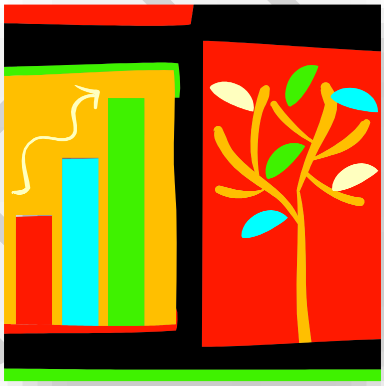
CHAPTER 2

PLANNING IN INDIA



WHAT IS ECONOMIC PLANNING?

Economic planning refers to a system under which central authority (like planning commission in India) sets a set of targets and specifies a set of programmes and policies to achieve those targets within a specified period of time.

TYPES OF PLANNING-

1. DIRECTIVE PLANNING

System in which planning is done only to direct the forces of demand and supply to maintain equilibrium. There is no direct participation of the state. Pursued in capitalist economy.

2. COMPREHENSIVE PLANNING

System of planning where government itself participates in the process of growth and development. Pursued in socialist economies.

After two hundred years of being colonised, India finally got freedom on 15 August, 1947. There was an immediate need of planning as-

☐ Indian economy was backward and stagnant Indian economy

☐ the Government of independent India was to decide the type of 'economic system', to boost the process of development.

TYPES OF ECONOMIC SYSTEMS

CAPITALIST ECONOMY

SOCIALIST ECONOMY

MIXED ECONOMY

• CAPITALIST ECONOMY

A capitalist economy is the one in which the means of production are owned, controlled and operated by the private sector. Production is done mainly for earning profits.

- ## SOCIALIST ECONOMY

A social economy is the one in which the means of production are owned, controlled and operated by the government. Their main aim is social welfare of the people.

- ## MIXED ECONOMY

A mixed economic system refers to a system in which the public sector and the private sector are allotted their respective roles for solving the central problems of the economy.

Central problems of an economy

WHAT TO PRODUCE

HOW TO PRODUCE

FOR WHOM TO PRODUCE

India adopted the system of Mixed Economy.

In a democratic country like India, complete dilution of private ownership was not possible. As a result, Mixed Economy (with best features of both Socialist and Capitalist Economy) was adopted by the Indian Economy with vision to build a strong public sector, but also with private property and democracy.

PLANNING IN INDIA

Planning is based on-

☐ How the resources of a nation should be put to use.

☐ Some general goals as well as specific objectives which are to be achieved within a specified period of time.

Plan Implementation:-Government of India set up Planning Commission in 1950, with the Prime Minister as the Chairman.

Plan Duration: - Five years; known as "Five Year Plans" (Borrowed from former Soviet Union).

The planning commission has now been replaced by NITI AYOG in February 2015.

GOALS OF FIVE YEAR PLANS (GEMS)

1. GROWTH:

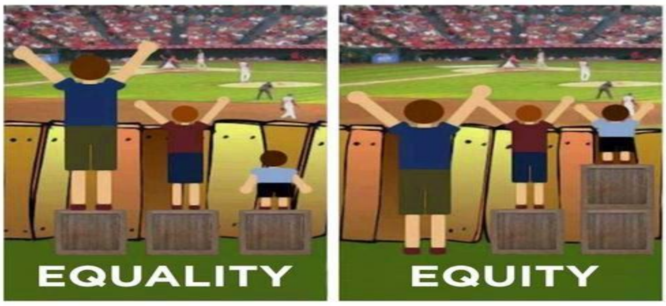
☐ Growth Refers to increase in country GDP from different sectors (agricultural, industrial, service)

☐ GDP can be increased by

- Increasing the country's capacity to produce the output of goods and services.
- Increasing the supporting services like transport and banking, power, communication etc

2. EQUITY:

Benefits of economic prosperity reach the poor sections as well. This can be done by reducing inequality in the distribution of wealth. Every Indian should be able to meet his or her basic needs such as food, housing, education and health care etc.



3. MODERNIZATION:

- Modernization is the adoption of new technology to increase the production of goods and services.

- It can be new seed varieties in agriculture or using a new type of machine in factory.

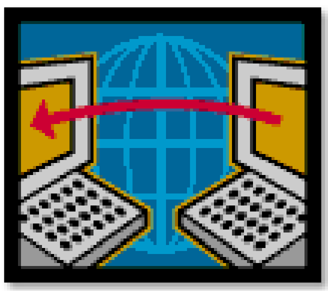
- It also includes changes in social outlook such as the recognition women empowerment by giving them same rights as men.

