# *Directorate of Distance Education*

**UNIVERSITY OF JAMMU**
**JAMMU**

## STUDY MATERIAL
## FOR
## M.A. ECONOMICS

**Course No. : ECO-418** | **Unit - I to IV**
**Semester : IV** | **Lesson No. 1-6**


**DR. NEELAM CHOUDHARY**
**Teacher Incharge**

**PROF. PRAKASH C. ANTHAHAL**
**Co-ordinator**



**http:/www.distanceeducationju.in**

***Printed and Published on behalf of the Directorate of Distance Education, University of Jammu, Jammu by the Director, DDE, University of Jammu, Jammu.***

# ECONOMIC PLANNING IN INDIA

*COURSE CONTRIBUTOR :*

- **Dr. Sunita Sharma**
  **Associate Professor,**
  **P.G. Department of Economics,**
  **University of Jammu**



***Printed at Sudesh Printers/21/500 Books***

## SYLLABUS OF M.A. ECONOMICS

**Semester - IV** **Title : ECONOMIC PLANNING IN INDIA**

**Course Code : ECO-418** **Maximum Marks : 100**

**Credits (04)** **External : 80 Marks**

**Internal : 20 Marks**

**Preamble :** The course aims at acquainting the students about the basics and Strategy of Economic Planning adopted in India. Assessment of Indian planning and about the issues related to Black Economy.

**UNIT-I : Economic Planning - Rationale, Features and Objectives**

The Rationale of Planning, Important Features of Indian Plans, Objectives of Economics Planning, Evaluation of the objectives of Economic Planning, Regional Planning Conceptualized, Magnitude of Regional Imbalances in India, Regional Planning Policy in India, Lack of Genuine Regional Planning in India.

**UNIT- II : The Strategy of Planning**

Strategy of India's Development Plans; The earlier phase (Mahalanobis Strategy), Appraisal of the Mahalanobis Strategy of Development, Failure of the Mahalanobis Strategy of Development, Departures from the Mahalanobis Strategy of Development, The Seventh Plan Development Strategy - Agricultural Development Led Growth Strategy, The New Development Strategy, The Tenth Plan Strategy, The Eleventh Plan Development Strategy.

**UNIT-III : Assessment of Indian Planning**

Targets and Achievements of plans, Accomplishments of Economic Planning, An appraisal of the Planning Process, Establishment of NITI Aayog, Strategy for New India.

**UNIT-IV : BLOCK ECONOMY IN INDIA**

Definition of Black Economy, Methods of Estimating Black Money, Estimates of the size of Black Economy, Causes of Black Money, Consequences of Black Money, Government Measures to curb Black Money.

**NOTE FOR PAPER SETTING :**

The examiner is required to set four Short Answer Type Questions (of 250 words) from each Unit and two Long Answer Type Questions (of 50 words) from each Unit. Each short answer type question carries four marks and each long answer type question carries twelve marks.

**SUGGESTED READINGS :**


1. Dutt, R. and Sundharam : Indian Economy, S. Chand & Co. Ltd. New Delhi (Latest Edition).
2. Dhingra, I.C. : Indian Economy, Sultan Chand & Sons, New Delhi.
3. Dhar, P.K. : Growing Dimensions of Indian Economy, Kalayani Publishers, New Delhi.
4. Misra, S.k and Puri, V.K. : Indian Economy, Himalaya Publishing House, Mumbai Lastest Edition).
5. Government of India, Economic Survey (Annual), Economic Division, Ministry of Finance, New Delhi.
6. Indian Economy, Uma Kapila : Latest Edition.
7. C. Rammanohar Reddy, Demonetisation and Black Money, Orient Black Swan Publishers.
8. Micheal M. Thomas, Black Money, St. Martins Publisher (December 1, 1995).
9. T.P. Ghosh, Black Money Counterfeits and Demonetisation : An Indian Experience, Taxmann Publisher.
10. M.L. Taneja & R.M. Myer, Economics of development and planning, Vishal Publishing Co.; 15th edition (2017).
11. M.Visvesvaraya, Planned economy for India, Bangalor City Publisher, Printed at Bangalore Press, Publisher, 1936.

12. C. Rammanohar Reddy, Demonetisation and Black Money, Orient Black Swan Publisher, 8. Michael M. Thomas, Black Money, St. Martins Publisher (December 1, 1995).

13. T.P. Ghosh, Black Money Counterfeits and Demonetisation : An Indian Experience, Taxmann Publisher.

13. Websites of NITI Aayog.

14. Mahajan, M. Madhur, Indian Economy, Person Education Services Pvt. Ltd, U72200TN2005PTCO57128.

## CONTENTS

| | | |
|---|---|---|
| **M.A. ECONOMICS** | | **LESSON NO. 1** |
| **COURSE NO. 418** | **SEMESTER-IV** | **UNIT - I** |

## ECONOMIC PLANNING - RATIONALE, FEATURES AND OBJECTIVES

**Structure**

1.1 Introduction

1.2 Objectives

1.3. The rationale of planning

1.4 Important features of Indian plans

1.5 Objectives of economic planning

1.6 Evaluation of the objectives of economic planning

1.7 Summary

1.8 Examination oriented questions

### 1.1 INTRODUCTION

This lesson is about the meaning of Economic Planning, Rationale of Economic Planning Features of Economic Planning.The chapter has also discussed the Objectives of Economic Planning.

### 1.2 OBJECTIVE

The objective of this unit is to understand the students about the rationale, features and objectives of planning in India. It explains the important aspects of Indian five year plans and evaluation of planning in India

## Introduction

Economic planning is a term used to describe the long term plans and strategies of government to coordinate and develop the economy with efficient use of resources. Many developing countries soon after getting independence from colonial rules started to adopt planning with the aim of promoting economic growth and development. It was the Soviet Union which explored and adopted national planning for the first time in the world. After a prolonged period of debate and discussion, the first soviet plan commenced in 1928 for a period of five years and gradually the whole world started to follow the economic planning.

