning authority. This concept of economic planning is rather narrow, and implies what is often described as collectivist economic planning. In the second sense, economic planning involves laying down the targets for some enterprises, both pubic as well as private. This type of planning may at best be called partial or piece meal planning. Such economic planning is sometimes adopted in capitalist economies where the state does not take an overall view of the economy. In the third sense, economic planning refers to setting up not only the macro economic targets but also the targets for various sectors of the economy. The allocation of resources by the government is done accordingly. Moreover, the government is actively engaged in productive activities through public sector enterprises. India and a few other mixed economies have adopted economic planning in this sense. In the fourth sense, economic planning implies a system whereby the government not only lays down certain targets for private enterprises but also develops a system of physical and financial controls to make them realise these targets. These different connotations of economic planning clearly suggest that there is virtually no consensus on the concept of economic planning and those who support economic planning as an instrument of economic management rarely agree on the content of economic planning. Hence, the nature of economic planning must be clearly spelt out when one uses this term in a particular context.

In India, economic planning was adopted in 1951 in an economic system characterized by coexistence of private and pubic sectors. For four decades, the public sector was considered to be the engine of growth. However, with the beginning of the liberalization process, the government has been withdrawing from direct involvement in productive activities leaving the whole space to the private sector. Thus, the private sector has now become the dominant sector and the public sector is merely an adjunct to the former. In such an institutional setting of the Indian economy, there are two principal components of economic planning :

1 The government mobilizes financial resources, both domestic and foreign, to undertake such projects which, on account of high linkages with the private sector, induce productive activities in the latter.

2 The government implements such monetary and fiscal polices which are expected to stimulate private economic activity and thereby the overall economic growth. Earlier, regulatory physical controls were also introduced to ensure that there was no conflict between the activities of the corporates and the social goals of the state. But, since the early 1990's, the physical controls have been withdrawn in pursuit of the liberalization policy.

14.3 RATIONALE FOR ECONOMIC PLANNING

Until the disintegration of the Soviet Union, economic planning was accepted as a powerful tool of development, and in India too, most policy makers were enamoured of economic planning and strongly believed that it could break the low level equilibrium trap in which the economy had fallen during the colonial period. The common perception at the time the country got independence was that the economic planning, if adopted in India's democratic framework, could put this country's economy on the high growth path. It was generally agreed that there was a strong case for adopting economic planning in India on account of the following reasons :

1 **Failures of market mechanism :** Adam Smith, a leading classical economist was enamoured by market mechanism. England and many other developed economies had registered rapid economic growth after industrial revolution in a free market economic system. However, limitations of the market mechanism soon became obvious in respect of both efficiency and equity.

When India got independence in 1947, it was economically backward. Keen to develop rapidly in a short period, it was realised that relying entirely on market mechanism, it could not transform itself into a developed economy. The model of any of the developed economies of that time was not considered, relevant and India had to find its own development path. In the pursuit of its development goal, India could rely either entirely on market mechanism or on market mechanism with proper economic planning. It was felt that in the latter model, economic planning could make up for the deficiencies of the market mechanism, and so it preferred the latter hoping that it would prove to be more efficient and equitable.

2 **Need to strike a changed equation with developed countries :** When India got independence in 1947, it was aware of the problems which had arisen from its colonial past. During the period of colonial rule, India's economy was integrated with the British economy and a relationship had developed between the two economics based on the dependence of India's economy on that of England. This dependency relationship resulted in the development of the British economy while India's economy suffered the worst kind of underdevelopment. The Indian leadership which guided this country to independence knew very well that political independence alone was not enough for altering the situation. Therefore, the nationalist Government of India, decided to consciously change its economic equation not only with England but also with the entire developed world. For attaining this objective, India had to be self-reliant. Hence, immediately after this country got independence, it was decided to go in for economic planning as it was strongly believed that planned intervention by the state regulated both trade and movement of capital and thereby provided a developing country an equation with the industrialized world which may be less exploitative than the one to be forged in a liberalized framework.

3 **Ensuring social justice :** The policy makers in India, like in many other developing countries, believed that growth would automatically solve the poverty problem. Later on, under the influence of the Washington Consensus, the liberals in the government carried the conviction that market guided liberalized economy would ensure both economic growth and social justice. But, as the experience of the past five decades has shown, in a market guided

free enterprise economy the benefits of economic growth rarely trickle down. In fact, the market mechanism operates in such a manner that gains of economic growth tend to concentrate with the higher echelons of the society and bypass all those who deserve to be helped most. Hence, in an underdeveloped country like India, the state intervention to undertake poverty alleviation programme in the overall framework of economic planning is necessary.

It is also observed that in a liberalized framework, an economy rarely operates at full employment. During the 1990s, on account of speedy withdrawal of the state from direct involvement in productive activity and the ascendancy of the private sector over the economy, unemployment has greatly increased. Not only that, in India, seasonal operations in agriculture, growing pressure of population on land and lack of labour transfer opportunity due to rapidly shrinking job opportunities, the unemployment situation will keep on deteriorating and may ultimately lead the country's economy to total chaos. However, experts strongly believe that the situation is not as hopeless as it looks because employment planning as part of overall economic planning framework can effectively tackle not only unemployment problem but also related problems of social justice.

4 **Mobilisation and allocation of resources :** India lacks resources for development purposes. Therefore, it has to be careful about the optimal utilization of its resources. Investment projects, if chosen entirely on the criteria of private profitability, may not always be in the best interest of the society because the demand pattern that normally prevails in this country induces private producers to make investment in socially low priority areas. If this is allowed to happen, it is bound to result in a production pattern that will be highly inegalitarian in character and also inconsistent with the largest interest of the society. In India, if the interest of the weaker sections of the society are not to be subordinated to the interests of the elites, the choice of development projects should rest on social benefits rather than private profitability. This will obviously require effective intervention of the state in the economy. During the past five decades, our experience in this country has shown that the state sector institutions are far more effective mobilisers of resources than any private institution. Hence, there is undoubtedly a strong case for adopting economic planning in this country.

The United Nations conference on planning held in 1965 also recommended adoption of economic planning in developing countries to ensure socially optimal allocation of scarce resources. The UN report succinctly remarked, "It is an integral task of planning to achieve the best possible use of scarce resources for economic development. The need for using appropriate criteria for selecting projects arose because the market prices of such factors of production as labour, capital, and foreign exchange deviated substantially from their social opportunity costs and were not, therefore, a correct measure of the relative scarcity or abundance of the factor in question".

