SOCIO-ECONOMIC PLANNING

Planned economy is one in which the state owns(partly or wholly) and directs the economy. While such a role is assumed by the State in almost every economy, in planned economies, it is pronounced: for example in communist and socialist countries- former USSR and China till the 1970's. In such a case a planned economy is refered to as command economy or centrally planned economy or command and control economy. In command economies, state does the following

- Control all major sectors of the economy
- Legislate on their use and about the distribution of income
- State decides on what should be produced and how much ; sold at what price
- Private property is not allowed

In a market economy, it is the opposite- state has a minimal role in the management of the economy- production, consumption and distribution decisions are predominantly left to the market. State plays certain role in redistribution. State is called the laissez faire state here. It is a French phrase literally meaning "Let do."

Indicative plan(see ahead) is one where there is a mixed economy with State and market playing significant roles to achieve targets for growth that they together set. It is operated under a planned economy but not command economy.

The difference between planned economy and command economy is that in the former there may be mixed economy and while in the latter Government owns and regulates economy to near monopolistic limit.

Command economies were set up in China and USSR, mainly for rapid economic growth and social and economic justice but have been dismantled in the last two decades as they do not create wealth sustainably and are not conducive for innovation and efficiency. Cuba and North Korea are still command economies.

History of Economic Planning in India: The beginnings

India being devastated economically after more than 2 centuries of colonial exploitation resulting in chronic poverty, eradication of poverty was the driving force for the formulation of various models of growth before Independence.

In 1944 leading businessmen and industrialists (including Sir Purshotamdas Thakurdas, JRD Tata, GD Birla and others) put forward "*A Plan of Economic Development for India*" - *p*opularly known as the 'Bombay Plan'.It saw India's future progress based on further expansion of the textile and consumer industries already flourishing in cities like Bombay and Ahmedabad. It saw an important role the State in post-Independent India: to provide infrastructure, invest in basic industries like steel, and protect Indian industry from foreign competition.

Visionary engineer Sir Mokshagundam Visvesvarayya. pointed to the success of Japan and insisted that 'industries and trade do not grow of themselves, but have to be willed, planned and systematically developed' – in his book titled "*Planned Economy for India*"(1934) Expert economists and businessmen were to do the planning. The goal was poverty eradication through growth.

The Indian National Congress established a National Planning Committee under the chairmanship of Jawaharlal Nehru. It (1938) stated the objective of planning for development "was to ensure an adequate standard of living for the masses, in other words, to get rid of the appalling poverty of the people". It advocated heavy industries that were essential both to build other industries, and for Indian self-defence; heavy industries had to be in public ownership, for both redistributive and security purposes; redistribution of land away from the big landlords would eliminate rural poverty.

During the 1940's, the Indian Federation of Labour published its People's Plan by MN Roy that stressed on employment and wage goods. SN Agarwala, follower of Mahatma Gandhi published Gandhian Plan that emphasized on decentralization; agricultural development; employment; cottage industries etc.

Planning Goals

After Independence in 1947, India launched the five year plans for rapid growth. Planning has the following long term goals

- Growth
- Modernization
- self-reliance and
- social justice

Economic growth is the increase in value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP- real means adjusted to inflation. Growth measures quantitative increase in goods and services.

Economic development refers to growth that includes redistributive aspects and social justice. GDP shows growth and not welfare and human development aspects like education, access to basic amenities, environmental quality, freedom, or social justice. Economic growth is necessary for development but not sufficient.

Growth is expected to spread to all sections and regions; raise resources for the Government to spend on socio-economic priorities etc. It takes a long time for growth to trickle down to all people and regions. Therefore, State plans for an expeditious process of inclusive growth.
Modernization is improvement in technology. It is driven by innovation and investment in R and D. Education is the foundation of modernization. The more modernized the economy, the greater the value created by it.

Self-reliance means relying on the resources of the country and not depending on other countries and the MNCs for investment and growth. India embarked on the goal partly due to the colonial experience and partly due to the goal of orienting growth to development and poverty eradication. Nehru-Mahalanobis model of growth that closed Indian economy and relied on basic industries is the main plank for self-reliance.

The term self-reliance should not be confused with self-sufficiency – the former means depending on resources of the country and avoid dependence on external flows; the latter means that the country has all the resources it needs. No country can be self-sufficient.
Social justice means inclusive and equitable growth where inequalities are not steep and benefits of growth reach all- rural-urban, man-woman; caste divide and inter-regional divides are reduced.

While the above four are the long term goals of the planning process, each five year plan has specific objectives and priorities.

Planning Commission

The Planning Commission was constituted in March, 1950 by a Resolution of the Government of India, and works under the overall guidance of the National Development Council. The Planning Commission consults the Central Ministries and the State Governments while formulating Five Year Plans and Annual Plans and also oversees their implementation. The Commission also functions as an advisory body at the apex level.

The 1950 resolution setting up the Planning Commission outlined its functions as to:

- Make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirement;
- Formulate a Plan for the most effective and balanced utilisation of country's resources;
- On a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage;
- Indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan;
- Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects;
- Appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and
- Make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it, or on a consideration of prevailing economic conditions, current policies, measures and development programmes or on an examination of such specific problems as may be referred to it for advice by Central or State Governments.

The Prime Minister is the ex officio Chairman of the Planning Commission. Deputy Chairperson enjoys the rank of a cabinet minister. A member of the Planning Commission enjoys the rank of a Minister of State in the Union Government. *Cabinet Ministers* with certain important portfolios act as part-time *members.*

The Deputy Chairman and the full time Members of the Planning Commission function as a composite body in the matter of detailed plan formulation. They provide advice and guidance to the subject Divisions of the Commission in the various exercises undertaken for the formulation of Approach to the Five Year Plans, and Annual Plans. Their expert guidance is also available to the subject Divisions for monitoring and evaluating the Plan programmes, projects and schemes.