## Meaning and Definitions of Planning

Economic planning is the making of major economic decision, what and how much is to be produced, and to whom it to be allocated by the conscious decision of a determinate authority. Planning consist of totality of arrangement decided upon so as to carry out a project related to economic activity. These can be plan for production, allotment or distribution investment which can be considered as a partial plan but in aggregate the term economic plan is related with the whole economic life or the entire activity of an economic unit. Regarding the concept of economic planning, there is lack of unanimity among the thinkers and economists.

## Definitions of Economic planning

According to Mrs Wotton, “Economic planning is a system in which the market mechanism is deliberately manipulated with the object of producing a pattern other than which would have resulted from its spontaneous activity”.

- In the words of Zweig, “Economic planning consists in the extension of the functions of public authorities to organisation and utilisation of economic resources. Planning implies and leads to centralisation of national economy”.

## Historical Background of planning in India

Economic planning is considered as the most systematic technique for redressing all economic loopholes. Many developing countries soon after getting free from centuries of colonial rule adopted some sort of planning with a strong conviction that state has to intervene effectively to promote economic development.

India was no exception to this trend. Indian policy makers started the process of planning in order to achieve certain objectives such as speedily raising the levels of living, catching up with the living standards of the industrially advanced countries, producing product mix that could sustain growth over a longer period of time, and reducing the extent of the existing inequalities and levels of poverty in the country. More than seventy years of independence, the country's experience with planning presents a mixed picture- it has achieved success in some directions and failed in others.

By the decade of the 1930s, the idea of planning had already entered the domain of intellectual and political discussion in India. Many fresh proposals suggesting immediacy of planning in India were put forward, though the erstwhile British government remained almost immune to them but these humble proposals of planning served their purpose once India became independent and decided to adopt a planned economy. In India the first systematic attempt of economic planning was made in 1934 When M.Visvesvarya published his book "Planned Economy for India". In 1938, the National Planning Committee under the chairmanship of Pt. Jawaharlal Nehru was established by Indian National Congress to prepare a plan for economic development. However due to outbreak of second world war the NPC could not move ahead. In 1944 eight industrialists of Mumbai gave "Bombay Plan" The plan laid down proposal for the development of post Independence economy of India and aimed at increasing the national and per capita income within a period of 15 years. In the same year Narayana and Aggarwal formulated Gandhian Plan that was based on decentralized economic setup and rural economy. M.N Roy gave "People's Plan" that emphasised agriculture and small-scale Industries.

India, also accepted economic planning both for its central and state governments. In India, the real beginning of planning was made on March 1950 when the Indian Planning commission was established. In July 1951, the commission submitted its draft outline of the first five years plan which uses to be effective from 1951-52 to 1955-56.

The NDA Government has stopped the formation of five years plans. So, the $12^{th}$ five years plan would be called the last five year plan of India. On Januray $1^{st}$, 2015, the government formally abolished the Planning Commission by replacing it with the newly created body-NITI AAYOG. It has launched a three year action plan from April 2017. NITI Aayog is the premier policy THINK TANK of the government of India, providing both directional and policy inputs and relevant technical advice to the Centre and States.

## 1.3 THE RATIONALE OF PLANNING

A planning rationale is a document that will provide an overall description, justification and rationale for understanding the proposed development and policies. The main objective of planning in India is to achieve the goal of economic development and solve the problems of general poverty, unemployment and backwardness through it. Following points highlight the basic rationale for planning in India.

- **Limitations of the Market**:- In market economies, planning has been adopted for overcoming the limitations of the market mechanism in respect of both efficiency and equity. The need for economic planning in India was felt particularly due to its economic backwardness. Having won independence in 1947 the policy makers in this country realised that the path of economic development followed by England, the USA or Japan was no longer available to it. Relying entirely on market, India could not even hope to come out of the low level equilibrium trap in which it had fallen during the period of its colonial subjugation. It is said that market allocates resources efficiently through the Smith's "invisible hand" or price mechanism. This mechanism determines an economy's decision of what, how and for whom to produce. It is argued that decision making is more efficient. In other words, market works, market is efficient and market is good. But in real life, markets do not work efficiently. As far as resource efficiency is concerned, market fails. This market failure results in economic inefficiency. Market failure means any market performance that is judged to be less superior to the best attainable outcome. In the real world, markets fail to achieve allocational efficiency of society's scarce resources. Monopoly or any form of imperfect competition distorts market signals thereby adversely affecting people's interests. Public goods are an example of market failure. Since people are unwilling to share the costs of public goods, such must be subsidised or provided by the Government if they are to be produced efficiently. Moreover, due to externalities consumers or producers do not have to pay all the costs of their activities or are unable to get all the benefits. Further, in poor developing countries goods market and inputs market are not well organised. Thus, the building up of an efficient organised market required government to play an effective role so that resources are allocated efficiently. This market failure argument is definitely an incentive to opt for economic planning both in developed and developing countries. In view of this planning has become an essential and integral part of development programmes as universal strategy for a country like India.

- **Need For Social Justice and Equity**: - It was believed earlier that the market mechanism fosters efficiency. Further the policy makers of the third world countries in 1950 and 1960 argued that higher growth would ensure equity and Justice. However, experiences tell a different story i.e. Its trickle down affect does not occur. The most important aim of the government of the developing mixed economies is to promote equity. Market forces operate in such a manner that income and wealth get concentrated in the hands of a few. High economic growth then bypasses the underprivileged. India like many other third world countries had also thought the economic growth will automatically solve its poverty problem. But growth becomes exclusive, instead of being an inclusive one. Again, private investors do not like to invest in physical infrastructures and social sectors like health, education etc. Govt can utilise its investible resources to provide the basics of life for a larger segment of population. Planning process can keep breaking the vicious circle of poverty. Planned adjustment can ensure fairness and justice.