4. SELF-RELIANCE:

- Self-reliance means avoiding imports of those goods which could be produced in India itself to promote economic growth and modernization.

- Main areas covered were food supplies, foreign technology and foreign capital.

- It can be done by reducing our dependence on foreign countries to avoid foreign interference in economic and national policies.



SHORT PERIOD GOALS/OBJECTIVES

PLAN 1

HIGHER AGRICULTURAL PRODUCTION

PLAN 2

INCREASE INDUSTRIAL PRODUCTION

PLAN 3

SELF SUFFICIENCY IN FOODGRAINS

PLAN 4

PRICE STABILITY & FULLER UTILISATION OF MANPOWER

PLAN 5

ALLEVIATION OF POVERTY

PLAN 6 & 7

GREATER EMPLOYMENT OPPORTUNITIES

PLAN 8

REINFORCED OBJECTIVE OF FULL EMPLOYMENT, UNIVERSALISATION OF EDUCATION

PLAN 9

GROWTH, PRICE STABILITY, ENVIRONMENTAL SUSTAINIBILITY

PLAN 10

BETTER QUALITY OF LIFE

SOME LATEST

PLAN 11

POVERTY REDUCTION, JOB VREATION, PROTECTION OF ENVIRONMENT

PLAN 12

SUSTAINABLE & INCLUSIVE GROWTH

FEATURES OF ECONOMIC POLICY PURSUED UNDER PLANNING UNTIL 1991

1. HEAVY RELIANCE ON PUBLIC SECTOR-

- Under the **IPR 1956**, 17 industries were reserved for public sector and 12 for private sector
- This was done to achieve the socialistic pattern of development.

2. REGULATED DEVELOPMENT OF PRIVATE SECTOR-

- According to **Industrial Development and Regulation Act 1948,** new industry in the private sector could not be established without a license.
- **Monopolies and Restrictive Trade Practices Act 1969,** placed restriction on expansion of private industries.

3. PROTECTION OF SMALL SCALE INDUSTRY AND REGULATION OF LARGE SCALE INDUSTRY-

- Certain areas were exclusively reserved for small scale industries
- Financial institutions were developed to cater to their needs
- Several boards were established to promote SSI in global market.

4. DEVELOPMENT OF HEAVY INDUSTRY OF STRATEGIC SIGNIFICANCE-

- Electricity generation, engineering good, iron and steel industry.

5. FOCUS ON SAVINGS AND INVESTMENT-

- High interest rates were offered to promote saving
- Investment was induced through subsidies and capital grants.

6. PROTECTION FROM FOREIGN COMPETITION-

- High import duties and quantitative restrictions levied on imports.

7. FOCUS ON IMPORT SUBSTITUTION

8. RESTRICTION ON FOREIGN CAPITAL-

- FDI controlled and regulated through **Foreign Exchange Regulation Act.**
- Foreign loans were given priority over FDI.
- This was done to minimise the economic control of domestic market by foreign investors.

9. CENTRALISED PLANNING-

- State level growth programmes were aligned in accordance with the central plans for maximum benefits.

SUCCESS OF PLANNING

1. **INCREASE IN NATIONAL INCOME-**

   Indicating overall economic growth.

2. **INCREASE IN PER CAPITA INCOME-**

   Greater availability of goods and services per head of population of the country.

3. **RISE IN SAVINGS AND INVESTMENT**

4. INSTITUTIINAL AND TECHNICAL CHANGE IN AGRICULTURE-

- **THROUGH LAND REFORMS:**
  i. Abolition of intermediaries between the state and tiller of soil.
  ii. Modernisation and regulation of rent.
  iii. Ceiling on land holdings and redistribution of land.
  iv. Optimising holding size through consolidation of holdings.

- **THROUGH IMPROVEMENT IN TECHNOLOGY**

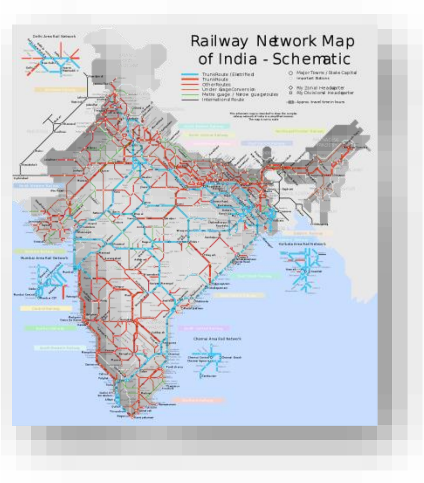
  i. Use of HYV seeds led to self-sufficiency in food grains.

