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## Paper: 12, BUSINESS ENVIRONMENT

### Module: 11, Economic Planning in India



#### Principal

**Prof. S P Bansal**  
Vice Chancellor  
Maharaja Agrasen University, Baddi

#### Co-Principal Investigator

**Prof Yoginder Verma**  
Pro-Vice Chancellor  
Central University of Himachal Pradesh, Kangra, H.P.

#### Paper Coordinator

**Prof. Manjit Singh**  
Professor, School of Applied Management,  
Punjabi University, Patiala (Pb)

#### Content

**Dr. Monica Bansal**  
Department of Commerce  
Panjab University Rural Centre, Kauni, Muktsar, PB

Items	Description of Module
<b>Subject Name</b>	Management
<b>Paper Name</b>	Business Environment
<b>Module Title</b>	Economic Planning in India
<b>Module Id</b>	Module No.-11
<b>Pre- Requisites</b>	Basic knowledge of what economic planning and five year plan is.
<b>Objectives</b>	To Study the Economic Planning in India
<b>Keywords</b>	Economic Planning, NITI Aayog, Five Year Plans, Employment, Planning Commission

### QUADRANT-I

Module-11 Economic Planning in India
1. Learning Outcome
2. Introduction
3. Importance and Features of Economic Planning
4. Features of Indian Economic Planning
5. Objectives of Indian Economic Planning
6. A Critical Evaluation of Indian Economic Planning
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9. Summary

#### 1. Learning Outcome:

After completing this module the students will be able to:

- Understand the concepts of economic planning in India.
- Understand the Salient Features of Indian Economic Planning.
- Understand the Objective and Evaluation of Indian Economic Planning.
- Learn the Meaning of Planning Commission.
- Understand the new concept of NITI Aayog

#### 2. Introduction

India adopted economic planning in 1951 when it launched its First Five Year Plan for the period 1951 to 1956. Since then it has completed Eleven Five- Year Plans besides a few years of break in the form of Annual Plans. The country at present has entered the Twelfth Five Year Plan period (2012-2017). Economic Planning is defined as “the making of major economic decisions-what

and how much is to be produced, how, when and where it is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority on the basis of a comprehensive survey of the economic system as a whole”. At the time India became free; its economy was underdeveloped, with poverty rampant and the quality of life dismally low. To raise the level of living of the people, the government undertook the task of development of the country through the medium of five-year plans. This involved a large role for the public sector and a strict control of the private sector and a limited place for the market. Although much has been achieved since then, a lot remains to be done. In the early 1990s, beginning from the mid-1991, the Government drastically changed its economic policies. It assigned a large role to the private sector, and has to a large extent, given a market orientation to the economy. In this new phase, planning is being resorted to by the Government to guide and to direct the economy along the path of growth and equity. The system of planning too has undergone changes from the one which involved at large many rules, regulations and interventions to one which is liberal and flexible.

### 3. Importance and Features of Economic Planning

The following are the major points of discussion about the importance and features of economic planning in the country:

- **For Development:** As said earlier, in the beginning the medium of planning was used primarily for the development of the economy. Other considerations too weighed with the government and these were important too. But these were of secondary importance. The Indian economic planning was introduced for the development of the nation.
- **Superior way of Development:** The most important reason for the adoption of planning was that it was considered a superior way of developing the economy. It was rightly thought that planning was essential to ensure a quick building of the productive capacity of the country. This was possible because a large and a pre-determined proportion of national resources could be devoted to the construction of infrastructural facilities like, railways, roads and communication etc. and capital goods industries like, machine, equipments and tools etc. As for the resulting problem of inadequate supplies of consumer goods were concerned, it could be tackled by an equitable distribution of the same e.g. rationing to protect the interests of the poor.
- **Overcoming Weaknesses of the Economy:** It was over realized that planning alone could help in getting over the hurdles to development in the country. One very serious handicap was, e.g. the lack of an entrepreneurial class. Being an agrarian economy, there was virtually no industrialist. A commercial class did exist. But it was interested in making quick money in trade. People having money like money lenders were not attuned to investments in modern activities. They invested in such non-development activities as gold, land, luxury living etc.
- **Undertaking Big Tasks:** Not only to overcome the weaknesses of the economy, but more than that planning was look upon as an instrument which could enable the government to undertake many big tasks which cried for big solutions. There was e.g. the great uphill

task of pulling up a very low investment rate to a sizeable figure in a reasonable period of time. Alongside this race for raising the productive capacity of the country, the fast rising population, which could eat into investment resources, had to be both limited provided for in respect of such minimum requirements as water, food, clothing, safety from epidemics and floods etc.