- **Resource Mobilisation and Allocation:-** India suffers from resource constraints and therefore, it has to use the available resources judiciously. Investment projects in this country should not be chosen entirely on the basis of private profitability. In case that is permitted, large investment will be made in socially low priority areas. In a society where income distributions is highly skewed, competitive markets will dictate a pattern of investment which will not be consistent with the overall long term objectives of the country. In developing countries, the choice of development projects should rest on social benefits rather than private profitability. Hence the state intervention in the economy with a view to optimise social gain from the utilisation of scarce resources becomes necessary. Hence there is a strong case for adopting economic planning in this country is some form or the other. The UN conference on planning held in 1965 recommended adoption of economic planning in underdeveloped countries on similar grounds. The UN report asserted," It is an integral task of planning to achieve the best possible use of scarce resources for economic development."

- **Learning By Experience:-** It is strongly argued that economic planning helped the third world poor countries of Asia and Africa to come out from colonial domination . Such colonial relationship for the last few hundred years created a wide gap between the developed countries and less developed countries. After winning political independence most of these countries opted for economic planning so as to have higher growth and improved living standard of the masses. Such economies like India must not only rely on market mechanism and need to address their problems in the light of state intervention and planning. Planned intervention provides the necessary background to challenge the economic supremacy of the developed economies and in the process this can be seen as essential for self reliant growth.
- **Attitudinal or Psychological Arguement:-** A planned economy may encourage people to participate in various socio economic programmes such as illiteracy drive, elevation of killer diseases, removal of poverty etc. In the country like India, the importance of participation in social change is undeniable. Indeed, actual participation and public action help in changing governmental influence and its priorities. Thus, by involving people in various planned programmes, the government can destroy religious taboos and old customs, casteism and many other conservative outlooks which act as drag on economic development. A progressive government, through its development planning, can best provide the needed incentives to overcome inhibiting and reactionary forces, like sectionalism, casteism etc. Then brings about material and social advancement.

**Conclusion**

Market mechanism and competition can attain allocational efficiency better than a comprehensive macroeconomic planning. The practice of planning pursued in different countries has failed to bring many of the benefits expected from it. There are both market failures and plan failures. Plans and markets indeed are not thought to be as incompatible opposites. What is now recommended is rather a "balanced growth "of both planning and market. Thus, planning has a great role to play in a developing deregulated liberal economy like India.

**Check Your Progress**

1. How market mechanism affects efficiency in an economy
2. What is the rationale of planning in a developing country like India

## 1.4 IMPORTANT FEATURES OF INDIAN PLANS

Economic planning is an organised and co-ordained effort to achieve certain well defined objectives within a fixed time frame through optimum utilisation of community's resources as to promote its general well-being. In India, the five-year plan is a deep rooted system. The systematic effort of planning was initiated in 1951 and so far we have completed twelve five year plans. The planning era has ended with planning commission as NITI Ayog is established as "Think Tank" of the government of India on January 2015 replacing planning commission. The following are some of the salient features on India's five years plans:-

1. **Democratic Planning**: - At the formulation level as well as at the implementation level of plans, India followed the democratic approach. Planning Commission prepares the draft plan and it was approved by the National Development council body which included stakeholders from state government. The opinions of various tiers of government, various organisations, institutions, experts are being given due consideration while formulating a five year plan.

2. **Decentralised Planning**: - Decentralised planning is a kind of percolation of planning activities or process from centre to the sub state levels i.e. district, sub division, block and village level. Although since the inception of First plan, the importance of decentralised planning was emphasised, so as to achieve people's participation in the planning process, but the real introduction of decentralised planning was made in India for the first time during the seventh

plans. Decentralised planning is a kind of planning at the grass root level or planning from below under decentralised planning in India emphasis has been given on the introduction of district planning, sub divisional planning and block level planning so as to reach the finally village land planning successfully. Decentralised planning is very much important in a country like India, where majority of our population line in rural areas. These types of plan raise the involvement of people are implementing the plan. Moreover, decentralised planning is being prepared in the light of local problems and on the basis of local resources potential. Thus under the present economic scenario, the decentralised planning is considered as most important strategy in respect of planning for economic development.

3. **Existence of Central Plan and State Plan**:- Another important feature of Indian Planning is that there is co-existence of both the central plan and state plans. In every five year plan of India, separate expenditure is earmarked both for the central plan and also for the state plans. Central plan is under the exclusive control of the planning commission and the central government whereas the state plan is under the exclusive control of state planning board and state govt which also requires approval from the planning commission.

4. **Comprehensiveness**:-Another important characteristic of planning is its comprehensiveness in scope. As central planning authority takes all decision regarding production, consumption and distribution, thus it comes the entire economy which is comprehensive in scope.

5. **Regularity Mechanism: -** In the decentralised of set up of planning, planning commission is the apex body. It plays the role of regularity mechanism to provide necessary direction and regulation over the planning system. Moreover, in order to have proper co-ordination between centre and states, a co-ordinating agency, the national development council was set up. The planning commission of India is also having adequate regularity mechanism over the successful implementation of planning.

6. **Public sector and private sector plan :-** One of notable feature of India's five year plan is that in each plan, a separate outlay is earmarked both for public

and private sector in India, being a mixed economy, it is quite natural that a separate investment policy and outlay for public as well as private sector is being maintained in each plan.

7. **Indicative planning:-** India's planning before 1991 was of the nature of directive planning and averse to the role of market mechanism. A far as resource allocation in the governmental sector was concerned, the Government did not rely on the market but gave directions so that resources could be utilised by all the states efficiently. Private Industrialists were encouraged for making investments but at the same time, they came under strong control and regulation. Thus, planning in India during 1951-91 was not strictly "planning by direction" like the socialist plan and not strictly planning by inducement like capitalist planning. This old system India planning of the comprehensive nature was to be replaced by an integrative approach that combines both planning and marked mechanism. Thus, the Indian planning became indicative in nature with the launching of Eighth five year plan in 1991. As plans rolls on, its indicative nature gets strengthened. Thus, flexibility is one of the important hallmarks of indicative planning.