5. GROWTH AND DIVERSIFICATION OF INDUSTRY-

Indian economy is now ranked as the 10th largest industrial economy in the world.

6. ECONOMIC INFRASTRUCTURE-

- Key elements of economic infrastructure are - means of transport and communication, irrigation facilities and power generation capacity, banking and insurance facilities.
- India has one of the largest rail networks in the world.
- There has been a revolutionary growth in the IT sector.



7. SOCIAL INFRATSRUCTURE-

- Health and education are the key elements of social infrastructure.
- Death rate has come down to 6.4 per 1000 in 2016 from 27 per 1000 in 1951
- Average life expectancy has increased to 68.3 years in 2015 from 32 years in 1951.

8. INTERNATIONAL TRADE

- India exports engineering goods. This is a sign of India emerging as an industrial nation. Earlier it used to export primary products.

FAILURES OF PLANNING

1. ABJECT POVERTY

- 21.9% of the population still lives below poverty line.
- Nearly 50% of the absolute poor people in the world are in India.

2. HIGH RATE OF INFLATION

Real income of the people has tended to erode due to inflation.

3. UNEMPLOYMENT CRISIS

- At the end of first plan, 53 lakh people were unemployed.
- This number rose to 4 crore by the end of 11th plan.

4. INADEQUATE INFRASTRUCTURE

- Lack of proper roads, dams, power, bridges, schools, colleges and hospitals still persists.
- Shortage of power has been a serious constraint in the overall process of growth.

5. SKEWED DISTRIBUTION

Widening social and economic inequalities has compelled the government to offer reservations in jobs to the economically weaker and socially weaker sections of the society.

LAND REFORMS

Land Reforms refer to change in the ownership of landholdings. It ensures that land is lawfully passed on to people who actually cultivate it (this is known as providing land to tiller of the soil).

AGRARIAN REFORMS

1. INSTITUTIONAL REFORMS
   - a.k.a LAND REFORMS
2. TECHNICAL REFORMS
   - a.k.a GREEN REVOLUTION

1) LAND REFORMS (RAT)

1. **Redistribution of Land (Land ceiling)**

☐ This means fixing the maximum size of land which could be owned by an individual.

☐ The purpose of land ceiling was to reduce the concentration of land ownership in a few hands.

2. **Abolition of intermediaries**

☐ In India, middlemen (Zamindars) who collected rent from the actual cultivators and deposited a part of it to the government as land revenue were abolished before 1951.

☐ As a result almost 200 lakh tenants got into direct contact with the government and were thus freed from being exploited by the (Zamindars)

3. **Tenants Ownership Rights**

☐ Legislations have been passed to transfer ownership rights on tenant-cultivators. In some states, tenants were made the owners and asked to pay compensation to previous owners.

☐ It gave tenants the incentive to increase their output and this contributed to growth in agriculture.

DRAWBACKS IN LAND REFORMS (FILE)

1. *Fault in Legislations*

☐ In some areas the former zamindars continued to own large areas of land by making use of some loopholes in the legislation.

☐ The intermediaries were allowed to retain substantial areas of land for personal cultivation.

2. *Implementation delay*

☐ The big landlords challenged the legislation in the courts, delaying its implementation.

☐ They used this delay to register their lands in the name of close relatives, thereby escaping from the legislation.

3. *Lack of Political Will*

☐ Land reforms were successful in Kerala and West Bengal because these states had governments committed to the policy of land to the tiller.

☐ Unfortunately, other states did not have the same level of commitment and vast inequality in landholding continued.

4. Exploitation

☐ Landlords often forced their tenants to voluntarily surrender the land being cultivated by them.

☐ There were cases where tenants were expelled and the Landowners claimed to be self cultivators (the actual tillers).

2) GREEN REVOLUTION

Green Revolution refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice.

Origin of Green Revolution:-

In the Kharif season (1966), India adopted High Yielding Varieties Programme for the first time. The programme was successful due to:

☐ High Yielding Varieties (HYV) of seeds;
☐ Adequate irrigation facilities;
☐ Application of fertilizers, pesticides, insecticides, etc.

REASONS REQUIRE FOR GREEN REVOLUTION (CAP)

1. 75 % of the country's population was dependent on agriculture.
2. Agriculture in India depends on the monsoon and inadequate monsoon created trouble for the farmers.
3. Productivity in the agricultural sector was very low because of the use of old technology.

PHASES IN GREEN REVOLUTION

1. First phase (Approximately mid 1960s upto mid1970s)

 The use of HYV seeds was restricted to the richer states such as Punjab, Andhra Pradesh and Tamil Nadu.
 Further, the use of HYV seeds primarily benefited the wheat growing regions only.