- **Meeting Initial Bad Situation:** Planning was much needed also for solving many difficult and unprecedented problems arising out of the partition of the country in 1947. It gave rise to the influx of refugees on a mass scale from Pakistan. There was in the second place the big loss of raw material producing areas e.g. jute for India. These difficulties got superimposed upon the problems inherited from history, including that of Second World War. That is why the government alone could lay priorities for the resource-use in social terms.
- **For Guiding and Directing Economy:** In the new phase of India's economic development, planning continues to be important. It has now the task of coordinating the diverse activities of the economy to ensure that it grows more rapidly and renders social justice to the weaker section of the population. The state government too has the important role to play. But it has much different from the one it had played so far.
- **Raising Efficiency:** One important task of the new format of planning is to increase the productivity of the economy in general. The stock of capital has increased considerably. The rate of saving and investment compares well with some industrially developed countries. The industrial structure is now a much diversified structure. A large entrepreneurial class has grown. Besides, quite many managerial and technical personnel have come to exist. There are large many institutional arrangements to finance and promote development.
- **Providing for Growth and Equity:** Another important reason for planning is the objective of providing both for growth and equity. One aspect of this provision is a larger allocation of resource to the private sector which is now to contribute to growth in the existing lines, as also in several new lines, including some important ones so far reserved for the public sector. The public sector is to ensure a large and stronger basis for the economy to grow.

#### 4. Feature of Planning in India

The following points depict the features of planning in India:

- **Indicative Character:** The aim of Five Year Plans is more indicative with the passage of time and these are so designed as to indicate to the economic agents' viz., investors, savers, producers, exporters, importers and bankers etc. It is indicative in the sense that it merely outlines the directions towards which the economy is desire to move.
- **Public Sector Planning:** The important feature of Indian economic planning is that it involves the public sector undertakings for which planning are required. These plans include various schemes, institutional changes and measures for the fulfillment of plan-objectives. Most of these require construction projects, which in turn need investment.

- **Decentralized Planning:** Indian planning system is decentralized in nature. Both in the preparation and in the implementation of plans, the planning process involves the participation of people on an extensive scale. This enables the planners of the country to embody the wishes of the people into the plans.
- **Mixed Economy Planning:** A feature of considerable importance is that the planning system works within an economy which combines the private sector with the public sector. Two facets of the country are of key relevance from this angle. One concerns the areas covered by the respective sectors.
- **Planning for Growth with Equity:** Another important feature of Indian economic planning is its concern with both the growth of the economy and the rendering of social justice to underprivileged of the country. Alongside growth, programmes are also formulated and implemented specially for the benefit of the poor and the resource less.
- **Different from the Old System:** The old system was in the nature of a directive system rather than an indicative system as at present. As such the allocation of large many resources in different uses was done in terms of the directive of the government. Moreover, the old system with its comprehensive plans, which covered large many activities of the economy, relied very largely on the public sector for the execution of programmes.

## 5. Objectives of Indian Economic Planning

The basic plans of India have been related to the removal of economic backwardness of the nation and make it a developed country. The plans have also been implemented to ensure that the weaker sections of the population strata will take the benefits from the economic progress of the nation. Various successes have already been achieved in all these areas. But all is not well with all the plans which have been implemented.

**Basic Objectives:** Each plan, beginning with the First Plan in 1951, listed the basic objectives of India's development. These objectives provide so to say the guiding principles of Indian planning. Within this frame work each five year plan formulated objectives, keeping in view the problems arising from the new constraints and new possibilities. This gave rise to immediate objective of each plan. The basic objectives of planning are discussed as follows:

- **Growth:** In a country with very low per capita income of the income is obviously the basic thing to do. The target of growth rate has all along been around 5 per cent of national income with slightly higher rate in some of the plans, except in the first plan when the target was lower at 2.1 per cent. In the tenth plan the target was around 8 per cent. Of the contemplated increase in the two types of goods, namely consumption goods and capital goods, the emphasis has for long been on a faster growth in capital goods.
- **Modernization:** This means such basic structural and institutional changes in the economic activities that can change the feudal and colonial economy into a progressive and independent nation. As for the structural changes, we may mention some points as e.g., a

change in the various elements of the composition of production so that industries can make a contribution on a greater extent to the national income relative to that by agriculture.