Professor D. R. Gadgil, an eminent Indian economist and the former Deputy Chairman of the Indian Planning Commission, had aptly summed up the reasons why developing countries like India considered it necessary to adopt economic planning. According to Professor Gadgil, "Planning for economic development is undertaken presumably because the pace of direction of development taking place in the absence of external intervention is not considered to be satisfactory and because it is further held that appropriate external intervention will result in increasing considerably the pace of development and directing it properly. Planners seek to bring about a rationalisation and, if possible and necessary, some reduction of consumption, evolve and adopt a long-term plan of appropriate investment of capital resources and progressively improved techniques, a programme of training and education through which the competence of labour to make use of capital resources is increased, and a better distribution of the national product so as to attain social security and peace".

14.4 NATURE OF INDIAN ECONOMIC PLANNING

Broadly speaking, economic planning is of two types (1) collectivist planning or economic planning by direction, and (2) indicative planning or economic planning by inducement. The collectivist planning has been an integral part of a socialist economy, whatever its model. Indicative planning has been practiced in a number of western countries before they decided to abandon the objective of a welfare state. We in India also adopted the second type of economic planning but with certain modifications. However, by assigning a strategic role to the public sector in the earlier period, the Government of India also incorporated some of the features of collectivist planning. But since the process of economic liberalization began in this country, the nature of economic planning has undergone a significant change, and with the withdrawal of economic controls and dilution of the role of the public sector, the economic planning that we presently have in this country is purely indicative planning. The planners have also acknowledged in the recent plan documents that with the progressive deregulation of economy and the market based decision making, the planning methods based on input-output balances for each productive sector have become less relevant. Therefore, the Indian plans are no longer based on the assumption of deterministic relationship between the plan and economic performance. Let us analyse the main features of economic planning in India in order to understand the exact nature of planning in this country.

1 **Indicative economic planning :** What W. Arthur Lewis calls planning through the market is often known as indicative planning. Under this type of economic planning free markets are fully preserved. In the earlier phase of economic planning in India, the state created a comprehensive system to regulate the activities of the private sector. Since the beginning of the liberalization process, the regulatory system has, more or less, been dismantled. The government is no longer inclined to introduce any type of controls, so much so that even the fiscal and monetary controls have been withdrawn. However, this does not limit the scope of planning. The state can still go to any extent in the pursuit of planning and put restrictions on the free play of market forces. This type of economic planning not only preserves consumer's sovereignty but also ensures various types of economic freedoms which are non-existent under collectivist economic planning.

Unlike plans in socialist economies, the Indian plans lack an element of compulsion. In socialist economies, administration is required to implement the plans and therefore the targets are usually realised. As against this, the Indian plans merely suggest the goals. They invariably lack the mechanism whereby realization of the targets may become possible. From the very beginning, the Indian plans have been laying down targets even for those sectors of the economy over which the government has no control. For instance, the entire agricultural sector has always been in the private hands but the plans lay down detailed targets for this sector. Of late, the government has retreated from the industrial sector, yet the Ninth and the Tenth plans laid down physical targets for industrial growth. This implies that what is termed as targets in the plan documents are essentially the projections.

2 **Physical planning :** If economic planning is to be effective, it has to be done in both financial and physical terms. The Soviet planners, who did the pioneer work in economic planning, were convinced that all effective planning is physical planning. Early Indian planners like C. Mahalanobis and Pitamber Pant, drawing inspiration from the Soviet planning recognised the importance of physical planning, and the five year plans in India were formulated accordingly.

According to Second Five year plan, "physical planning is an attempt to work out the implications of the development effort in terms of factor allocations and product yields so as to maximize incomes and employment". Physical planning thus requires quantitative evaluation of relations between real investment and output. For effective physical planning, reliable investment co-efficient must be available because they not only indicate the amount of investment required for raising the output by a certain amount but also the composition of total investment in terms of physical inputs required to obtain that output. For this kind of planning, the Indian planners generally relied on the technique of input-output analysis. However, ever since the government's commitment to economic planning has weakened, the quality of physical planning has received a severe setback. In fact, physical planning was always exceedingly difficult in this country. Indian planners were often confronted with extreme paucity of data and, at times, had no choice but to rely on rough estimates.

3 **Social planning :** The Indian planning has never been pure economic planning. Probably on account of the social bias in India's plans, the economic character of the planning got distorted. The impact of various social classes is clearly visible on the five year plans. In India, the dominant classes are the bourgeois, the landlords and large farmers. Not only the plans were formulated keeping the interests of these classes in mind but their implementation was also guided by what served the interests of these classes best. How else can one explain the phenomenal growth of large business houses, rapid increase in the concentration of wealth and economic power and scuttling of land reforms. The influence of the dominant classes on the Indian planning notwithstanding, the planners have accommodated the interests of the disadvantaged sections of the Indian society in various five year plans. In fact, employment programmes such as Jawahar Rozgar Yojna, the Integrated Rural Development Programme, the Employment Assurance Scheme and the Prime Minister's Rozgar Yojana were designed to alleviate poverty amongst the underprivileged. But, this is true that while most of these programmes have failed to make significant impact on poverty, they did transform the character of planning from purely economic to social.

4 **Indian plans are comprehensive :** Indian plans are comprehensive is nature as they usually cover almost all economic sectors. But, the Indian planning is qualitatively different from the type of economic planning that has been practiced by some of the West European countries in the post-second world war period who pursued planning for reconstruction purposes. They

nationalized certain industries and created a large public sector. Apprehending the onslaught of depression, the governments assigned significant roles to fused measures to maintain high level of employment and had recourse to rationing and price controls. However, all these measures simply amounted to piecemeal planning in a liberalized framework. The Indian planning, in contrast to this type of partial planning, has always been comprehensive. In Indian plans, besides laying down the macro economic goals, targets are laid down for the various sectors such as agriculture, power, transport communications, manufacturing industries, etc. The plan documents also state employment perspective and lay down targets for human and social development.

5 **Poor data base :** Any purposeful planning is to be based on comprehensive authentic data. Without adequate and reliable data, the planning exercise will lack rigour and target setting will just be a pious desire to realise certain goals. In India, throughout the five decades of planning, the availability of reliable data has been in a deplorable state. There are serious mistakes and gaps which render the available information highy inadequate and unreliable for planning purposes. The frequent changes in concepts, methodologies of compiling data, and the base year often make comparability of data rather difficult. Another important problem with the Indian data has been the time lag which considerably reduces the utility of data for purposes of economic planning.

14.5 LONG-TERM GOALS

The long-term goals of economic planning in India were spelt out in the earlier plan documents, particularly the Second and Third five year plans. In the latter plans, these goals were simply reiterated. Upto the Seventh Five Year Plan, economic planning in this country was guided by the following long-term goals :

- Economic growth – approximately 5 per cent per annum increase in the Net National Production (NNP).
- Self-reliance
- Full employment
- Reduction in income inequalities
- Poverty elimination
- Modernisation

Of all these long-term goals, economic growth always received overriding priority. Other goals were, however, differently emphasized under various plans. For instance, the emphasis of the Fourth Plan was on reduction in income inequalities, and the other goals such as employment creation, poverty alleviation and self-reliance were emphasized in the Fifth and Sixth plans. Modernisation, as a long-term goal of economic planning, was first mentioned in the Sixth Plan and was concretized in the Seventh Plan. Let us now analyse the exact nature of these goals as adopted for economic planning in India.