The Planning Commission functions through several technical/subject Divisions. Each Division is headed by a Senior Officer designated as Pr. Adviser/Adviser/Addl. Adviser/Jt.-Secretary/Jt. Adviser.

The various Divisions in the Commission fall under two broad categories:

- General Divisions which are concerned with aspects of the entire economy; and
- Subject Divisions which are concerned with specified fields of development.

The General Divisions functioning in the Planning Commission are:

- Development Policy Division,
- Financial Resources Division,
- International Economics Division,
- Labour, Employment and Manpower Division,
- Perspective Planning Division,
- Plan Coordination Division,
- Project Appraisal and Management Division,
- Socio-Economic Research Unit,
- State Plan Division, including Multi Level Planning, Border Area Development Programme, Hill Area Development and North Eastern Region (NER), and
- Statistics and Surveys Division,
- Monitoring Cell.

The Subject Divisions are:

- Agriculture Division,
- Backward Classes Division,
- Communication & Information Division,
- Education Division,
- Environment and Forests Division,
- Health & Family Welfare Division,
- Housing, Urban Development & Water Supply Division,
- Industry & Minerals Division,
- Irrigation & Command Area Development Division,
- Power & Energy Division (including Rural Energy, Non-Conventional Energy Sources and Energy Policy Cell)
- Rural Development Division,
- Science & Technology Division,
- Social Welfare & Nutrition Division,
- Transport Division,
- Village & Small Industries Division, and
- Western Ghats Secretariat.

The Programme Evaluation Organisation undertakes evaluation studies to assess the impact of selected Plan Programmes/ Schemes in order to provide useful feedback to planners and implementing agencies.

The Commission is a corner-stone of our federal structure, a think-tank ; helps to balance the priorities and expenditures of the Ministries of the Union Government ; throws up ideas on policies for structural and perspective changes ; and is a reservoir of research."

Relevance of Planning

There has been a national debate about the relevance of planning in the era of liberalization where the state controls and regulations are dismantled to a great extent and market forces are given larger role. The investment of the government for the five year plans is also on decline. The trend began in the 7th plan and strengthens into the Eleventh Plan.

It is true that the quantitative aspects of planning in terms of control over economy are being selectively phased out and the nature of planning process is undergoing a qualitative change. Planning is important for the following reasons in the era of liberalization

- In a federal democracy like ours, the principal task of planning is to evolve a shared vision among not only the federal units but also among other economic agents so that the efforts of all the actors become convergent towards the national priorities. the role of planning is to develop a common policy stance for center and states. Also, the task of federal policy coordination is central to Indian Planning. For example, the need to invite foreign investment in infrastructure areas like power need center – state coordination as the necessary legislation and administrative changes involve both.
- While the growth process can be made the responsibility of the corporate sector to a greater degree, its direction and distribution are to be steered by planned public intervention so that regional imbalances are reduced and socio economic inequities are set right. For example, directing the growth of the large industry into the backward areas and technology intensive areas to realize national goals.
- The nature of instruments available to planners in the implementation has changed. Quantitative controls have yielded place to qualitative ones .The planning process has to focus on the need for planning for policy.
- Planning at the grass roots level that is participatory is very crucial for improving the delivery systems and proper use of the resources. The role of the government is thus to facilitate participatory planning.
- Environmental priorities are a major concern of planning
- Planning is necessary for the sectors like energy, communication, transport and so on as private sector needs to be guided into the national plan.
- In the era of globalization where corporates are not expected to plan beyond the growth of a particular unit, the role of safeguarding national interest is that of planning by the State. For example , being subjected to various discriminative trade practices by EU, USA and so on, the Indian farmers, manufacturers and exporters have to fight sophisticated battles in the WTO for which the legal services and information and building up bargaining power are best provided by the State.

Thus, planning continues to be relevant and ever more so for the following reasons

- Federal cooperation and coordination
- Equitable growth
- Environment friendly development
- Defending national interest in the age of globalization
- Inter-sectoral balance in growth

Changing Role of Planning Commission

From a highly centralized planning system, the Indian economy is gradually moving onwards indicative planning where hard planning is no longer undertaken. The role of the Planning Commission accordingly changes. The Commission concerns itself with the building of a long term strategic vision of the future and decide on priorities of nation. It works out sectoral targets and provides promotional stimulus to the economy to grow in the desired direction. Planning Commission plays an integrative role in evolving a national plan in critical areas of human and economic development. In the social sector, Planning Commission helps in schemes which require coordination and synergy like rural health, drinking water, rural energy needs, literacy and environment protection.

When planning in a vast federal country like India involves multiplicity of agencies, a high powered body like the PC can help in evolution of an integrated approach for better results at much lower costs.

In our transitional economy, Planning Commission attempts to play a systems change role and provide consultancy within the Government for developing better systems. It has to ensure smooth management of the change and help in creating a culture of high productivity and efficiency in the Government

In order to spread the gains of experience more widely, Planning Commission also plays an information dissemination role.

With the emergence of severe constraints on available budgetary resources, the resource allocation system between the States and Ministries of the Central Government is under strain. This requires the Planning Commission to play a mediatory and facilitating role, keeping in view the best interest of all concerned.

From Planning Commission to Systems Reforms Commission

There has been a significant change in the role of the PC since its inception in 1950. Initially for about 4 decades, due to centralized planning, resources were those of the Central government and the priorities and monitoring were also the works of the Central Government. It effectively meant the PC. Planning Commission had veto over every aspect – related to growth and socio-economic development- of the functioning of the Union Ministries and the State Governments: The manner of raising and utilising resources; specific allocations to particular schemes and programmes; location of enterprises; expansion and reduction of capacities; application of technologies; sources of supplies; modalities of implementation; priorities, phasing, pricing, targets and time-frames; nature of the instrumentalities; qualifications and strength of personnel of organisations; staff emoluments etc.