- **Self-Reliance:** The next objective is to make the economy self-reliant. This is to ensure a more equal relationship with the world economy, and to reduce our vulnerability to international pressures and disturbances. This objective has several dimensions e.g. reduction and dependence on foreign trade, self dependent etc. It does not exclude normal capital movements in the form of market loans, foreign equity investments etc.
- **Social Justice:** This objective is to render social justice to the poor of the country. This has three principal dimensions e.g. improving the standard of living of the weaker sections of the population such as landless labourers, artisans, members of schedule casts and schedule tribes etc, reduction in the inequalities in the asset distribution in rural areas, reduction in the regional and state inequalities etc.

## 6. A Critical Evaluation of Indian Economic Planning

As we see that these goals together make a good reading, these have often been made the subject matter of heated debate and discussion. To form a balanced judgment, we take note of the criticisms leveled against them and see how far these are tenable. The following are the points of criticism:

- **Too Ambitious:** One important point of criticism regards these objectives as too ambitious. For supporting this point, it is stated that in most cases the objectives have not been realized. The reason may be inadequacy of resources or defective implementation of plans, but the fact of their non-fulfillment is there. This is not realistic but defeatist. To scale down these objectives is to accept the non-plan situation. This is not realistic planning but non-planning.
- **Neglect of Agriculture and Employment:** Another point of criticism is that the objectives have given a scant attention to agriculture development and employment creation. This is considered that the employment does not figure prominently in the scheme of basic goals. It is also contended that even as a component of objectives it is not much emphasized except in the social justice objective. To an extent this criticism is valid. Some more attention to agriculture and to work-creating activities would have provided enough for consumption and employment, besides a vast market for industrial goods.
- **Predominance of Welfare Considerations:** Another objective is that an undue weight has been given to the welfare considerations. In an economy with low levels of and large gaps in production, there is little justification for distributive policies or special employment schemes etc. it is also pointed out that the large weight age to welfare implied in a social justice objective goes against the efficiency consideration. Similarly, development of certain industries, largely for employment sake or for some non-economic considerations, means little regard for efficient choices in respect of activities or locations.

- **Incompatibility and Inconsistency:** The objectives when taken together are illogically technically. As such these are incompatible with one another or are inconsistent. For example, the emphasis on a rapid rise in capital stock does not go well with the objective of reducing inequalities. The former increases wages form a very small proportion of output or income relatively to profits. The objective of reducing inequalities on the other hand reduces savings because the poor beneficiary have low propensity to save.

### **The Planning Commission**

The Planning Commission is the apex body of the planning machinery which was set up in March 1950, by a resolution of the Government of India with varied objectives as already discussed. From the beginning, the Prime Minister has been the Chairman of the Planning Commission. It has a Deputy Chairman and full-time members who include eminent economists and experts in different fields. For administrative purposes, the Commission has a Secretary who is assisted by a Joint Secretary and a Deputy Secretary.

### **Statistical Indicators of Economic Goals**

<b>Sr. No.</b>	<b>Economic Goals</b>	<b>Statistical Goals</b>
<b>1.</b>	High level of aggregate output and income	GNP, GDP
<b>2.</b>	Rapid growth of income	Average annual rate of growth of GNP, GDP
<b>3.</b>	Greater inequality in income distribution	Gini coefficient
<b>4.</b>	More productive employment	Distribution of labour force by industrial and occupational classification and income
<b>5.</b>	Lower international dependence	Foreign trade and international payments and proportions in total output
<b>6.</b>	Price stability	Price indices
<b>7.</b>	Greater regional balance	Gross regional product per capita

### **Formulation of the Plan**

The preparation of a five-year plan is usually spread over a period of two or three years. The first stage is the consideration of the general approach to the formulation, involving an examination of the state of the economy, an appraisal of past trends in production and the rate of growth in relation to the long-term view of the economy.