Economic growth : It is rightly considered be to the main long-term goal of India's five year plans. The plan documents have always projected it as the critical long-term goal. The predominant position assigned to economic growth in the Indian plans also becomes clear from the fact that the planners never acknowledged that there could be a conflict in various long-term goals of the planning. The Indian Five Year plans implicitly maintained that the gains of economic growth would trickle down and thus would not only alleviate poverty but would also reduce income inequalities. If this did not happen in the short-run, the planners contended that it could not be assumed that it would not happen in the long-run.

Overriding priority to economic growth in the Indian plans is considered to be valid. The Indian economy had virtually stagnated during the nineteenth and early twentieth century. There was massive drain of wealth from India to England during the colonial period which contributed to the development of the latter while India suffered the worst kind of underdevelopment. As a matter of fact, when India got independence it was found caught in a low level equilibrium trap. Therefore, when this country got independence, it was natural for the decision makers to accord overriding priority to economic growth. It was hoped that once growth transformed the backward economy of this country into a modern vibrant economy, the realization of other long-term goals would be easier.

The Indian economy, however, did not perform as expected by the planners. The growth rate during the first three decades of economic planning was at best extremely modest. The GDP had increased at the rate of 3.4 per cent per annum in this period. The Planning Commission had hoped that the country's real per capita income would be doubled by 1970-71 and, in any case, not later than 1977. In fact, this goal was set out in the First Five Year Plan and was reiterated in the Second Five Year Plan. However, this long-term goal was not realised until 1992-93.

Self-reliance : For a long time another important long-term goal of economic planning in this country has been self-reliance. The reasons why self-reliance received special attention of early planners is not difficult to follow. Immediately after India got independence, it was dependent on foreign countries at least in four respects. First, despite the agrarian character of the Indian economy, this country did not produce food grains in adequate quantity and thus imported food grains from the USA and some other countries. Second, lacking basic and capital goods industries, India had to acquire capital equipment and intermediates from developed countries. Third, saving rate being appallingly low, foreign aid was a necessity to step up the rate of capital formation. Fourth, technology in most of the productive activities was traditional and absolute The Indian planner, therefore, strongly felt that if India was not made self reliant in these matters, it will remain vulnerable to pressures and machinations of the developed countries.

Self-reliance as one of the long-term goals of economic planning was first stated in the Third Plan. However, the concept of self reliance as adopted in the Third Plan was rather narrow as it implied merely overcoming the need for foreign aid. In the Fcurth Five Year Plan, self-sufficiency in food grains was also incorporated in the concept of self-reliance. Though self-reliance in capital equipment and technology was never explicitly mentioned, the plans did make attempts in these directions. Over the years, India has registered two significant achievements in the field of self-reliance. First, India is now self-reliant in food. Second, India has made substantial progress in producing capital equipment. In totality, however, the goal of self-reliance has remained elusive. With the new found crase for liberalization and globalisation, self-reliance is no longer on the agenda of the Indian planners.

Full employment : In a country like India, removal of unemployment is a necessary condition for eliminating poverty. In less developed countries, with growing unemployment both incidence and intensity of poverty increase. It is probably this reason why full employment has been mentioned as one of the long-term goals of economic planning. However, full employment as a goal of planning has never been accorded a high priority. Throughout the planning period, the planners did not treat the question of employment generation separately from investment and output programmes. The consequences of this approach are obvious from the fact that since 1983 while the GDP has registered an annual growth of around 5.7 per cent, the unemployment elasticity has plummeted from 0.68 to 0.16. As of now, if the economy has to make an advance towards full employment, employment opportunities must increase at the rate of 3 per cent per annum. But, with given employment elasticity, this seems to be an impossible proposition.

Reduction in income inequalities : Reduction in income inequalities was mentioned as a long-term goal of economic planning in earlier plan documents. But, this objective always received a low priority. While referring to the goal of reduction in income inequalities, the Planning Commission had spelt out its approach in the Fourth Plan. It did not seek redistribution of income and wealth but simply underlined the limitations of the fiscal measures in this regard. The latter plans also, though talked of removal of poverty, made no reference the need for reducing income inequalities. In fact, the neglect of this long term goal arose out of the conviction of the planners that benefits of economic growth will percolate downward and will automatically lead to reduction in income inequalities. However, this approach led to rapid growth in economic disparities. According to World Development report 1999-2000 while expenditure of 20 per cent households rose from 39.3 per cent in 1994 to 46.1 per cent in 1997, the expenditure of the lowest 40 per cent households declined from 22.2 per cent to 19.1 per cent over the same period.

Poverty elimination : Elimination of poverty as a long-term goals economic planning was first mentioned in the Draft Fifth Five Year Plan. The Planning Commission, did not take up the poverty question seriously for about two decades because it found itself in agreement with the perception of the development economists of the time who believed that the gains of economic growth would trickle down and the poverty would be eliminated without direct intervention of the state. When, in the early seventies, large poverty staring development economists in the face exploded the myth of trickle down effect, the Indian planners formally proclaimed elimination of poverty as one the long term goals of the Indian planning. Yet, hoping against hope, they stated in Draft Five Year Plan 1978-83, "without any redistribution the poverty percentage should fall from 46 per cent at present to 27 after 10 years if assumed rates of growth meterialised." Hence, the Planning Commission continued reposing confidence in the trickle down effect of economic growth till the mid-seventies. However, it acknowledged the need of direct intervention to eliminate poverty in the Sixth Five Year Plan.

It is strongly believed that the strategy worked effectively and the incidence of poverty declined from 48.3 per cent in 1977-78 to 36.0 per cent in 1993-94, and is claimed that overall incidence of poverty was only 26.1 per cent in 1999-2000. Whatever estimates of poverty, one thing is absolutely clear that we have still a long way to go to realise the long term goal of poverty elimination.

Modernisation : The role of science and technology has always been recognised by the planners in the development process. But, modernisation as a long-term goal, was explicitly mentioned in the Sixth five Year Plan and had been defined in a wider sense to connote a variety of structured and institutional changes in the framework of economic activity. It implied a shift in the sectoral composition of production, diversification of activities, and advancement of technology and institutional innovations so as to transform a feudal and colonial economy into a modern and independent economy". However, in the Seventh Plan the concept of modernisation was narrowed down to technological changes, a goal easier to realise.

Check Your Progress A

1 Explain the concept of economic planning as it has been adopted in India.

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2 Distinguish between collectivist and indicative planning.