2. Second phase (mid-1970s to mid-1980s)

The HYV technology spread to a larger number of states and benefited more variety of crops.

BENEFITS OF GREEN REVOLUTION (SIDE)

1. Self-reliance:-
   The spread of green revolution technology enabled India to achieve self-sufficiency in food grains; we no longer had to be at the mercy of America, or any other nation, for meeting our nation's food requirements.
2. Increase in the market surplus:-
   Marketable Surplus refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirement As a result of the surplus, income of the farmers increased.
3. Decrease in price of good grains:-
   The price of food grains declined in comparison to other items of consumption. The low income groups, who spent a large percentage of their income on food, benefited from this decline in relative prices.
4. Enables Buffer stock:-
   The green revolution enabled the government to secure sufficient amount of food grains to build a stock which could be used in times of food shortage.

CONCERNS IN IMPLEMENTING THE GREEN REVOLUTION

1. Risk of Increase in Income Inequalities:-
   There was a possibility that it would increase the disparities between small and big farmers—since only the big farmers could afford the required inputs.
2. Risk of Pest Attack:-
   Moreover, the HYV crops were also more prone to attack by pests and the small farmers who adopted this technology could lose everything in a pest attack.

STEPS TAKEN BY THE GOVERNMENT (GOVERNMENT ROLE)

1. Financial help:-
   The government provided loans at a low interest rate to small farmers and subsidized fertilizers so that small farmers could also have access to the needed inputs.

2. Role of research institutes: -
   The risk of the small farmers being ruined when pests attack their crops was greatly reduced by the services provided by research institutes established by the government.

DEBATE OVER SUBSIDIES TO AGRICULTURE:-

Subsidy, in context of agriculture, means that the farmers get inputs at prices lower than the market prices.

ECONOMISTS IN FAVOR OF SUBSIDIES (RIP)

1. Risky Business: -
   The government should continue with agricultural subsidies as farming in India continues to be a risky business.

2. Income inequality: -
   Eliminating subsidies will increase the income inequality between rich and poor farmers and will violate the ultimate goal of equity.
3. Poverty:-
   Majority of the farmers are very poor and they will not be able to afford the required inputs without the subsidies.

ECONOMISTS -AGAINST THE SUBSIDIES

1. Burden on Govt. Subsidies was granted by the Government to provide an incentive for adoption of the new HYV technology. It is a huge burden on the government's finances. It should be withdrawn as their purpose has been served.

2. Benefit to rich farmers: - Subsidies do not benefit the poor and small farmers (target group) as benefits of large amount of subsidy go to fertilizer industry and prosperous farmers.

INDUSTRIAL DEVELOPMENT

At the time of independence, the variety of industries was very limited. The cotton textile and jute industries were mostly developed in India. There was only two well-managed iron and steel firms; one in Jamshedpur and the other in Kolkata.

ROLE OF PUBLIC SECTOR IN INDUSTRIAL DEVELOPMENT (LOSE)

1. Lack of Incentive for Private Sector:

☐ The Indian market was not big enough to encourage private industrialists to undertake major projects.
☐ Due to limited size of the market, there was low level of demand for the industrial goods.

2. Objectives of Social Welfare:

☐ State had complete control over those industries that were vital for the economy.

☐ The objective of equity and social welfare of the Government could be achieved only through direct participation of the state in the process of industrialization.

3. Shortage of Capital with Private Sector:

☐ Private entrepreneurs did not have the capital to undertake investment in industrial ventures.

☐ Government had to make industrial investment through Public Sector Undertakings (PSU's)

3. Employment generation:-

☐ Industry provides employment, which is more stable than the employment in agriculture.

☐Industrialization promotes modernization and overall prosperity.

INDUSTRIAL POLICY RESOLUTION 1956

☐ Industrial Policy Resolution of 1956 was adopted to build the foundation for a socialist pattern of society in 2nd five year plan.

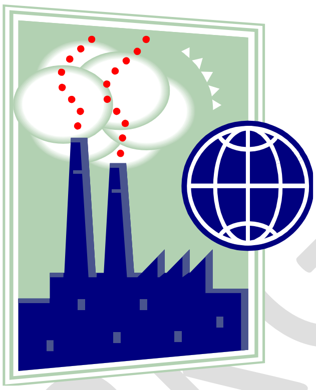
☐ Industries were reclassified into three categories-

SCHEDULE A
This first category comprised industries which would be exclusively owned by the State. Like arms and ammunitions; atomic energy; aircraft; oil; railways etc.