Since 1991, India adopted the indicative planning model , away from the kind of centralised planning on the Soviet model envisaged by Jawaharlal Nehru. Now Ministries and Departments, as well as the corporate entities in the private sector, enjoy a lot of functional, financial and operational autonomy.

States have more autonomy and corporates contribute more than half to planning resources. Thus, centre's role is on decline in quantitative and qualitative terms and thus that of the PC.
In the era of liberalisation, the economic players should properly be left to decide for themselves what they consider to be the appropriate courses of action on the various issues coming up before them, whether they relate to policies, schemes or investments.
The government intends to convert the Planning Commission into a think-tank to generate original ideas in the very broad domain of economic policy for the government to then act on. It will also be the government agency responsible for acting as an interface with other

independent think-tanks and NGOs. The PM would like the commission to engage more directly with the "polity", with various ministries in the Central and state governments, and be able to persuade them to implement certain ideas or "plans" generated by the government's own think tank. That isn't radically different from its existing role — the Planning Commission has few direct powers of execution in any case and must rely on the power of persuasion to sell its ideas to the Centre and states.

Interestingly enough, the new role sought for the Planning Commission seems to be very similar to the role played by the National Advisory Council, which also generates ideas within, coordinates with NGOs and civil society and then tries to "persuade" the government to act. NAC's focus so far has been social sectors whereas a systems reforms commission can take on a broader gambit of issues, including public finances, infrastructure and so on.
The government's move to revamp and gradually transform the Planning Commission into a System Reforms Commission is a major step that can make the institution more relevant to a market economy. The idea is to metamorphose the plan panel from a reactive agency into a strategic thinking group, which maps out risks and opportunities by focusing on issues
The shrinking role of the government in mobilising and controlling investments has pushed the Planning Commission to focus more on issues related to enforcing fiscal discipline in the central and state governments, including in the various ministries, departments and public sector enterprises.

According to Arun Maira, PC member, the Planning Commission will gradually transform itself into a Systems Reforms Commission for resolving the systemic problems of the 21st Century over the next two-three years as desired by Prime Minister Manmohan Singh. It will restructure itself to serve three essential functions: build a larger network around its members with think tanks and opinion makers, produce thought papers at a faster pace and communicate more lucidly with polity.

(Vs planning commission)

National Development Council – apex planning body.
The National Development Council is not a Constitutional body nor a statutory body (not set up by an Act of the Parliament). Union Cabinet set up the NDC in 1952 with the following functions

- To prescribe guidelines for the formulation of the national plan.
- To consider the national plans formulated by the Planning Commission.
- To assess the resources for the plan and recommend a strategy for mobilizing the resources.
- To consider important questions of socio-economic policy affecting development of the nation.
- To review the progress of the five year plan mid-course and suggest measures for achieving the original targets.

NDC is headed by the Prime Minister of India and comprising of all Union Cabinet Ministers, Chief Ministers of all the States and Administrators of Union Territories and Members of the Planning Commission .PC members are ex-officio members of the NDC.. Ministers of State with independent charge are also invited to the deliberations of the Council.

The National Development Council (NDC) has a special role in our federal polity.
It is the apex body for decision making and deliberations on development matters.

Not advisory body.

It has the explicit mandate to study and approve the Approach Plan to the Five year Plans and the Five Year Plan documents. The mid-term reviews of the Five year Plans are considered by the NDC. In fact, without the NDC approving, the Five Year Plan does not come into effect.

57th meeting of NDC was held in December 2012 to approve the 12th FYP.

The CMP of the UPA Government (2004) says that NDC will be activated. It will meet at least three times in a year and in different state capitals . It will be developed as an effective instrument of cooperative federalism.

Mixed economy

India is a mixed economy combining features of both capitalist market economies and socialist command economies. Thus, there is a regulated private sector (the regulations have decreased since liberalisation) and a public sector controlled almost entirely by the government. The public sector generally covers areas which are deemed too important; or not profitable enough for the private sector. Thus such services as railways and postal system are carried out by the government.

Since independence, various phases have seen nationalisation of such areas as banking, thus bringing them into the public sector, on one hand, and privatisation of some of the Public Sector Undertakings during the liberalisation period on the other

Financial resources for the Five year Plans

The resources for the Plan come from

- Central budget
- State budgets
- PSEs
- Domestic private sector and
- FDI

A Note on Gross Budgetary Support

Resources of the Centre consist of both budgetary resources including external assistance routed through the budget and the Internal & Extra Budgetary Resources (IEBR) of Central Public Sector Enterprises (CPSEs). The quantum of budgetary resources of the Centre which is available for providing overall budgetary support to the plan is divided into two parts viz. budgetary support for Central Plan (including U.Ts without Legislature) and Central Assistance for States' Plans (including U.Ts with Legislature). A part of the budgetary resources allocated as budgetary support for the Central Plan is used for providing necessary support to CPSEs.

GBS is the amount from the central Budget that goes to fund the plan investments during the plan period.

History of Planning

First Plan (1951- 56)

The First Plan stressed more on agriculture, in view of large scale import of foodgrains and inflationary pressures on the economy. Other areas of emphasis were power and transport. The annual average growth rate during the First Plan was estimated as 3.61% as against a target of 2.1%. Renowned economist **KN Raj**, who died in 2010 was one of the main architects of India's **first five-year plan**.

Second Plan (1956-61)
With agricultural targets of previous plan achieved, major stress was on the establishment of heavy industries. Rate of investment was targeted to increase from 7% to 11%. The Plan achieved a more than targeted growth rate of 4.32%. This Plan envisaged to give a big push to the economy so that it enters the take off stage. It was based on Nehru-Mahalanobis model- self-reliance and basic-industry driven growth.

Third Plan (1961-66)
It tried to balanee industry and agriculture. The aim of Third Plan was to establish a self sustaining economy. For the first time, India resorted to borrowing from IMF. Rupee was also devalued for the first time in 1966. India's conflict with Pakistan and repeated droughts also contributed in the failure of this Plan.