8. **Periodic plan:-** Another important features of Indian planning is that it has adopted a periodic plan of 5 year period having five separate annual plan components. This type of periodic plan approach is quite suitable for realising its definite targets. Moreover, the system of annual plan has provided the facility for making necessary modifications in the plan outlay, allocations and targets.

9. **Well defined Objectives:-** One of the salient features of Indian five year plan is that each and every plan is guided by certain basic or fundamental objectives. The major objectives of economic planning in India mostly comprises achieving higher growth rate, reducing income inequalities, achieving full employment self reliance, regional balance and modernisation of various sector. In short " Growth with social Justice" is the basic objective of planning in India so that every section of people and every sector of economy can get maximum benefits from planning.

10. **Balanced Regional Development**:- Development of backwards regions is one of the important objectives of Indian planning. India's planning system has even isolated some states under special category states so as to channelize additional resources to these backward states for their rapid development. Special budgetary relief in the form of tax holiday or tax relief for establishing industries into backward regions has given from time to time. Every possible effort is made by planners to fill the gap between industrially developed backward regions.

11. **Perspective Planning on Basic Issues:-** Another important feature of Indian planning is that it has adopted the system of perspective planning for some basic issues in the interest of the country for a period of 15 to 20 Years on the basis of necessary projections. Although Indian plans are mostly five year plans but perspective planning on some important aspects like production of food, petroleum goods, steel etc. are quite important considering the growing demand of such goods. Thus the perspective plan safeguards the future interest of the economy.

12. **Programme implementation and Evaluation: -** Indian planning system is broadly supported by programme implementation and evaluation machinery, which is used to play a very important role. Programme implementation machinery includes various Government departments which are usually involved for the implementation of the plan. Moreover, there is evaluation machinery which usually conducts pre project evaluation of every planning project of the country.

13. **Short falls in Target realisation:-** Another notable features of India's five year plan is its shortfalls in achieving realisation. Although targets are fixed for every plans in respect of rate of growth of national income, employment production of some important items. But in most of the cases these targets are not fulfilled to the fullest extent, excluding certain specific cases. Such shortfalls in target realisation lead to the problems of spill over of projects into next five year plans and cost overruns.

**Conclusion:**

Strategic planning is a critical component for effective governance and management of the economy. Thus, we have seen that salient features of India's five year plans are numerous but some of these are quite common to that of other countries while some are very much uncommon even. So, planning should focus on both long term objectives and short term objectives like controlling inflation, infrastructure Development for overall development of the economy.

**Check your progress:**

1. Define indicative planning
2. What do you understand by decentralised planning
3. What are the salient features of Indian Plans

## 1.5 OBJECTIVES OF ECONOMIC PLANNING

India's commitment to planned economic development is a reflection of our society's determination to improve the economic conditions of our people and an affirmation of the role of the government in bringing about the growth performance through a variety of social, economic and institutional means . The ultimate objective of the India planning is to achieve broad based improvement in the living standard of society at large which be made possible through growth and development of the economy. Thus, growth with social justice is the major objective of planning in India. The main objective of economic planning in India can be summarised as follows:-

1. **Economic Growth :-** Economic growth has always remained in focus as the main objective of India five year plans. As the economy of the country was suffering from acute poverty thus by attaining a higher rate of economic growth eradication of poverty is possible and the standard of living of people be improved. In India, 7 out of 12 five year plans experienced lower growth rate against the set targets. The average growth rate during the first five plans was around 3.55 % and per capita growth rate was around 1.3 %. The country experienced more than 5% growth rate after sixth plan .This was mainly due to good agricultural performance and a rapid growth is the services sector to sum up the growth rate was slow during the first three decades of planning but picked up afterward but it needs to be mentioned that growth of Indian economy is not that much high as was experienced by china in 1990 and South Korea,

Taiwan, Philippines and other south Asian Countries during 1980 and after Indian growth registered massive fluctuations due to many exogenous factors such as fluctuations in agricultural product, uncertainties about foreign assistance and higher fiscal deficits.In periods like 1971-72 a negative growth as per capita income was registered. Thus sustained increase in economic growth is among the provost objectives of planning in India, which continues till date and will be so in future without any iota of doubt in it.

2. **Self Reliance:-** Self reliance signifies a nation's capabilities to meet all its requirements either from domestic sources or has an ability to import them from abroad. After Independence India was afflicted by several problems such as influx of refugees, lower agriculture production, underdeveloped industrial sector, scarcity of capital and has developed technology. Because of lower agriculture production India has to import food grains from foreign lands under PL-480. Due to scarcity of capital and low saving rate, India has to depend on external foreign aid for meeting its import requirements and investment rate. On account of virtual non existence of basic industries, transport equipment, machine tools, heavy engineering goods and many other capital goods had to be acquired from developed countries. It has been observed in many cases the developed countries, while supplying essential commodities to underdeveloped countries attempt to take full advantage of their strong bargaining position and extort exorbitant prices for their products. Therefore, if the developing countries seriously desire to keep its growth activity free from political pressure of other countries, it has no choice but to become completely self reliant in food and capital equipment. It is now generally agreed that in the field of self reliance, India has too many achievements to its credit. Firstly, the green revolution of 1960's and governments steps to promote agriculture through different plans have earned rich dividends to the country. Today, India has not only become self reliant in food grains and but also has become leading exporter of many agriculture products.