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3 Justify the overriding priority accorded to economic growth in Indian plans.

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4 State which of the following statements are True or False

(a) With the beginning of liberalisation process, the government has been withdrawing from direct involvement in productive activities.
(b) The market mechanism operates in such a manner that gains of economic growth barely trickle down.
(c) Physical planning requires qualitative evaluation of relations between real investment and output.
(d) The employment programmes initiated by the government have transformed the character of planning in India from purely economic to social.
(e) Self-reliance as one of the long term goals of economic planning in India was first stated in the Second Five Year Plan.

14.6 DEVELOPMENT STRATEGIES

In the context of development process, strategy refers to basic long-term policy to realise the fixed goals. In developing countries, there is always a serious resource constraint. These countries, therefore, cannot undertake developmental work on a large sale in all the sectors. They have to identify the leading sectors with high linkages and make concentrated large investments in them. Thus, the strategy may break the low level equilibrium trap and the economy that has not grown for a long period may begin developing. The Indian economy which had stagnated during the colonial period could be put on the growth path precisely with this kind of a development strategy.

14.6.1 The Earlier Phase – Mahalanobis Strategy

In the earlier period of economic planning, the main emphasis was on breaking the stagnation and then putting the economy on a sustainable growth path. To begin with, the planners were faced with two major problems. First, the country had virtually stagnated during the colonial period and was thus devoid of any base for initiating the process of long term growth. Second, the saving rate being appallingly low at around 9 per cent of GPD, there was a serious resource constraint. Accordingly, the planners formulated a development strategy of which the following three aspects were particularly important :

1 Creating a base that could be used for initiating long-term growth,
2 According an over-riding priority to the development of industrial sector, and
3 Developing capital goods industries on priority basis.

This strategy was sound and rational in the specific historical context in which it was formulated. The Indian economy was not only extremely underdeveloped but was also in a complete mess as it had emerged from the colonial rule. The partition of the country had also done incalculable damage. There was food shortage and infrastructure was underdeveloped. Therefore, the planners rightly decided to tackle these problems on priority basis to create conditions for initiating long-term growth. Having followed this policy in the First Plan when planners thought that the springboard was ready for further leap, they accorded over-riding priority to industrialization in the Second Plan. The great statistician turned planner, P. C. Mahalanobis was the architect of this strategy. His contention was that for a country which had lagged behind in industrialization, development of capital goods industries was an imperative necessity. According a high priority to consumer goods would have meant indefinite dependence on foreign countries in respect of capital goods and this could have delayed acceleration of growth process.

This strategy was not entirely flawless. It had relied greatly on percolation effect of economic growth on poverty alleviation and reduction of income inequalities. However, in practice, the assumption of trickle down effect of growth tuned out to be incorrect. Secondly, the strategy did not provide for employment generation. It was simply assumed that 5 per cent annual increase in national income would ensure full employment and, therefore, no specific employment generation projects were planned. Thirdly, the strategy assumed that the current consumption needs of the people would be adequately taken care of through productive capacities already available. The planners did not anticipate any shortage of food grains arising from growing demand. Hence, the strategy did not provide for increasing the output of food grains. Finally, resource constraint due to massive investment in industries had to be overcome by long-term foreign borrowings.

Despite the above mentioned constraints, this strategy was initially successful. But, by the mid-sixties, the development process ran into serious difficulties. First, the growing demand for food grains could not be met domestically and the country had to import large quantities of food grains. Secondly, massive investments in capital goods and other heavy industries required large imports which resulted in massive trade deficits. Finally, with saving rate failing to increase, massive investment in the industrial sector required large quantum of foreign aid. Besides, widespread prevalence of poverty due to failure of percolation effect led to mounting discontent with the chosen path of development, and the basic development strategy was subjected to severe criticism. Thus, the faith in the development strategy, as guided by

Mahalanobis, was shaken and the long-term planning was suspended in 1966 for three years.

14.6.2 Drift from the Mahalanobis Strategy

The long-term planning was resumed in 1969 with the Fourth Five Year Plan. However, a different development strategy was adopted. In the new strategy, the emphasis was on quick yielding projects. Hence, light industry was preferred to heavy industry in the manufacturing sector. In agriculture, technological changes were encouraged at the expense of community development, and the road devolvement received priority over railways. Pressure for modification in the earlier strategy was created by the World Bank as well. Hollis Cherrgy, a leading World Bank economist, argued that more than a decade of rapid economic growth in less developed countries was of little help to a third of their population. In India, poverty related studies revealed that the benefits of growth had not reached the poor. Therefore, the Fifth Plan accorded a high priority to removal of poverty and, to accomplish this goal, the minimum needs programme was implemented. This reflected a clear shift in the strategy of planning, though the long-term goal of self-reliance had not been abandoned.

The Sixth Five Year Plan stressed structural transformation so as to achieve sustainable high growth and a progressive improvement in the standard of living of the masses that could lead to eradication of poverty and unemployment The strategy to realise these goals had a two pronged approach. First, it aimed at implementing the projects that could accelerate economic growth and assigned critical role the public sector. Second, for alleviating poverty and eradicating unemployment, the need for incorporating action programmes like the IRDP and the NREP was emphasised.

The Seventh Five Year Plan marked a clear shift in development strategy. The earlier strategy that accorded overriding priority to development of heavy and capital goods industries was found wanting to accomplish the goals of poverty alleviation and creating conditions of near full employment. The planners, therefore, devised a new development strategy that could accelerate the rate of growth and effect substantial was reduction in unemployment. This strategy for development was prágmatic in approach and looked similar to the one advocated by Vakil and Brahmananda. In concrete terms, the Seventh Plan development strategy contained the following elements:

1 It accorded a high priority to raising agricultural production through expanding use of new technology;
2 Undermining the role of the public sector, it encouraged privatization;
3 With emphasis on liberalization of imports, it was hoped that the potential competition from foreign products would raise the efficiency of the domestic manufacturers .
4 Planning and administrative procedures were accordingly changed. The facilitating procedures replaced the earlier regulatory methods.

In totality, this strategy could be characterized as Agricultural Development Led Growth Strategy (ADLG) which was expected to accomplish high sustainable growth with social justice on account of facts that (a) strong linkages between agriculture and industry ensure high overall growth when agricultural development receives over-riding priority, (b) the rate of return on investment in agriculture is higher than the rate of return on investment in industry, (c) investment in agriculture is less import intensive than in industry, (d) employment potential of agriculture is far more than that of industry, and (e) agricultural development may help in poverty alleviation to a greater degree than growth of manufacturing sector.