Annual Plans
As the Third Plan experienced difficulties on the external front (war with China in 1962 and Pakistan in 1965); and the economic troubles mounted on the domestic front- inflation, floods, forex crisis- the Fourth Plan could not be started from 1966. There were three annual plans till 1969. This period is called plan holiday- that is when five year plans are not implemented. The Annual Plans were: 1966-67, 1967-68 and 1968-69.

Fourth Plan (1969-74)
The main objective of this Plan was growth with stability. The Plan laid special emphasis on improving the condition of the under-privileged and weaker sections through provision of education and employment. Reducing the fluctuations in agricultural production was also a point of emphasis of this Plan. The Plan aimed at a target growth of 5.7% and the achievement against this was 3.21%.

Fifth Plan (1974-79) → emergency.
The main objective of the Plan was Growth for Social Justice. The targeted growth rate was 4.4% and we achieved 4.8%. It was cut short by the Janata Party that came to power in 1977.

Sixth Plan (1980-1985) Hindu rate of growth.
Removal of poverty was the foremost objective of Sixth Plan. Another area of emphasis was infrastructure, which was to be strengthened for development of both industry and agriculture. The achieved growth rate of 5.7% was more than the targeted one.
Direct attack on poverty was the main stress of the Plan.

Seventh Plan (1985-90)
This Plan stressed on rapid growth in food-grains production and increase in employment opportunities. The growth rate of 5.81% achieved in this Plan was more than the targeted one. The plan saw the beginnings of liberalization of Indian economy.
The 8th Plan could not start in 1990 due to economic crisis and political instability. There were two annual plans- plan holiday.

Trickle down effect.

Eighth Plan (1992-1997)

This Plan was formulated keeping in view the process of economic reforms and restructuring of the economy. The main emphasis of this Plan were

- to stabilize the adverse balance of payment scenario sustainably
- improvement in trade and current account deficit
- Human development as main focus of planning.

It was indicative plan for the first time. The Plan was formulated in a way so as to manage the transition from a centrally planned economy to market led economy. The targeted annual average rate of growth of the economy during Eighth Plan was 5.6%. Against this, we achieved an average annual growth of 6.5%.

The Plan was based on Rao-Manmohan Singh model of liberalization.

Ninth Five Year Plan (1997-2002) – no political stability.

The salient features of the Ninth Five Year Plan are a target annual average growth rate of 6.5 per cent for the economy as a whole, and a growth rate of 3.9 per cent for agriculture sector, among others. The key strategies envisaged to realise this target rest on attaining a high investment rate of 28.2 per cent of GDP at market prices. The domestic saving rate, which determines the sustainable level of investment, is targeted at 26.1 per cent of the GDP. Care has been taken to ensure achievement of a sustainable growth path in terms of external indebtedness as well as fiscal stability. Rate of growth achieved was 5.4%

Tenth Plan

Tenth Plan (2002–2007) The main objectives of the tenth Five Year Plan of India were:

- Attain 8% GDP growth per year.
- Reduction of poverty rate by 5 percentage points by 2007.
- Providing gainful and high-quality employment at least to the addition to the labor force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007.

Eleventh Plan

'Towards Faster and More Inclusive Growth' is the central theme of the plan that seeks to lower poverty by 10%, generate 70 million new jobs, and reduce unemployment to less than 5% Rs 36.44 trillion Eleventh Five-Year Plan promises to accelerate economic growth and make it more inclusive. The chief thrust of the plan, that will run from 2007-08 to 2011-12, will be agriculture, education and infrastructure -- all areas that remain a concern in a rapidly growing economy.

As many as 27 detailed national targets have been set in the plan, ranging from enhancing incomes and reducing poverty, to education, literacy, health, infant mortality, maternal mortality and child development.

Achievements

- GDP growth in the Eleventh Plan 2007–08 to 2011–12 was 7.9 per cent compared with 7.6 per cent in the Tenth Plan (2002–03 to 2006–07) and only 5.7 per cent in the Ninth Plan (1997–98 to 2001–02). The growth rate of 7.9 per cent in the Eleventh Plan period is one of the highest of any country in that period which saw two global crises.

Agricultural GDP growth accelerated in the Eleventh Plan, to an average rate of 3.7 per cent, compared with 2.4 per cent in the Tenth Plan, and 2.5 per cent in the Ninth Plan.

Rural real wages increased 6.8 per cent per year in the Eleventh Plan.
Net enrolment rate at the primary level rose to a near universal 98.3 per cent in 2009–10. Dropout rate (classes I–VIII) also showed improvements.

11th Five Year Plan (2007-2012) in detail

The eleventh plan has the following objectives:

1. **Income & Poverty**
   - Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per capita income by 2016-17
   - *Rs.36,44,000 lakh crores ($910 billion) is the investment*
   - gross budgetary support (GBS) is Rs 14,21,711 crore, double of the last plan
   - Increase agricultural growth rate to 4% per year to ensure broad-based development
   - Create 70 million new work opportunities.
   - Reduce educated unemployment to below 5%.
   - Raise real wage rate of unskilled workers by 20 percent.
   - Reduce poverty by 10 percentage points
   - industrial and services sector growth to 9-11 per cent
   - investment rate to be at 36.7 per cent
2. **Education**
   - Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12
   - Develop minimum standards of educational attainment in elementary school, and by regular testing monitor effectiveness of education to ensure quality
   - Increase literacy rate for persons of age 7 years or more to 85%
   - Lower gender gap in literacy to 10 percentage points
3. **Health**
   - Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births
   - Reduce Total Fertility Rate to 2.1
   - Provide clean drinking water for all by 2009 and ensure that there are no slip-backs
   - Reduce malnutrition among children of age group 0-3 to half its present level
   - Reduce anaemia among women and girls by 50% by the end of the plan
4. **Women and Children**
   - Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17
   - Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children
   - Ensure that all children enjoy a safe childhood, without any compulsion to work

5. **Infrastructure**
    - Ensure electricity connection to all villages and BPL households by 2009 and round-the-clock power.
    - Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015
    - Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012
    - Provide homestead sites to all by 2012 and step up the pace of house construction for rural poor to cover all the poor by 2016-17
6. **Environment**
    - Increase forest and tree cover by 5 percentage points.
    - Attain WHO standards of air quality in all major cities by 2011-12.
    - Treat all urban waste water by 2011-12 to clean river waters.
    - Increase energy efficiency by 20 percentage points by 2016-17.