Secondly, with the growth of iron and steel industries, machine tools and heavy engineering industries, India has attained significant progress towards self reliance in capital equipments. Industrial goods comprise around 86 % of total merchandise exports of the country. Thirdly, India once a largest borrower of IMF has now become a lender to IMF. There has been a considerable fall in multilateral and bilateral borrowings of the country. Although India has achieved self sufficiency to a large extent but it has not yet achieved it completely. As huge import of oil along with some other items are still creating a serious drain on our foreign exchange reserves. International prices of petroleum products and highly volatile and any unexpected spurt in them can cause severe strain on country's balance of payment.

3. **Employment Generation:-** Unemployment problem requires an immediate solution for the elimination of poverty as its observed that with the rising number of unemployed, poverty expands. Removal of unemployment has thus been mentioned as one of the objectives of economic planning in all the five year plans but it never got a high priority. Planning commission's emphasis on growth rather than labour absorbing production is widely held responsible for the continuous increase of unemployment in India. In spite of the implementation of 12 five year plans, unemployment in India has remained unabated. The backlog of unemployed persons has been increasing years after year. Agriculture employs nearly 49 % while contributing only 15% of the gross value added, whereas, just 29% of china's workforce is employed in agriculture. Moreover ,a large portion of agriculture workforce is disguisedly unemployed resulting into lower productivity . The planning model failed to make industry and service sector absorb the surplus rural labour force. By some estimates, the Indian economy will need to generate nearly 70 lakh jobs annually to absorb the net addition to the workforce. India also exhibits a low and declining female labour force participation rate. The planning also failed to formalize Indian economy as India's informal sector employs approximately 85 % of all workers. As per the opinion of experts, unless India adopts an employment oriented policy and aims at higher levels of productivity the chances of reaching the goal of full employment would remain beyond realisation.

4. **Attaining Economic Equality and Social Justice** :- Reduction in income equalities has been mentioned as one of the objectives of economic planning in

India. However, in terms of priority it always got a very low place. According to Oxfam report, 2018 India's top 1% of population holds 73 % of wealth. The various studies have also shown that inequality rose sharply along with the growth rate in the past reform period. The planning commissions had spelt out its approach in respect of income inequalities in the fourth plan. It stressed the need for raising the living standards of the poor by accelerating the pace of growth on the assumption that the gains of development will percolate downward. Interestingly, in the fifth plan through removal of poverty was mentioned as a major objective, only a passing reference was made to the problem of income inequalities. The sixth plan reiterated the need for removal of poverty but did not spell out concrete measures to be followed for income inequalities. The plan document simply hoped that fiscal policy, Industrial licensing, monopoly control measures and additional employment to be created during the plan period should be able to reduce disparities in income distribution. The basic cause of income inequalities in rural areas in inequality the ownership of agricultural land. Small and marginal farmers with their little land in possession produce only for self consumption. In context, incomes of big farmers are not only high but are also steadily rising. Apart from economic surplus, they are also getting cheap credit for investment purposes. In urban areas, from rapidly growing assets of the big business houses. In urban areas, from rapidly growing assets of the big business houses. It is obvious that income have increasing. Because of increasing liberalisation in recent years and more and more incentives to private corporate sector to expand its activities and genarte profits, Income inequalities in urban areas have increased. All this shows that the objective of reduction in income equality was accorded a very low priority in economic planning. The neglect of this objective arose out of the conviction of the planners that economic growth will automatically reduce income inequalities.

5. **Elimination of poverty**:- Poverty elimination remained one of the prime objectives in India's planning system especially after fourth five year plan but the achievements is far from satisfactory and incidence of poverty remains unacceptably high. Due to faulty approach followed in the initial

part of our planning, economic inequality widened and poverty became acute. Under such a situation, the fifth plan adopted the slogan of “Garib Hatao” for the first time . In 1973-74 , the expert group under Prof. Lakdawala estimated about 55 percent of population was living below the poverty line. However this population came down to about 29.5 % in 2011-12 estimates of NSSO as per Rangarajan methodology. According to UN’s Millennium Development goal report, India is a home of one third of the extreme poor of the world. Around 50 districts in the country are in the erstwhile BIMARU states –Bihar, Jharkhand, M.P, Chhattisgarh, Rajasthan, Orissa and U.P and 91 of the poorest 100 are concentrated in these seven states . It was felt by the planning commission that the growth of the economy would be insufficient to eradicate poverty and therefore poverty removal programmes were made an integral part of five year plans like National Rural Employment Programmes Composite rural training and technology centre, crash scheme for rural employment Guarantees programmes etc. But the performance of these programmes is not Upto the satisfaction. There is a strong need to implement anti poverty employment generation and basic sources programs effectively besides taking some out of box measures.

6. **Modernisation**: - The term modernisation signifies a variety of structural and institutional changes in the framework of economic activity which can transform a feudal and colonial economy into a progressive and modern economy. Indian planners have always recognised the role of science and technology in the country’s development. However, until the sixth five year plan modernisation was never on the agenda of any plan. In the sixth five year plan for the first time, the objective of modernisation and explicitly mentioned. Modernisation and competitive market is the key to economic development and as an economy grows, it must become competitive and more productive. India has turned productive in certain sectors such as software, gems and Jewellery and textiles due to modernisation but in overall productivity, we lag behind other emerging markets. One reason for low productivity is that planners failed to sense the appropriate timing of market reforms in India. South Korea, Taiwan and China

did it earlier and hence became front runners in the race of Economic growth. On the Contrary, Indian Business Enterprises were subject to plethora of regulations and controls. The aim of 1991 economic reforms was freeing the private sector from the innumerable govt controls that had existed for a long time. The consequence of this widespread deregulation and introduction of competition in most segments of the economic sphere has been the very visible unleashing of entrepreneurial energies at all levels and in most parts of the country. Today India's capabilities in manufacturing, mining, construction, productive infrastructure and technical knowing-how are far greater than those in early 1950's. In agriculture, modernisation implies increased use of Fertilizers, HYV seeds, extension of irrigation facilities, improvement in water management, change in the pattern of energy use and greater mechanisation. There is another aspect as there is a risk of indiscriminate modernisation. In a labour surplus, economy a steadily increasing automation in Industries can force lots of Industrial workers to lose their jobs. Similarly in rural areas, mechanised farm operations can worsen employment situation among the agricultural workers. Therefore, the planners have to recognize the appropriate combination of modernisation, employment generation and poverty removal.