SCHEDULE B
In this schedule, State would take the initiative of setting up industries and private sector will supplement efforts of the state. It included industries like aluminium, mining industries, fertilizers, etc.

SCHEDULE C
This schedule consists of the remaining industries which were to be in the private sector. These industries were controlled by the state through a system of license.

Private sector will join hands with the State, with the state taking the sole responsibility for starting new units.



SMALL-SCALE INDUSTRIES (SSI)

In 1955, the village and small-scale Industries Committee (Karve Committee) recommended the growth of small-scale industries to-
- Promote rural development.
- Generate more employment.

☐ In 1950, a small scale industry unit was one which invested a maximum of rupees five lakh.
☐ At present the maximum investment allowed is rupees one crore.

IMPORTANT POINTS ABOUT SMALL-SCALE INDUSTRIES

1. Need for Protection from Big Firms:
   Small-scale industries cannot complete with the big industrial firms. So, various steps were taken by the government for their growth.

2. Reservation of Products:
   Government reserved production of a number of products for the Small-scale Industry.

3. Various Concessions:
   Small-scale industries were also given concessions, such as lower excise duty and bank loans at lower interest rates.

TRADE POLICY

IMPORT SUBSTITUTION

- In the first seven plans, foreign trade policy was "inward looking Trade Strategy" called "Import Substitution'.

- Import Substitution refers to a policy of replacement or substitution of imports by domestic product.

Protection from Imports used-

1. Tariffs:-
   Refers to taxes levied on imported goods. The basic aim for imposing heavy duty on imported goods was to make them more expensive and discourage their use.

2. Quotas:-
   It refers to fixing the maximum limit on the import of a commodity by a domestic producer.

REASONS FOR IMPORT SUBSTITUTION

1. Avoid foreign competition: -
   Industries of developing countries, like India, are not in a position to compete against the goods produced by more developed economies. With protection, they will be able to compete in the due course of time.

2. Saving foreign exchange:-
   Restriction on imports was necessary as there was a risk of drain of foreign exchange reserves on the import of luxury goods.

EFFECT OF POLICIES ON INDUSTRIAL DEVELOPMENT (1950 - 1990) (PICK)

- Protection from foreign competition (through Import Substitution) enabled the development of local industries in the areas of electronics and automobile sectors, which otherwise could not have developed

- Industry diversification- The industrial sector became well diversified by 1990, largely due to public sector. It was no longer restricted to cotton textiles and jute. It also included engineering goods and a wide range of consumer goods.

- Contribution in GDP by the industrial sector increased in the period from 11.8 % in 1950-51 to 24.6 in 1990 – 91. This rise in industry's share of GDP is an important indicator of development.
- Key Role in Promoting of small-scale industries: Gave opportunities to people with small capital to get into business. New investment opportunities helped in generating more employment. It promoted growth with equity.

CRITICAL VIEW OF POLICIES ON INDUSTRIAL DEVELOPMENT (1950) (TIME)

1. Trade Inward looking trade strategy:

☐ Due to restrictions on imports, some domestic producers made no sincere efforts to improve the quality of their goods and it forced the Indian consumers to purchase low quality produced by them.

☐ The domestic industry failed to achieve international standards of product quality.

2. Inefficient Public Sector

☐ Many public sector firms incurred huge losses but continued to function because it is difficult to close a government undertaking (unemployment problem) even if it is a drain on the nation's limited resources.

☐ Public sector continued to monopolise in certain non-essential areas, which was not required and that private sector could also handle. For example, telecommunications, hotel industry etc.

☐ Role of private and public sector and private sector was not clear.

3. Misuse of Licensing:

☐ Some big industrialists who got a license not to start a new firm, but to prevent competitors from starting new firms.

☐ A lot of time was spent by industrialists in trying to obtain a license instead to improving the quality of the product.

4. Evaluation of Public sector:

☐ Public sector firms should be evaluated on the basis of the extent to which they contribute to the welfare of people and not on the profits they earn.

☐ Public sector is not meant for earning profits but to promote the welfare of the nation.

CONCLUSION

IN AGRICULTURE SECTOR:

☐ India became self-sufficient in food production due to the green revolution.

☐ Land reforms resulted in abolition of zamindari system.

IN INDUSTRIAL SECTOR:

☐ The industries became diversified compared to the situation at independence. However, excessive government regulation prevented their growth.

☐ Many economists were dissatisfied with the performance of public sector enterprises.

IN TRADE SECTOR:

☐ Our policies were 'inward oriented' and so we failed to develop a strong export sector.

☐ The domestic producers were protected against foreign competition in order to gain self-reliance.

However, this did not give them the incentive to improve the quality of goods that they produced.