12th FYP

12th Five-Year Plan (2012-17) aims to achieve annual average economic growth rate of 8 per cent, down from from 9 per cent envisaged earlier, in view of fragile global recovery.

During the 11th Plan (2007-12), India has recorded an average economic growth rate of 7.9 per cent. This, however, is lower than the 9 per cent targetted in 11th Plan.

12th Plan seeks to achieve 4 per cent agriculture sector growth during 2012-17. The growth target for manufacturing sector has been pegged at 10 per cent.

The total plan size has been estimated at Rs.47.7 lakh crore, 135 per cent more that for the 11th Plan (2007-12).

As regards to poverty alleviation, the Commission aims to bring down the poverty ratio by 10 per cent. At present, 30 per cent of the population is below poverty line.

Growth Performance in the Five Year Plans (per cent per annum)

	Target	Actual
1. First Plan (1951-56)	2.1	3.61
2. Second Plan (1956-61)	4.5	4.32
3. Third Plan (1961-66)	5.6	2.38
4. Fourth Plan (1969-74)	5.7	3.21
5. Fifth Plan (1974-79)	4.4	4.80
6. Sixth Plan (1980-85)	5.2	5.69
7. Seventh Plan (1985-90)	5.0	5.81
8. Eighth Plan (1992-97)	5.6	6.7
9. Ninth Plan (1997-2002)	6.5	5.35
10.Tenth Plan(2002-2007)	8%	7.8%
11. Eleventh Plan(2007-12)	9%	7.9%
12.Twelfth FYP	8%	5% in 2012-13

Achievements of Planning

In the last about 60 years since India became a Republic, the National Income has increased many times. Today, India is the third largest economy in Asia with about $1.84 trillion GDP after China and Japan; is the 9th largest economy in the world.

India overtook Japan to become the world's third-largest economy in purchasing power terms. Data released by the International Monetary Fund (IMF) shows that India's gross domestic product in purchasing power parity (PPP) terms stood at $4.46 trillion in 2011, marginally higher than Japan's $4.44 trillion, making it the third-biggest economy after the United States and China.

The PPP system allows GDP comparisons to be made by asking how much money would be needed to purchase the same goods and services in two countries and using that to calculate an implicit foreign exchange rate.

Under this method, a dollar should be able to buy the same amount of goods anywhere in the world and exchange rates should adjust accordingly. It nullifies distortions that come with market exchange rates, which are often volatile, affected by political and financial factors.

The Economist magazine's proprietary Big Mac Index, which takes the price of a McDonald burger across 120 countries to calculate the 'real' price of their currencies, is another crude way to measure PPP. India was included in the index recently. It showed that the Indian rupee was undervalued by 62% against the US dollar in 2012.

The PPP comparison is more useful while comparing the standards of living between countries. While the per capita GDP in PPP terms shows that India still has some distance to go to reach Japanese levels, "the difference is less than the comparison of per capita GDP in nominal dollar terms would indicate".

In the face of global recession, India remains the second fastest growing major economy after China.

Data released by the Planning Commission in July, 2013, suggested that poverty in India had declined from 37.2 percent in 2004-05 to 21.9 percent by 2011-12.

From 2004-05 to 2011-12 poverty fell by 2.24% annually as against 0.74% in the preceding 6 years. In absolute numbers the number of poor fell by 138 million during these seven years, an Indian and even a world record. Similar achievements by China are celebrated by the world.

Social indicators improved e though there is a long way to go- IMR, MMR, literacy, disease eradication etc. The industrial infrastructure is relatively strong – cement, steel ,fertilizers, chemicals, etc Agricultural growth is also gaining momentum with food grains production at 258 mt in 2012.

Forex reserves are $282 b (November 2013) which is a dramatic turnaround from 1991 when we had a billion dollars.

More than 2 lakh MW of power capacity is installed by 2013.
India has emerged as a back office of the world and its prowess in software is growing.
India ranks 11th worldwide in factory output (2013)
India ranks 10th worldwide in services' output.

There has been considerable expansion of higher education. At the time of Independence there were 20 universities and 591 colleges, while today, there are almost 500 universities and 21,000 colleges. Literacy levels are 75%(2010).

The failures of planning are equally clear

- Poverty still plagues about 250 million (Tendulkar)
- Inflation on CPI and food inflation are rising relentlessly hurting the poor- CPI is in double digits(above 10%) in September 2013.
- Unemployment is high
- Regional imbalances are intensifying
- Malnutrition haunts about half the children in India.

Indicative planning

With the launch of the economic reforms in 1991, indicative planning was inevitable. It was adopted since 8th five year plan (1992-97). It is characterized by an economy where the private sector is given a substantial role. State would turn its role into a facilitator from that of a controller and regulator.

It was decided that trade and industry would be increasingly freed from government control and that planning in India should become more and more indicative and supportive in nature. In other words, the remodeling of economic growth necessitated recasting the planning model from imperative and directive('hard') to indicative (soft) planning. Since the Government did not contribute the majority of the financial resources, it had to indicate the policy direction to the corporate sector and encourage them to contribute to plan targets. Government should create the right policy climate- predictable, irreversible and transparent-

Indicative

to help the corporate sector contribute resources for the plan: fiscal, monetary, forex and other dimensions.