7. **Inclusive and Sustainable Growth:-** Globally, there is a clamour for creating a more inclusive world and India is also a front runner. Govt of India is fully committed to resolve towards achieving inclusive growth. The Eleventh plan for the first time stated the objectives of inclusiveness and sustainability of growth. The major dimensions of inclusive development are poverty elimination, employment generation health education, women's empowerment and social welfare. It suggests the social inclusion along with financial inclusion as it has been witnessed that those who are socially excluded are also financially excluded. There are many sections of the Indian population like lenders agricultural labourers, marginal farmers, scheduled castes, scheduled tribes and other backward classes continue to suffer because of this exclusion. The eleventh plan sought to extend the benefits of growth to these excluded sections of the population. It also focussed on the importance of a clear commitment to pursue a development process which is environmentally sustainable. Thus,

inclusive growth & sustainable Development objective of the planning focussed on poverty reduction, equality, creating regional balance, infrastructure Development, empowerment of women and children and protecting Environment.

**Conclusion:**

It is clear that the basic aim of Economic planning in a country like India is to achieve a rate of growth that is socially sustainable. The most important role is the removal of mass poverty and growing unemployment by putting resource more effectively into use. Making plans and setting goals provides a clear roadmap on where we are going and what we would like to achieve. India still has over one third of the population living under banner of poverty. Unemployment is still a major obstacle. So, an immediate attention from the policy makers required to assist the further growth of poverty, unemployment, regional imbalance, Economic Inequalities and Environmental degradation.

## 1.6 EVALUATION OF THE OBJECTIVES OF ECONOMIC PLANNING

India has completed Twelve five year plans so far. It is therefore, important to review this entire period so as to evaluate the accomplishments and deficiencies of the planning experience in India in achieving various objectives of social and economic development

- **Accorded highest priority to growth**:- The main objectives of Economic planning as they have been spelt out in various plans cannot be realised simultaneously. Often ignoring the incompatibility between various objectives it is expected that the success will be achieved in all the directions. However, the experiences in the past has belied these expectations. In India's mixed economy, the objectives of rapid economic growth and reduction in income inequalities seem to be in conflict and the planners clearly betray awareness of trade off between them. India's underdeveloped economy is basically different from the Keynesian world. In the developed countries, various redistributive measures will raise the marginal propensity to consume which in turn will induce investment. With the increase in investment not only employment will increase, but overall development will also take place.

However, this policy will not work in India with the same effectiveness. Shortage of capital is major obstacle to development in this country. Most of the unemployment in this country is structural in character and differ from unemployment of the Keynesian world. The saving rate is not high enough to match the investment rate required for providing employment to everyone. The techniques which can generate adequate surplus for rapid economic growth are such that they will hamper creation of new jobs and will thereby accentuate inequalities in income and wealth. If, on the contrary, labour intensive techniques are adopted so as to create employment opportunities on an extensive scale, adequate surplus required for realising warranted rate of growth may not be generated. This is matter of fact, is a major problem to which in the past Indian plans have not paid sufficient attention ignoring the incompatibility between growth and other objectives. Indians plans have accorded the highest priority to growth and, in practice, whenever other objectives have come in conflict with the objective of growth; they have been given up in favour of latter.

- **Goal of equitable distribution of wealth not achieved** : while spelling out the objectives of the fourth plan, reference in most unequivocal terms was made to reduction of inequalities in income and wealth. However, the indifference of the planning commission towards this objective was unconcealed. The fourth plan document itself states to some extent income disparities can be reduced through fiscal measures aiming at reduction of income at the top levels, but for us it is important to lay for greater stress on positive steps for ameliorating the conditions of poorer people through planned economic development. In a rich country greater equality could be achieved in past by transfer of income through fiscal, pricing and other policies. No significant results can be achieved through such measures in a poor country, where whatever surpluses can be mobilised from the higher incomes of richer classes are needed for investment in the economy to lay the basis for larger consumption in the future. Without a deliberate policy to ensure an equitable distribution of the gains of development, the processes of development benefit the upper middle and richer sections of the population much more than they do the lower middle and the poorer sections.

- **Poverty Alleviation**:- The fifth plan referred to the necessity of eliminating poverty but the programmes for the removal of poverty are vague in terms of their quantitative effects on the attainment of social objective. The latter plans have reiterated the objective of social justice in the manner of a ritualistic exercise. The commitment of the government to the objectives of poverty alleviation, employment creation and reduction in income inequalities in this period has been lacking. According to the multidimensional poverty index adopted by UNDP in its Human Development report stated 55.3 % of India's Population suffer from multidimensional poverty. Infact, according to the concept of multi-dimensional poverty index as much as 27.8% of India's population suffer from "severe poverty". Moreover data on hunger, malnutrition and under nutrition also provide a graphic pathetic picture of the state of poverty in India. Infact, with the neglect of social justice and human development by the government in the past few years, the Indian economy has already started moving along a path of growth which in UNDP terminology is jobless and futureless. Global comparisons make the issues more striking. Whereas 9.2% of China's population lives below the world bank standard of poverty (PPP $1.25)and only 4.5% in Brazil, the figure for India is staggering i.e 32.7 %. Other indicators like literacy, nutrition, life expectancy and health were also far behind the other counter parts till 2015. But as per the recent MPI reports of UNDP poverty and other such indicators started showing positive signs. India has reduced its poverty rate drastically from 55% to 28% in ten years. Nearly 271 million people moved out of poverty between 2005-06 and 2015-16 according to Oxford Poverty and Human Development Initiative (OPHI) director Sabina Alkire in its reports of MPI 2018. Although India still has the largest number of people living in multidimensional poverty in the world, country has made considerable progress. Moreover, data on hunger, malnutrition and undernutrition provide a graphic pathetic picture of the state of poverty in India. This data shows that more than one fourth of people suffering from chronic hunger in the world, live in India.

