UPSC
NCERT Summary
Economy Planning- 1

PLANNED ECONOMY

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 referred 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 decide son what should be produced and how much ; sold at what price
- Private property is not allowed

Market economy

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

Indicative plan 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.

Difference between Planned Economy & 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.

An overview of History of Economic Planning in India

India being devastated economically after more than two 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 business men and industrialists (including Sir Purshotam das Thakur das, JRD Tata, GD Birla and others) put forward " A Plan of Economic Development for India" -popularly 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 Gandhi an Plan that emphasized on decentralization; agricultural development; employment; cottage industries etc.

Main Goals of Indian Planning

After Independence in 1947, India launched the fiveyear 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, freed om, 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 & 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 interregional 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.

HISTORY OF PLANNING

First Plan(1951-56)

The First Plan stressed more on agriculture, in view of large scale import of food grains and inflationary pressures on the economy. Other areas of emphas is were power and trans port. 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, maj or stress was on the establishment of heavy industries. Rate of investment was targeted to increase from 7% to 11 %. The Plan achieve dam or ethan 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 models elfreliance and basic industry driven growth.

Third Plan (1961-66)

It tried to balance industry and agriculture. The aim of Third Plan was to establish a selfsustaining economy. For the first lime, 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 fiveyear 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 a nd 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 3.2 1%.

Fifth Plan (1974-79)

The main objective of the Plan was Growth for Social Justice. Th e ta r g et ed 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)

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.

Eighth Plan(1992-1997)

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

- to stabilize the ad verse 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)

The salient features of the Ninth Five Year Plan are a target annual average growth rate of 6.5 percent 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
Growth Performance in the FiveYear Plans (per cent per annum).

	Target	Actual
First Plan (1951-56)	2.1	3.61
Second Plan (1956-61)	4.5	4.32
Third Plan (1961-66)	5.6	2.38
Fourth Plan (1969-74)	5.7	3.21
Fifth Plan (1974-79)	4.4	4.80
Sixth Plan (1980-85)	5.2	5.69
Eighth Plan (1992-97)	5.0	6.7
Ninth Plan (1997-2002)	6.5	5.35
Tenth Plan (2002-2007)	8%	7.8%
Eleventh Plan (2007-12)	8.1 (revised 2010)	

The economy is expected to expand by 9% per cent hi 2010-11 having achieved 8.9% real growth in the first half of 2010-2011. it may rise to 10 per cent in the terminal year of the 11th Plan. Government set an average annual growth target of 9 per cent for the 11th Plan — beginning with 8.5 per cent in the first year and closing with 10 per cent in 2011-12.
The MTA document said the economy exceeded expectations in 2007- 08, with a growth rate of 9 per cent, but the momentum was interrupted in 2008-09 because of the global financial crisis. Following the global meltdown, the growth rate slipped to 6.7 per cent in 2008-09 from over 9 per cent in the preceding three years. In the year 2009-10, the growth rate was 7.6%.

Function of Planning Commission

The Planning Commission was constituted in March, 1950 by a Resolution of the Government of India, and works under the over all 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 over sees 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 counts, 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 an examination of such specific problems as may be referred to it for advice by Central or State Governments.

Organisational Structure of Planning Commission

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 FiveYear 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.

Planning Commission Divisions

- 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 planner sand 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 in India

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 fiveyear 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 socioeconomic inequities are set right. For example, directing the growth of the large industry in to 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 asystems 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.

Do you think that Planning of India Emerged as the System Reform Commission?
There has been a significant change in the role of the PC since its inception in 1950. In the beginning, Planning Commission was all powerful and had the final say and the 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. In the era of liberalisation, the economic players should properly be left to decide for them selves 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", presumably 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, infra-structure and so on.

The government's move to revamp and gradually transform the Planning Commission in to 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 in to a strategic thinkin g 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 in to 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.