Indicative planning is to assist the private sector with information that is essential for its operations regarding priorities and plan targets. Here, the Government and the corporate sector are more or less equal partners and together are responsible for the accomplishment of planning goals. Government, unlike earlier, contributes less than 50% of the financial resources. Government provides the right type of policies and creates the right type of milieu for the private sector-including the foreign sector to contribute to the results.

Indicative planning gives the Government an opportunity to give the private sector encouragement to achieve growth in areas where the country has inherent strengths. It is known to have brought Japan results in shifting towards microelectronics. In France, too indicative planning was in vogue.

Planning Commission would work on building a long-term strategic vision of the future. The concentration would be on anticipating future trends and evolving strategies for competitive international standards. Planning will largely be indicative and the public sector would be gradually withdrawn from areas where no public purpose is served by its presence. The new approach to development will be based on "a re-examination and re-orientation of the role of the government". This point is particularly stressed in the development strategy of the Tenth Five Year Plan (2002-2007)

Indicative planning was not contemplated at the beginning of fifties as there was hardly any corporate sector in India and Government shouldered almost the entire responsibility of socio-economic planning.

Rolling Plan

It was adopted in India in 1962, in the aftermath of Chinese attack on India, in the Defence Ministry in India. Professor Gunnar Myrdal (author of famous book' Asian Drama') recommended it for developing countries in his book - Indian Economic Planning in Its Broader Setting.

In this type, every year three new plans are made and implemented- annual plan that includes annual budget ; five year plan that is changed every year in response to the economic demands; and perspective plan for 10 or 15 years into which the other two plans are dovetailed annually. Rolling plan becomes necessary in circumstances that are fluid.

Financial Planning

Here, physical targets are set in line with the available financial resources. Mobilization and setting expenditure pattern of financial resources is the focus in this type of planning.

Physical planning

Here, the output targets are prioritized with inter-sect oral balance. Having set output targets, the finances are raised.

Nehru-Mahalanobis Model of Economic Growth

Indian economy at the time of Independence was characterized by dependence on exports of primary commodities; negligible industrial base; unproductive agriculture etc. 1st FYP focused on agriculture for food security. But industrialization was urgently needed to modernize the economy and improve its technology.

The turning point in India's planning strategy came with the second five-year (1956-61) plan. The model adopted for the plan is known as the Nehru-Mahalanobis strategy of development as it articulated by Jawahar Lal Nehru's vision and P.C.Mahalanobis was its chief architect. The central idea underlying this strategy is well conveyed by recalling the following statement from the plan document. 'If industrialization is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development.'

The Mahalanobis model of growth is based on the predominance of the basic goods (capital goods or investment goods are goods that are used to make further goods; the goods that make up the industrial market like machines, tools, factories, etc). It is based on the premise that it would attract all round investment, ancillarisation, build townships and result in a higher rate of growth of output. That will boost employment generation, poverty alleviation, exports etc. The emphasis was on expanding the productive ability of the system, through forging strong industrial linkages, as rapidly as possible.

Other elements of the model are

- Import substitution. Protective barriers against foreign competition to enable Indian companies to develop domestically produced alternatives for imported goods and to reduce India's reliance on foreign capital.
- A sizeable public sector active in vital areas of the economy including atomic energy and rail transport.
- A vibrant small-scale sector driving consumer goods production for dispersed and equitable growth and producing entrepreneurs.

In terms of the core objective of stepping up the rate of growth of industrial production, the strategy paid off. Rate of growth of overall industrial production picked up . The strategy laid the foundation for a well-diversified industrial structure within a reasonably short period and this was a major achievement. It gave the base for self-reliance.

However, the strategy is criticized for the imbalances between the growth of the heavy industry sector and other spheres like agriculture and consumer goods etc that resulted. It is further criticized as it relied on `trickle down effect'- benefits of growth will flow to all sections in course of time. This approach to eradication of poverty is slow and incremental. It is believed that frontal attack on poverty is required. Follow the debates about growth and redistribution-Sen-Bhagawati- argument that raged in 2013.

The criticism is one sided as in the given context, the Mahalanobis model was correct for growth and self-reliance.

Rao-Man Mohan Singh Model of Growth

The launching of economic reforms by the government in 1991 is driven by the Rao-Manmohan model - Mr. Narasimha Rao, the PM in 1991 and Finance Minister Dr. Man Mohan Singh. Its essence is contained in the New Industrial Policy 1991 and extends beyond it too. The model has the following contents

- Reorient the role of State in economic management. State should refocus on social and infrastructural development, primarily
- Dismantle, selectively controls and permits in order to permit private sector to invest liberally
- Open up the economy and create competition for PSEs- for better productivity and profitability
- External sector liberalization in order to integrate Indian economy with the global economy to benefit from the resource inflows and competition.

Its success is seen in the more than 6.5% average annual rate of growth of economy during the 8th Plan (1992-1997) . Forex reserves accumulated leaving the BOP crisis as history; poverty levels plummetted; and the foreign flows- FDI and FII increased.

Economic Reforms

Since July 1991, India has been taking up economic reforms to achieve higher rates of economic growth so that socio-economic problems like unemployment, poverty, shortage of essential goods and services, regional economic imbalances and so on can be successfully solved. The force behind the reforms is

- Indian economy reached a level of growth and strength to benefit from an open market economy.
- Private sector in India had come of age and was willing and capable of playing a major role
- Indian economy needed to integrate with the world with all the advantages like capital flows; technology; higher level of exports; state of art stock markets; Indian corporates can raise finances abroad and so on.

The country under the leadership of Dr. Manmohan Singh, Union Finance minister(1991-1996 and Prime Minister since 2004) converted the economic crisis – caused by , domestic cumulative problems of economy, political instability and gulf crisis-into an opportunity to initiate and institutionalise economic reforms to open up the economy. The deep crisis in 1991 could not be solved by superficial solutions. Therefore, structural reforms were taken up.