- **Failure to provide productive employment**: with the progress of planning, the problem of unemployment as well as underemployment is also on increase. Backlog of unemployed persons has been rising since the end of the first plan. Development plans in India were unable to absorb even the natural increase in labour force during each plan period, not to speak of alleviating the huge backlog of unemployed**.**

  Moreover, neglect of small and marginal farmers, inadequate infrastructure facilities etc are some of the loopholes of planning in India.

- One of the objectives of the planning is economic self-reliance; self-reliance means economy should be attaining various types of securities such as food security, energy security, environmental security, socio-political security.

  Though in various fields we have made much progress, but we have not been able to bridge the resource gap and a large part of the resources come from foreign sources. The private sector as well as public sector has failed to generate adequate resources. We have also failed to create sophisticated equipment and materials.

- The situation in respect of distributive justice has not been ensured in various sector of the economy. The tenancy reforms have not been complete and insecurity of tenure has been much more pronounced. The nature of infrastructure has helped mostly to rich sections of peasantry. In the industrial sector also big became bigger. The planning has increased the inequalities only. Industrial licensing was neither efficient nor egalitarian.

- The resources allocation pattern does not show any consistent trend. Sometimes it was on industry or sometimes it was on agriculture, after the first five year plan agriculture got prime importance again relatively in 10th plan (as union budget 2004-05 and common minimum programmes reveals.) whereas with the exception of 4th plan, industry got relatively a largest chunk of resources (almost 25% of total allocation). Allocation on power and transport were satisfactory but various aspects of social sectors have been neglected. Social sector has got relative attention from 8th plan onwards.

- The growth rate in the plan period in most cases has not been satisfactory. Excepting the years of 8th and 9th plan growth rates were not consistent. Moreover, growth rates have not helped to remove poverty and unemployment. The product mix that has been generated has not helped poor people. Balance of payment situation has not been satisfactory. We had always a deficit in the BOP.

  Another major area of setback is the inability to generate adequate revenue, which has given rise to resource gap and deficit financing. There was generation of black money and corruption and failure to tax black money income.

**Conclusion**:

In conclusion, it may be pointed out that so far there has been great divergence between plan targets and their implementation. The philosophical and academic quality of the plan documents may have been fine but there has been a major crisis of implementation due to the existence of wide gap between theory and practice. Hence, whereas the planning process has been able to create social and economic infrastructure, provide an industrial base by fostering the development of heavy and basic industries, it failed to provide employment to every able bodied person, eliminate poverty and bring about institutional reforms leading to reduction of concentration of income and wealth.

## 1.7 SUMMARY

It is clear that the basic aim of Economic planning in a country like India is to achieve a rate of growth that is socially sustainable. The most important role is the removal of mass poverty and growing unemployment by putting resource more effectively into use. Making plans and setting goals provides a clear roadmap on where we are going and what we would like to achieve. India still has over one third of the population living under banner of poverty. Unemployment is still a major obstacle. So, an immediate attention from the policy makers required to assist the further growth of poverty, unemployment, regional imbalance, Economic Inequalities and Environmental degradation.

## 1.8 EXAMINATION ORIENTED QUESTIONS

1. Under which plan poverty alleviation was considered as the objective of planning in India?
2. Discuss the role of planning in achieving social justice and equity in India?
3. What are the major objectives of Economic planning in India?
4. Evaluate the objectives of Economic planning in India?

******

**M.A. ECONOMICS** **LESSON NO. 2**

**COURSE NO. 418** **SEMESTER-IV** **UNIT - I**

## ECONOMIC PLANNING - RATIONALE, FEATURES AND OBJECTIVES

**Structure**



### 2.1 INTRODUCTION

After studying different aspects of planning in India on broad level in previous lesson. This chapter will focus on regional planning, its concept and policies. As well as extent of regional imbalances and limitations of regional planning in India.

### 2.2 OBJECTIVE

The objective of this lesson is to get insight in economic planning at regional level, an important aspect of decentralization of powers and cooperative federalism. We will also be studying about drawbacks and flaws assosciated with regional planning in India.

## 2.3 REGIONAL PLANNING - CONCEPT

**Regional planning** deals with the efficient placement of land-use activities, infrastructure, and settlement growth across a larger area of land than an individual city or town. Regional planning is related to urban planning as it relates land use practices on a broader scale. It also includes formulating laws that will guide the efficient planning and management of such said regions. Regional planning can be comprehansive by covering various subjects, but it more often specifies a particular subject, which requires region-wide consideration.

Regions require various land uses; protection of farmland, cities, industrial space, transportation hubs and infrastructure, military bases, and wilderness. Regional planning is the science of efficient placement of infrastructure and zoning for the sustainable growth of a region.

A 'region' in planning terms can be administrative or at least partially functional, and is likely to include a network of settlements and character areas. In developing economies like India, the issue of social equity has become the need of the day. This needs emphasis on regional approach to developmental planning as against a micro economic sectoral approach, because regional planning in its true perspective, tends to be much more responsive to the emerging socio economic problems at various territorial levels. Basically, regional planning tends to utilize the natural and human resources to the fullest extent for the enrichment of the quality of life of its population and to distribute the gains of development among the regions and groups within groups, thereby minimizing socio economic imbalances and improving conditions of the general masses.

Regional development planning started in India as early as 1947, when Damodar valley corporation was set up by an act of parliament. Our planners have been quite serious in the process of identifying the regions of low economic growth and areas of comparatively higher and better economic potentialities. Such an effort came into existence right from the First Five year plan, when some major industrial and river valley projects for agricultural development were initiated. During the few decades, specific regional and sub regional plans have been prepared for many years of the country, both at the Central and State levels.