14.6.3 The New Development Strategy

During the 1980s the national income of India rose at the rate of 5.5 per cent per annum. It was a remarkable improvement over the growth rate achieved during the first three decades of economic planning. However, the development strategy persued during the 1980's led the economy of the country to economic crisis. Attempts to accelerate growth rate resulted in large fiscal deficit and import liberalization caused balance of payments problems. Throughout the 1980's the fiscal situation went on deteriorating because all the time attempts were made to live beyond means and the economy plunged into deep crisis in 1990-91. By June 1991, the balance of payments crisis had so much deepened that India was on the brink of default in external payments. In 1991-92, the growth rate had plummeted to 0.5 per cent. The rate of growth of industrial production was also as low as 0.6 per cent. The inflationary pressure which had started building up in 1990-91, increased further in 1991-92 and by August 1991, the rate of inflation was as high as 16.7 per cent. The Government tackled the crisis first by taking some emergency actions such as devaluation of the rupee by around 18 per cent and shipment of gold to raise $ 600 million. But, these measures could provide only a temporary respite from the economic crisis. Hence, the government introduced significant economic reforms and adopted a new development strategy.

The new development strategy, often characterized as Export-Led Growth (ELG) strategy, was adopted in the early 1990s when the Government decided to dilute economic planning and comprehensive liberalization measures had been adopted. The ELG strategy could be effectively followed after introducing economic policy reforms which consisted of two distinct strands, viz., (1) macro economic stabilization and (2) structural reforms. Macro economic stabilization involves returning to low and stable rate of inflation and sustainable fiscal and balance of payments position. Structural reforms, often characeterised as liberalization measures, are undertaken to improve supply side of the economy. Among structural reforms which this country decided to carry out during the nineties, the more important ones are :

1 Trade and capital flows reforms
2 Industrial deregulation
3 Public sector reforms and disinvestment, and
4 Financial sector reforms.

Under trade reforms, the main emphasis has been on greater openness. Hence, controls have been dismantled and the country now has a liberalized exchange rate regime in the sense that the rupee is fully convertible for the entire current account transactions. The industrial sector has also been largely deregulated. The system of industrial licensing has been dismantled and the reservation of a large number of industries for the public sector as well as the small scale sector has been withdrawn. The public sector is no longer treated as an engine of growth and is being privatized through disinvestments. The efficiency and effectiveness of the financial system is being improved with reference to profitability, accountability and operations. By lowering down cash reserve ratio and statutory liquidity ratio, the liquidity condition in the financial market has improved and the interest rates have declined. All these measures were expected to induce rapid industrial growth but, somehow, it did not materialize.

The export did not register any spectacular growth and the overall economic growth during the nineties has also been extremely modest. In fact, the neo-liberal strategy of liberalization, privatization and globalisation has followed the IMF-World Bank prescription of stablisation and structurional adjustments. When considered in the light of experiences of Latin America, Africa and East Asian countries, it raises serious doubts whether we are following the correct path of development. However, with ELG strategy followed under the Ninth Plan it was hoped that it would encourage the efficient use of scarce resources and ensure rapid growth at least costs. The Tenth Plan also echoes these sentiments and reinforces the reduced role of the state limiting it to social and infrastructure development. You will learn about these reforms and their impact in detail in Unit 17.

Check Your Progress B

1 What were the three elements of the development strategy formulated in earlier period of economic planning ?

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2 What do you mean by macro economic stabilization ?

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3 List the important structural reforms planned to be carried out during the nineties ?

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14.7 REVIEW OF 50 YEARS OF PLANNING IN INDIA

The planning process initiated in India in 1951 has been continued for more than five decades. Since then, nine five year plans have been completed and the Tenth Five Year Plan is in progress. We shall review the first nine five year plans in this section and take up the Tenth Five Year Plan in the separate section to follow. It may be noted that ideologically the Indian planning always reflected the three influences, viz., liberalization, socialism and Gandhism. The mixture of three distant ideologies led to various compromises, the concept of mixed economy being the most important one. However, during five decades of economic planning, the theoretical basis of India's planning has been continuously reviewed and refined, yet actual plans do not seem to have been influenced much by this theoretical reasoning. The weight of political expediency has been far greater in deciding the allocation of resources and the economic models have been used only to give legitimacy to these investment decisions.

14.7.1 The Earlier Period –1951 to 1980

The First Plan, though did not specify the model on which it was based, had a framework which was essentially similar to that of Harrod Domar model. In the First Plan model, growth was seen as a function of capital formation. It assumed that the marginal rate of saving was higher than the average rate of saving. Thus, over the years, both the rates of capital formation and overall economic growth were assumed to increase. The main limitation of the model was that it did not take into account the structural problems that faced by the economy.

P. C. Mahalanobis model, inspired by the Harrod – Domar model, formed the basis of the planning strategy in the Second Plan. Its basic elements were :

1 raising the rate of investment since the rate of growth depends primarily upon the rate of investment;
2 increasing the proportion of investment in heavy and capital goods sectors as it would rapidly expand the production power of the economy; and
3 making public sector central to growth efforts with the objective that this sector ultimately controls the 'commanding heights' of the economy.

The implications of the Mahalanobis model of planning were extremely important. It meant that higher allocation of investment to capital goods industries would result in lower rate of income growth in the short run it but would be higher in the long run. The subsequent plans also accepted the basic elements of the Mahalanobis model, though the Third and Fourth five year plans attached greater importance to agriculture and allied activities as compared to the Second Five Year Plan.

During the 1970s, there was a distinct change in the perception of the planners. The evidence in support of widespread poverty undermined the planners' obsession with rapid growth of capital goods industries. The Fifth Plan approach paper clearly suggested the pursuance of schemes which could bring down per capita consumption of the richest 30 per cent of the population and ensure a minimum level of subsistence. As a result, only some changes were made in the production system so that the commodities of mass consumption could be produced in a large quantity. However, no strategy was enunciated to carry out the transfer of income to the poor. Economic growth was at best modest during the First and Second plan periods. In these two plan periods, the national income had increased at an annual rate of 3.6 per cent and 4.5 per cent respectively. During the Third Plan period, as against the targeted 5.6 per cent annual growth, the actual growth rate was just 2.5 per cent per annum. This appalling growth performance was attributed to the Mahalanobis strategy of development. However, 3.3 per cent per annum growth in national income was quite surprising in view of the modified development strategy being in favour of quick yielding projects. The national income, however, recorded a growth of 5 per cent per annum which is quite impressive.

14.7.2 The 1980s : Sixth and Seventh Plans

The Sixth Five Year Plan was formulated against a 15 years background. The Plan fixed the growth target of 5.2 per cent per annum with the hope that the growth rate would get accelerated in the post Sixth Plan period. The Plan also visualized significant progress in poverty reduction, creation of gainful employment, and economic and technological self-reliance. However, the benefits of growth did not percolate downwards. Hence, the Plan incorporated some poverty alleviation and employment generaton programmes to tackle poverty and unemployment problems directly. During the Sixth Plan period, the national income rose by 5.4 per cent per annum as against the target of 5.2 per cent per annum. This was quite encouraging and the planners felt that the economy had started moving to a high growth path.