It was realized that by closing economy to global influences, the country was missing on technology developments and also gains from global trade. India needed exports, FDI and FII for stability on the balance of payments front and higher growth rates for social development. Worldwide, countries were embracing market model of growth, for example China, with proven results. So, India could make the historic shift from centralized planning to market-based model of growth.

Misgivings About Economic Reforms

Initially reforms were feared and resisted as there was scepticism and fear as the experience in Latin American countries in the 1980s was not a success in economic and social terms. The fears related to

- Inflation as there will be little left for domestic consumption as exports would be attractive
- Large scale unemployment due to capital intensity of growth process.
- Worsening of poverty as fiscal concerns will reduce social sector expenditure
- Flood of imports as customs duties will come down.
- food security will suffer as social sector expenditure will be reduced
- Pressures on labour sector due to domestic industry's inability to compete.

Some fears have indeed come true- jobless growth and uncertainty in farming. But by and large, reforms have done well.

Reforms mainly targeted the following areas:

- Dismantling the licence raj so that private sector and government were on a level playing field
- Drive public sector towards sustainable profitability and global play by dereservation; disinvestment; professionalization of management etc
- Fiscal reforms for stabile economic growth.
- Banking sector is deregulated and made to conform to stringent reforms for higher competitive strength and performance globally
- move towards free float of rupee and relaxation of controls on convertibility; aggressive export promotion; FDI and FII inflows etc.

Reforms were prioritized and sequenced in such a way as to make them sustainable and render further reforms feasible. For example, first generation reforms involved essentially non-legislative government initiatives- reduce SLR and CRR for the banking sector. Disinvestment of the PSEs. Deregulation of the rupee gradually and later make exchange rate of the rupee market-driven and so on. The second generation reforms involve legislative reforms and touch a wider section of the society- labour reforms; GST, FDI expansion etc. The former prepares the economy for the latter.

Above all, reforms with human face was the goal , unlike elsewhere in the world like in South America in the 1980's. It yielded results- the social effect of the reforms in India is seen in the flagsips schemes making an impact on health, education, social protection etc. The reforms gained consensus and showed positive results as can be seen below.

- Rates of growth went up
- BOP crisis has been solved in the first few years and today the country has about $ 282 b forex reserves(2013)
- Services sector (tertiary sector) has grown in importance and today contributes almost 57% of GDP(2013) emerging as a global player-India being the global back office.
- Exports have performed well and have recovered handsomely even while the world continues to be trapped in near recession conditions. It accounting for many jobs and quality Indian products
- Resilience of the economy in the face of Great Recession which is still not resolved
- Consumer choice has increased
- Tax-GDP ratio may have shrunk but the tax collections and base increased dramatically

- Nature of external debt has changed and the short term component is less
- Indian companies are listed on Nasdaq and New York Stock Exchange and raised billions of dollars for investment
- FIIs and FDI has picked up.
- Indian corporates have acquired global majors like Jaguar and *Anglo-Dutch steel* maker Corus; Bharati bought Zain's African telecom operations(2010)

While the above facts paint a positive picture of reforms, there are deficiencies as well

- poverty is a challenge and reforms with a human face is the need of the hour
- jobless growth is worrying the policy makers
- regional economic imbalances are intensifying
- While foodgrains production is at 258mtt(2012), there is still pressure on food security
- farmers are feeling directionless under the WTO regime
- Globalization threatens to destabilize agriculture with cheaper imports and questionable provisions related to intellectual property rights impacting negatively on availability of medicines etc.
- Infrastructure so far received inadequate attention except telecom ,roads and ports
- PSU reforms have not made progress and disinvestment and privatization are still to see substantial movement
- Globalization has exposed India to imported inflation due to commodity price rise- CPI has been almost invariably above the double digits since 2008(2013)

Second Generation Reforms

Having begun with the reforms in all the above sectors and seen the economy benefit from them , the second generation reforms were initiated by the end of 1990's. The reason for calling the latter set of reforms SGR is that they followed the initial reforms which laid the foundation for the reform process to deepen. It is a matter of sequencing in line with prioritization; economic preparation; consensus-building and so on. In fact, unless the success in material and human terms of the initial reforms was demonstrated, the next round of 'difficult' reforms would not be possible.

Second generation reforms- labour law flexibility, pension reforms based on employee contribution and the pension funds being deployed in the stock market; value added tax and GST; liberalized FDI including FDI in retail etc- touch on the lives of ordinary people and need successes in other sectors- first generation reforms- to make a convincing case. Otherwise, they may not be allowed by public opinion as we have seen in the case of FDI-MBR debate.

Second generation reforms are difficult as they are directly involved with the daily lives of people like

- User charges need to be rationalized to make these utilities viable but there are bound to be protests
- Man power rationalization in banks and PSUs through VRS faced resistance.
- Labour law flexibility will make TUs agitate.
- Interst rate cut, for example, for small savings will mean less returns for the middle class etc
- Agroreforms may mean small and marginal farmers' resistance

However, unless the SGRs are carried out, investment and growth will suffer with long term adverse consequences for poverty alleviation and employment generation. As the long term benefits of the reforms are bound to show in terms of higher growth rates and more social welfare, consensus needs to be built for successful legislation and implementation of SGRs.

Recession and depression

Recession

The standard definition of a recession is a decline in the Gross Domestic Product (GDP) – contraction in absolute quantity- for two or more consecutive quarters.

Depression

Before the Great Depression of the 1930s any downturn in economic activity was referred to as a depression. The term recession was developed in this period to differentiate periods like the 1930s from smaller economic declines that occurred earlier. This leads to the simple definition of a depression as a recession that lasts longer and has a larger decline in business activity.- more unemployment, deflation, negative growth.

How can we tell the difference between a recession and a depression A depression is any economic downturn where real GDP declines by more than 10 percent. A recession is an economic downturn that is less severe.

There is an old joke among economists: A recession is when your neighbour loses his job. A depression is when you lose your job.