The second stage consists of studies which are intended to lead to a consideration of the physical content of the plan. While these studies proceed, the planning commission constitutes groups for each sector, composed of its own specialists and those of ministries and non-official expert which

review the situation in their respective fields, make the assumptions to be made in the formulation of the plan and indicate the targets of production to be achieved.

On the basis of the preliminary studies undertaken by the groups and discussions they hold with relevant parties, the Commission presents the main features of the plan under formulation in the form of a draft plan, which is discussed in detail by the Cabinet and is placed again before the National Development Council. With the approval of the Council, the draft plan is published for public consideration and countrywide debate.

### **The National Institution for Transforming India Aayog : NITI Aayog**

NITI Aayog is an Indian Government re think-tank constituted by Prime Minister Narendra Modi to order to replace the Planning Commission. Main objective behind the establishment for NITI Aayog's creation is to increase the participation and involvement of the state governments in the economic policy-making process. It has adopted a flow of information approach i.e. "bottom-up" approach in planning which is totally opposite to the Planning Commission's traditional approach of "top-down" decision-making. Significant mandates of NITI Aayog are to bring cooperative competitive federalism. It is depicted well when Indian Prime Minister appointed three sub-groups of chief ministers for making suggestions in three key areas (centrally sponsored schemes, skill development and Swachh Bharat ). NITI Aayog will give opportunities, which the old Planning Commission structure lacked, to represent the economic interests of the State Governments and Union Territories (UTs) of India. The Prime Minister will serve as Chairperson for NITI Aayog.

The Union Government of India announced formation of NITI Aayog on 1 January 2015, and the first meeting of NITI Aayog was held on 8 February 2015. NITI Aayog consists a group of people with authority entrusted by the government to formulate/regulate policies in social and economic issues with experts in it.

### **Major Highlights of NITI Aayog**

- NITI has consisted leaders from all the 29 states of India and seven union territories. Prime Minister of the country will act as a chairman and all the full time administrative officers a deputy chairman, Chief Executive Officer and experts of the states will be answerable clearly to the Prime Minister of India and he will be the chairman.
- New National Institution for Transforming India (NITI) will work more just like a think tank or forum and implement and execute programs by taking the advice from the States along with them. This is in sharp contrast with the defunct Planning Commission which imposed five-year-plans and allocated resources while running roughshod over the requests of the various States.



- The NITI Aayog will also put an end to slow and tardy execution or implementation of policy, by fostering better Inter-Ministry coordination and better Centre-State coordination. It will help evolve a shared vision of national development priorities, and foster cooperative federalism, recognizing that strong states make a strong Nation.
- The opposition Congress IS mocked the launch as a cosmetic relabelling exercise – the new body's acronym-based name means 'Policy Commission' in Hindi, suggesting a less bold departure than the English version does. Several believe that is consistent with the negativism that has become the hallmark of the Congress.
- The commission had remained powerful over the decades because it had emerged as a sort of parallel cabinet with the Prime Minister as its head.
- Despite being blamed by critics for the slow growth that long plagued India, the Commission survived the market reforms of the early 1990s, riling Mr Modi with its interventions when he was Chief minister of industry and investor friendly Gujarat.
- Mr Modi, elected by a landslide last year on a promise to revive flagging growth and create jobs, had vowed to do away with the Planning Commission that was set up in 1950 by Congressman and Prime Minister Jawaharlal Nehru.
- In 2012, the Planning Commission was pilloried for spending some Rs. 35 lakh to renovate two office toilets, and then it was lampooned for suggesting that citizens who spent Rs. 27 or more a day were not poor.
- The Commission's power in allocating central funds to states and sanctioning capital spending of the central government was deeply resented by states and various government departments.

## **Summary**

The purpose of planning has undergone significant changes since 1951. Initially it used to denote democratic planning. The focus was on a mixed economy with equal role to both public and private sectors though certain sectors were exclusively reserved for the public sector. The private sector will be given opportunity to invest in areas hitherto reserved for public sector. The idea is to move towards a market friendly approach. In this module the concept of economic planning has been discussed in detail in the first section. Later on various features and objective of Indian economic planning is explained. The meaning of planning commission and NITI aayog has also been explained.