Encouraged by over 5 per cent per annum growth achieved during the Sixth Plan period, the planners laid down an equally high growth target for the Seventh Plan with an emphasis on structural transformation. Its development strategy aimed at raising the share of industries in GDP to around 20 per cent from below 15 per cent on the eve of the Seventh Plan. Though it reiterated long term goals of the earlier plans, its particular emphasis was on sustainable development and non-inflationary growth in employment. On the eve of the Seventh Plan, infrastructural bottlenecks were particularly serious. Hence, the Plan contemplated large investments in the infrastructural development. It also listed a few other objectives which included improvement in technology in the fast growth sectors and control of inflation. It registered an impressive annual growth rate of 5.8 per cent. During this period, almost all important sectors registered satisfactory growth. The output in manufacturing sector rose at the rate of 6.7 per cent per annum and the annual growth rate exceeded 6.5 per cent in other sectors like finance, transport and communications, hotels and restaurants and community and personal services. These accomplishments on the growth front notwithstanding, the Seventh Plan period was marked by the cavalier macro management of the economy which led to large and persistent macro economic imbalances and pushed the economy into a deep economic crisis.

14.7.3 Eighth Five Year Plan

The Eighth Plan commenced on April, 1992 after two years of plan holiday during which the economy had been caught in deep crisis. The Centre's fiscal deficit was as high as 6.6 per cent of GPD. The country seemed to be advancing towards internal debt trap. The deepening of balance of payments crisis had its culmination in substantial depletion of foreign exchange reserves. The risk of default in meeting external debt objections was real. At this juncture the inflation rate also rose to the high level of 16.7 per cent. Apart from these macro economic imbalances, a large backlog of social needs of the people, widespread poverty and hunger, and the widening gap between the growth rate of labour force and the growth of employment were some other challenges before the Eighth Plan. Hence, it placed great emphasis on economic growth and accorded a high priority to productive employment. In order to achieve its goal for human development, the Plan emphasised on population control, expansion of literacy and education, provision of primary healthcare facilities and drinking water, employment generation and development of basic infrastructure.

The Eighth Plan was a high success. The growth rate registered during this period was 6.7 per cent per annum which was significantly higher than the growth target set in the Plan. The foreign exchange reserves also went up considerably. These were healthy trends. But, on the front of employment and social justice, the situation had not been encouraging. Moreover, the progress on human development front was at best modest and did not inspire much confidence about the future.

14.7.4 Ninth Five Year Plan

During the nineties, there was a fundamental departure in economic planning from the past. This was the time when India revised its economic agenda. The quest for state led capitalism was replaced by the development of market driven capitalism. The

Ninth plan which commenced in April, 1997 did not have focused development strategy, well defined objectives and a set of targets to achieve. The Ninth Plan document stated, "Our development strategy must be oriented to enabling our broad based and varied private sector to reach its full potential for raising production, creating jobs and raising income level in society". Thus the planners had no strategy for the state sector. On the external front, however, the strategy was to libralise imports and initiate steps to increase inflow of foreign investment. In financial sector, the plan advocated reforms in the banking sector and the capital market, and emphasised the need for a long term fiscal policy aiming at reducing the fiscal deficit at a sustainable level.

The Ninth Plan provided greater space to the private sector and the market forces. It nonetheless considered state intervention desirable in three areas, viz., quality of life of the citizens, generation of productive employment and regional balance. To begin with, GDP growth target of 7 per cent per annum was approved for the Ninth Plan. Later on it was scaled down to 6.5 per cent per annum. Attainment of this growth target depended on gross investment rate of 28.2 per cent which looked somewhat unrealistic keeping in view the investment rate of 24.9 per cent attained during the Eighth Plan. The public sector outlay in the Ninth Plan was kept at Rs. 8,59,200 crore at 1996-97 prices. This implied an increase of 33 per cent in real terms over the approved plan outlay of the Eighth Plan. The Ninth Plan had earmarked 25.1 per cent of the total outlay for the energy sector. The transport and communications sector was allocated 19.6 per cent and agricultural sector 1.4 per cent. As the industrial sector had been increasingly opened for the private sector, the allocation to it was just 8.1 per cent of the total outlay.

The performance during the Ninth Plan period on almost all fronts has been extremely disappointing. The national income rose at the rate of 5.35 per cent per annum as against the projected rate of growth of 6.5 per cent per annum. The rate of industrial growth was 4.5 per cent per annum as against the target rate of 8.2 per cent per annum. Both savings and investment rates did not rise The resource mobilisation by the government was of the order of Rs. 7,05,818 crore or nearly 82 per cent of the projection which meant a reduction in public sector plan by 18 per cent. Exports registered an annual growth of 6.9 per cent as against the projected growth rate of 11.8 per cent per annum. The rate of unemployment, measured on current daily status basis, rose from 5.99 in 1993-94 to 9.21per cent in 2000-01, a cause of concern for the social stability of the country. According to the Planning Commission, the poverty ratio declined from 36.0 per cent in 1993-94 to 26.1 per cent in 1999-2000. But this reduction has been obtained by making significant changes in the methodology to compile household consumption expenditure data.

14.8 TENTH FIVE YEAR PLAN (2002-2007)

The Tenth Five Year Plan which commenced on April 1, 2003, covering the period 2002-2007 represents another step in the dilution of development planning in India. Since the beginning of the 1990s, there has been a radical change in the nature of planning. India always practiced indicative planning in the framework of the mixed economy. However, during the 1990s the Indian planning has become more market oriented with the retreat of the state from the various sectors of the economy. Now, with much smaller role of the state in the economy, there is nothing imperative and the objectives laid down in the Tenth Plan are to be viewed as the intentions of the planners.

14.8.1 Objectives

Indian plans usually focused on growth and determined the growth target on the basis of a technical exercise. But, of late, the position has changed. Now the Prime Ministers' vision which is essentially a pious desire, has been made the basis for setting the target in this regard. The Tenth Plan has thus laid down an indicative target of 8.1 per cent average GDP growth for the period 2002-07. It is considered to be an ambitious target in view of the fact that, of late, the GDP growth has decelerated to around 6 per cent per annum during the last two years of the Ninth Plan. The Tenth Plan acknowledges that, over the years, the development objectives were defined not merely in terms of increases in GDP or per capita income but more broadly in terms of enhancement of human well-being. It has also laid down the following monitorable targets :

1 Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012;
2 Providing gainful employment to addition to the labour force over the Tenth Plan period;
3 Universal access to primary education by 2007;
4 Reduction in gender gaps in literacy rates and wage rates by at least 50 per cent by 2007;
5 Reduction in the decadal rate of population growth between 2001 and 2011 to16.2 per cent;
6 Increase in literacy rates to 75 per cent within the plan period;
7 Reduction in infant mortality rate to 45 per 100 live births by 2007 and to 28 by 2012;
8 Reduction in maternal mortality rate to 2 per 1000 live links births by 2007 and by 2012;
9 Increase in forest and tree cover to 25 per cent by 2007 and 33 per cent by 2012;
10 All villages to have access to potable drinking water within the Plan period; and
11 Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012.