Great Recession 2008-09

The late-2000s recession, more often called the Great Recession, was a severe economic recession that began in the United States in 2007 and ended in mid- 2009, according to the U.S. National Bureau of Economic Research (NBER). However, most people throughout the world consider it to be ongoing, because heightened degrees of unemployment and economic hardship remain a reality even today. The Great Recession has affected the entire world economy, with higher detriment in some countries than others. It is a global recession characterized by various systemic imbalances and was sparked by the outbreak of the financial crisis of 2007–2010.

The financial crisis is linked to reckless lending practices by financial institutions and the growing trend of securitization of real estate mortgages in the United States. The US mortgage-backed securities, which had risks that were hard to assess, were marketed around the world. When these securities lost value and were considered toxic, the financial institutions that bought them either went into heavy losses or went bankrupt fully. These companies being listed on the stock market, equities collapsed in their value as a result. Indian banks had negligible exposure to them.

A more broad based credit boom fed a global speculative bubble in real estate and equities, which served to reinforce the risky lending practices. The precarious financial situation was made more difficult by a sharp increase in oil and food prices. The emergence of Sub-prime loan losses in 2007 began the crisis and exposed other risky loans and over-inflated asset prices. With loan losses mounting and the fall of Lehman Brothers on September 15, 2008, a major panic broke out in the global financial transactions. As share and housing prices declined, many large and well established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy, resulting in massive public financial assistance.

A global recession has resulted in a sharp drop in international trade, rising unemployment and slumping commodity prices.

The conditions leading up to the crisis, characterized by an exorbitant rise in asset prices and associated boom in economic demand, are considered a result of the extended period of easily available credit, inadequate regulation and oversight etc.

Some trace the genesis to the Chinese buying US treasuries with their export earnings thus supplying the US cheap money that they could lend recklessly.

The recession has renewed interest in Keynesian economic ideas on how to combat recessionary conditions. Fiscal and monetary policies have been significantly eased to stem the recession and financial risks. Economists advise that the stimulus should be withdrawn as soon as the economies recover enough to "chart a path to sustainable growth". Indian withdrawal from stimulus began in 2010-11 Union Budget and the money policy is becoming tight gradually.

Among the various imbalances in which the U.S. monetary policy contributed by excessive money creation, leading to negative household savings and a huge U.S. trade deficit, dollar volatility and public deficits.

The best authors on the meltdown are Arun Kumar (JNU); Joseph Stiglitz, Paul Krugman and Rangarajan.
Impact on India and related issues and terms are discussed in the class.

12 FYP-related

India@75
It is a path breaking initiative. It envisions how India should be in her 75th year of independence and seeks to bring together all stakeholders including the industry, government, institutions, community groups and individuals to translate the vision into a reality.

Prof (Late) C.K.Prahalad has been the inspiration behind India@75. While commemorating the 60th year of India's independence, in 2007 he articulated the idea of holistic three dimensional development of India to acquire enough economic strength, technological vitality and moral leadership by 75 years of independence. CII adopted his vision in 2008.The concept was adopted by CII to bring together all stakeholders, including the industry, government, institutions, community groups and individuals to translate the vision into reality.

IBIN
Planning Commission jointly with India@75 foundation launched in April 2013 , its unique initiative- India Backbone Implementation Network (IBIN) to remove bottlenecks for improving implementation of policies.

"The IBIN, structurally an organisation, is essentially a process that will promote widespread capabilities in the country to systematically convert confusion to coordination, contention to collaboration, and intentions to implementation," an official statement says.
IBIN aims to seed new techniques into the service delivery system; build a network of partners to create capability to manage effective stakeholder dialogues, resolve dispute and conduct policy impact analysis.

It will also build a knowledge base of tools, techniques and examples to systematically analyse situations or challenges and proactively create solutions.

According to Planning Commission Member Arun Maira: "The IBIN is a fantastic opportunity to resolve issues pertaining to poor implementation and lack of multi-stakeholder consensus by institutionalising capabilities to systematically convert 'confusion to coordination, contention to collaboration, and intentions to implementation' across the country."

Ibin is the model of a process for rapidly improving a nation's capabilities to get things done systematically and democratically as in the Total Quality Movement (TQM) in Japan.
In less than two decades, Japan, that had a reputation for poor quality and low-cost products, became the international benchmark of quality in many industries and several of its public services too.

The essence of the TQM movement was the deployment, at several levels in many organisations: especially the 'shopfloor' levels, but higher levels also, even to top management, of simple techniques for systems thinking, cooperative action and continuous improvement.

These techniques were developed by experts in companies and universities and disseminated in the country through industry and other institutional networks, and through radio, pamphlets, competitions and other means of connecting with the public.

The 'movement' grew as a network: it was not a centrally-managed government programme. There was a principal node in the network: a non-governmental body, the Japanese Union of Scientists and Engineers (Juse), in which many persons from industry and academia, and also government participated to provide a facilitative leadership to the movement.

Within the 12th Plan is the description of a similar transformative process to improve capabilities in the country to get things done. This process, described as the India Backbone Implementation Network, or IBIN, can improve results in many sectors of the economy.
The architecture of IBIN is along similar lines as the TQM movement of Japan. Experience of other countries, such as South Korea and, more recently, Malaysia, which have systematically improved capabilities of coordination and implementation, has also been considered while developing IBIN to fit India's conditions.

The tools and techniques that will be deployed by the IBIN movement will be in some respects similar to TQM, but updated and customised for the objectives of IBIN, with its emphasis on techniques and tools for collaboration, coordination and implementation. They are described in the 12th Plan document now awaiting the approval of the National Development Council.

India has many popular movements uniting citizens against what they do not want: of which corruption is a principal element. The country also needs movements to unite citizens for what they want in their habitats and their lives, and to enable them to work together to create it. The nascent IBIN is a movement for co-creating our worlds.
Like TQM in Japan, it will be formed by a network of many leaders across the country, in the states and in many sectors. Critics say the change IBIN seeks will take a long time, and so it may.