These targets were mandated by the National Development Council at the time of approval of the Approach Paper to the Tenth Five Year plan. These are consistent with the 8 per cent growth target.

14.8.2 Development Strategy

The development strategy of the Tenth Five Year plan marks a clear shift from the past. The role of the government in the Tenth Plan is very much restricted. It is no longer required to operate directly in the productive activities and so the public sector is much less dominant. Its role is to decline in many critical sectors with further decline in government ownership in many of the existing public sector organisations. The government's role will be confined to creating conditions that are conducive to industrial growth. This, however, does not mean that the government has no direct role to play in development. It shall look after the social sector and such infrastructural activities where private sector has virtually no interest because of the unattractive returns. In order to ensure balanced development in all states, the Tenth Plan provides a state-wise break up of the broad development targets. These targets take into account the needs, potentialities and constraints in each state. The planners hope that the presentation of state wise targets in the national plan will reinvigorate planning at the state level.

According to the Planning Commission, growth has strong poverty reducing effects. But, there are frictions and rigidities in the Indian economy which often make these processes ineffective. Therefore, the Tenth Plan has laid down a strategy for equity and social justice. Along with high rates of growth, a three pronged strategy has been formulated to address the need to ensure equity and social justice. The core aspects of this strategy are summarized below :

1 Since growth in agricultural sector is likely to benefit the widest section of the rural population, especially the poor, agricultural development will receive over-riding priority in the Tenth Plan.
2 The growth strategy of the Tenth Plan will ensure rapid growth of the sectors which are likely to create gainful employment. The sectors having large employment potential have been identified. These include agriculture, construction, tourism, transport, small scale industries, retailing, IT and communication enabled services.
3 Special programmes aimed at target groups not likely to benefit directly from economic growth are being continued in the Tenth Plan as well. These poverty alleviation and employment programmes are needed to supplement the impact of growth.

14.8.3 Constraints

The Tenth Five Year Plan has been prepared at a time when the Indian economy manifested some important positive developments. The GDP growth has improved from an average of 5.7 per cent per annum in the 1980s to an average of 6.1 per cent per annum in the Eighth and the Ninth Plan periods. Rate of population growth declined to less than 2 per cent for the first time in four decades. Literacy had risen to 65 per cent in 2001 from 52 per cent in 1991. Software and IT enabled services have created confidence about India's competitive potential in the world economy. These positive features in the Indian economy on the eve of the Tenth Plan notwithstanding, the Plan has to be implemented under following constraints :

1 The economy is currently in an accelerating phase. The GDP growth rate in the Eighth Plan period was 6.7 per cent per annum which decelerated to 5.4 per cent per annum in the Ninth Plan period. The process of deceleration continued in 2002-03, the first year of the Tenth Plan when GDP rose by just 4.4 per cent. The reversal of deceleration process looks difficult because the world economy is slowing down.
2 Although growth rate of population has declined to below 2 per cent per annum, the growth rate of population in the working age group of 15 to 60 will continue to accelerate during the Tenth Plan period. Hence the labour force will increase faster than the economy's current ability to provide employment. During 1993-94 to 1999-2000 employment elasticity had declined to 0.16 from 0.53 during 1983 to 1993-94. The composite incidence of unemployment and underemployment as captured by the current daily status was as high as 9 per cent of the labour force in 1999-2000 and almost 13 per cent for the youth.
3 The Tenth Plan has laid down growth target of 8 per cent per annum. The achievement of this target hinges on substantial increases in the savings and investment rates and a reduction in the incremental capital output ratio from 4.53 during the Ninth Plan to 3.58 in the Tenth plan. The saving rate has to rise by 3.5 percentage points of GDP. This is an ambitious target. In a soft

interest economy, savings in the household sector are unlikely to increase. The government sector will be required to reduce its dissavings by nearly 2 percentage points of GDP. In the absence of such an improvement, it is very unlikely that the growth target for the Plan will be achieved primarily due to a resource constraint towards the later part of the Plan. The investment rates envisaged to rise from 24.23 per cent of GDP during the Ninth Plan period to 28.41 per cent of GDP during the Tenth Plan period is most unlikely in view of the resource constraint.

14.8.4 Critical Review

The Planning Commission's claims that the focus of the Tenth Plan is on growth, equity and social justice is questionable. The growth target seems to be highly unrealistic as in the list of monitorable human development targets almost everything has been included that is desirable for the well being of the people. After going through the list of targets, one may feel that it is a list of pious intentions rather than concrete realizable targets, The Plan admits that the realization of these targets hinges on the accomplishment of the growth target which in itself is suspect. Thus, the constraints are:

1 **Ambitious growth target :** Growth target laid down in the Tenth Plan is too ambitious. So far, India has never recorded a GDP growth of 8 per cent per annum. In 2002-03 the growth rate was just 4.4 per cent. Thus, GDP must increase at the rate of over 9 per cent per annum in the remaining 4 years which in the given conditions, is a difficult proposition.

2 **Doubtful assumptions :** Macro parameters of the Tenth Plan are essentially the assumptions based on which the planners hope to realise the growth targets. It is assumed that the savings and investment rates will rise by 3.5 and 4.2 percentage points of GDP respectively. There is no economic basis for this assumption. The savings rate is likely to remain stuck at 23.5 per cent of GDP and the investment rate at 24.5 per cent. With these levels of savings and investment, growth rate during the Tenth Plan may not be very much different from what it was during the Ninth Plan.

3 **Unrealistic projection of resources :** Projection of resources for both the Centre and the states is unrealistic. The Tenth Plan has projected a positive balance of Rs. 20,193 crore from current revenues while it realised negative balance of Rs. 2,03,801 crore from current revenues during the first three years (2002-03 to 2004-05). Since the fiscal situation of the Centre is unlikely to change so soon, it is highly unrealistic to project a positive balance from current revenues. This implies that much of the required resources may be raised through market borrowings. Even in states the fiscal situation in unlikely to change so as to generate substantial surplus from current revenues as projected for the Tenth Plan.

Thus, the Tenth plan does not inspire confidence in any respect. The growth target based on the Prime Minister's vision is not technically sustainable, macro parameters are doubtful and the resource planning is untenable. It has been candidly admitted by him at the meeting of the Planning Commission to review the mid-term progress of the Plan on April 5, 2005 that, "even with optimistic projections about the next two years, the average growth rate in Tenth Plan is not likely to cross 7 per cent, well below the target of 8 per cent per annum". The Tenth Plan has failed to push its pattern of resource allocation to boost agriculture and infrastructure. Employment in the organised sector has shown a declining trend and regional disparities have increased.

Check Your Progress C

1 What were the basic elements of Mahalanobis model that formed the basis of the planning strategy in the Second Five Year Plan ?

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2 State the core aspects of the strategy formulated for Tenth Plan to ensure equity and social justice.

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3 Fill in the blanks

(a) Massive investment in capital goods and other heavy industries required __________ imports.

(b) The growth rate registered during the Eighth Plan period was __________ per cent per annum.

(c) By lowering down the statutory liquidity ratio, the liquidity condition in the market __________ .

(d) The Tenth Plan had laid down an indicative target of __________ per cent average GDP growth for the period 2002-2007.

(e) The First Plan had a framework which was essentially similar to that of ________________ model.

(f) ____________________ model formed the basis of the planning strategy in the Second Plan.

14.9 LET US SUM UP

In India, planning was adopted in 1951 in the mixed economy framework. The indicative planning that was adopted in this country refers to a system of planning in which, besides macro economic targets, sectoral targets are laid down under the plans. Allocation of resources is done accordingly.

Market failures, rapid economic growth and equity and social justice were the considerations which persuaded the government to adopt planning in India. Planning in this country has been essentially physical in nature with emphasis on both economic and social aspects. The Indian plans have always been comprehensive and, in this sense, they have been similar to plans in collectivist economies.

Economic planning in India has been guided primarily by long-term goals such as : (i) economic growth, (2) self reliance,(3) full employment, (4) reduction in income inequalities, (5) poverty elimination, and (6) modernisation. Of all these long-term goals, economic growth always received overriding priority.

Development strategy refers to the basic long-term policy to realise certain development related goals. In the earlier phase of planning, the main emphasis was on development of heavy and capital goods industries with the assumption that it could lead to overall development of the economy. This strategy was initially successful but, later on, due to dependence on large imports and foreign aid, widely spread prevalence of poverty, and growing employment it was subjected to severe criticism. Hence, for Seventh Plan the planners devised a strategy that could accelerate the rate of growth and effect reduction in unemployment. It accorded a high priority to agricultural production, undermined the role of public sector, laid emphasis on liberalisation of import and was characterised as Agricultural Development Led Growth strategy. Adopted in a liberalised framework in 1990s the new development strategy termed as Export Led Growth Strategy stressed on the macro-economic stabilisation and structural reforms. Among structural reforms carried out during the nineties, the more important ones are : (1) trade and capital flows reforms, (2) industrial deregulation, (3) public sector reforms and disinvestments, and (4) financial sector reforms.

During the first two decades of economic planning, the First Plan was inspired from the Harrod Domar model and the Second and the Third plans were based on the Mahalanobis model. During these plan periods, since the emphasis was on development of capital goods industries, the growth rate turned out to be rather low. During the 1970s, priority was accorded to quick yielding projects and attempts were made to increase the production of commodities of mass consumption. In India's planning, the 1980's marked the beginning of high growth rate. The Sixth and Seventh plans completed during the 1980's registered GDP growth of over 5 per cent per annum. During the Eighth Plan (1980 to 1985) the growth rate was quite impressive at 6.7 per cent per annum. This, however, could not be sustained. The GDP growth rate declined to 5.35 per cent per annum during the Ninth Plan period.

The Tenth Five Year Plan commenced on April, 2002. It has laid down monitorable targets of human well being and evolved a three pronged strategy to promote social justice. In the Tenth Plan, the public sector has been relegated to a less dominated position while the private sector has been assigned a strategic role in the development process. However, it is being implemented in a decelerating phase and the indicative growth target of 8 per cent GDP growth is rather ambitious. Assumed parameters of savings and investment rates seem to be unrealistic and reduction in incremental capital output ratio from 4.53 during the Ninth Plan to 3.58 per cent is doubtful. Its projection of resources has gone haywire as the financial pattern during the first three years indicates a negative balance from current revenues of the order of 27.6 per cent. The country is experiencing jobless growth and increasing inequality both at the individual and the regional levels.

14.10 KEY WORDS

Collectivist Planning : Planning with complete control of economy by the Government.

Development Strategy : It refers to the basic long-term policy to realise certain development goals.

Incremental Capital-Output Ration (ICOR) : It expresses the relationship between the annual increase in the stock of capital and the annual increase in output as a result thereof.

Indicative Planning : Planning through the market with least government control.

Macro Economic Stabilisation : Ensuring low and stable rate of inflation and sustainable fiscal and balance of payments position.

Market Failure : Market failure occurs when resources are allocated inefficiently due to imperfections in the market.

Physical Planning : It involves balancing of the outputs of the various sectors and sub-sectors of the economy, because the output of one sector of the economy often serves as input for doing production in other sectors.

Social Planning : Planning for serving the interest of the disadvantaged sections in the sociality

Structural Reforms : Structural reforms deal with sectoral adjustments designed to tackle the problems on the supply side of the economy.

14.11 ANSWERS TO CHECK YOUR PROGRESS

A	4	(a) True	(b) True	(c) False	(d) True	(e) False
C	3	(a) Large	(b) 6.1	(c) improved	(d) 8.1	
		(e) Harrod Domar	(f) Mahalanobis			

14.12 TERMINAL QUESTIONS

1 Explain the reasons why India considered it necessary to adopt economic planning.

2 "With increasing liberalization, planning in India has undergone significant changes". In the light of this statement analyse the main features of economic planning in India.

3 "Economic Planning has assumed different forms in different countries. Hence three is hardly any agreement among economists on the concept and nature of economic planning". Elaborate on this statement.

4 Discuss the long term goals as adopted for economic planning in India. Is it correct to presume that, of late, plans have virtually abandoned the long term goals of reduction in poverty, income inequality and unemployment ?

5 In what respects the planning has been different during 1990's from what it was in the first three decades of the planning period.

6 What is meant by export-led growth strategy? Why is the Mahalanobis development strategy no longer relevant to India's development efforts ?

7 Critically examine the Tenth Five Year Plan with special reference to its objectives, development strategy and constraints.

8 Comment on the following statements.

   (a) The performance during the Ninth Plan period had been extremely disappointing.

   (b) Growth target of the Tenth Five Year Plan is unrealistic.

   (c) Eighth Plan was a high success.

> **Note :** These questions will help you to understand the unit better. Try to write answers for them, but do not submit your answers to the university for assessment. These are for your practice only.