**Why Regional Planning?**

**Regional Planning** encompasses even larger area when compared to **city planning**; Number of cities might be covered when considering a region but rural area remains at the core for which planning is to be done. Along with rural areas many lower level towns in addition to the villages witnessing transformation to towns also adds up to area for which regional plans are made. Regional plans can cut across the boundaries of different states**. Integrating** a much wider areas for overall growth of "region" is the purpose served by regional planning; Planning for integration of rural area and the overall balanced development of the region. Fulfilling the needs of a backward region and providing higher order services for relatively developed areas. Strategies are formulated carefully to keep the goods and resources available to all the places as per their requirements. Following points explain the need and importance of Regional planning in India:

- Regional planning for rural development is basic requirement in a country like India where a major chunk of population living in rural areas. The task of regional planning is to indicate what industries or activities should be located at different levels of the village hierarchy so that an overall development of all villages and urban centres can be ensured in an integrated way at minimum costs in terms of money, time and effort. In the Indian context, regional planning is the deliberate promotion of growth centres as an instrument of rational rural planning.

- **Regional planning** also helps in reducing the conflicts and competition for resources between cities in a region. Developing small towns or satellite towns helps in relieving the stress from higher order town thus increasing efficiency.

- **Regional plans** takes into account the economic, spatial and environmental goals and tries to address national level issues. Integrated development and critical analysis of functional linkages is one of the key to achieve the desired growth. Unlike city planning where land use plans are prepared regional planning lays emphasis on policy for the region. Policies are them elaborated and objectives are formed which differ from area to area within the region.

Regional plans are a must when cities start to influence development even in far places which might end up in under-utilization and wastage of resources without proper planning.

- **Polices** have a larger and longer impact on the overall growth of region and might conflict with the land use plan or plan prepared for a specific city; Generally a new body is formed which takes up the work of coordinating between all the individual departments working in the region especially with the development authorities and local bodies.

  Allocation of funds for different activities and different areas can also be taken up by the regional planning board/authority. Government intervention such as implementing a new scheme or policy for a region can also boost the growth perspectives and aide the policy prepared by regional board.

- Regional planning for reducing regional disparities. The task of regional planning in developing and underdeveloped countries is far more complex. Because of widespread poverty and below subsistence level of existence of the vast majority of people in many backward regions of these countries, the task is two fold: (i) reduction of regional disparities, and (ii) ensuring at least a minimum level of subsistence to the majority of people inhabiting the backward areas and living below the level of subsistence. The strategy of deliberate promotion of growth centres can go a long way in accomplishing the former and the solution of second problem requires redistribution of national income and wealth in favour of the poorer section of the population and initiation of well conceived employment strategy. Reduced disparities help directly and indirectly by reducing forced migration, reducing trip lengths, providing better and more job opportunities in nearby areas, having the required services instead of letting them emerging randomly. *special economic zones (SEZ)* are also established to support the growth of a region and attract investments.

**Check your progress**:

1. What do you understand by Regional Planning?
2. Discuss the need and importance of Regional planning in India?

## 2.4 MAGNITUDE OF REGIONAL IMBALANCES IN INDIA

Regional Imbalances implies that there is difference in 'economic development' of different regions. In India 'region' means a state or district or union territory. Regional imbalances may be inter-state or intrastate. Economic development of an economy like India is possible only when there is balanced economic development of all regions in the country. Balanced economic development of different regions does not mean that rate of development of regions should be uniform. It implies that difference in the economic development of different regions should be minimised.

India has experienced wide regional imbalance in achievement of development goals. Whether such imbalances have widened over the years have been studied by the Williamson (1964), dhar and sastry(1969), dholakia (1994), Ahluwalia(2000), Nayar etc.

**Indicators of regional imbalances in India**

**1. State per capita**

For most of the years states like Punjab , Haryana, Maharashtra, Gujarat, Karnataka, Tamil Nadu and Kerala have achieved higher per capita income when compared with Orissa, Bihar , M.P ,U.P, Assam and Rajasthan. In 2018-19 Delhi's per capita income stood at Rs. 269505 compared to Bihar's 28668. In 2018-19, goa had the highest per capita income followed by Delhi .

The table clearly indicates that Goa is the state with highest per capita income amongst these states. Haryana stands second in number with Rs. 169409. Punjab, Haryana, Maharashtra, Gujarat and Tamil Nadu have more than average per capita income of India. Bihar has the lowest per capita income. States of the southern region of India, Tamil Nadu, Andhra Pradesh, Kerala etc. seem to be better developed, than most of the states of northern India. The present trend of growing income disparity among various states of India has been continuing in recent years.

State wise Per Capital Net State Domestic Product-State-wise (At Constant PricesRs.)2011-12

| State / Union Territory | Andhara Pardesh | Arunachal Pardesh | Assam | Bihar | Chhattisgarh | Goa | Gujarat | Haryana | Himachal Pardesh | Jammu & Kashmir | Jharkhand |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011-12 | 6900 | 73068 | 41142 | 21750 | 55177 | 259444 | 87481 | 106085 | 87721 | 53173 | 41254 |
| 2018-19 | 107241 | 93191 | 60695 | 28668 | 69500 | 368685 | 153495 | 169409 | 139469 | 65178 | 54982 |

| State / Union Territory | Karnataka | Kerala | Madhya Pradesh | Maharashtra | Manipur | Meghalaya | Mizoram | Nagaland | Odisha | Punjab | Rajasthan |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011-12 | 90263 | 97912 | 38497 | 99597 | 39762 | 60013 | 57654 | 53010 | 48499 | 85577 | 57192 |
| 2018-19 | 153276 | 148078 | 56498 | 147450 | 51180 | 62458 | 107853 | 73276 | 76417 | 115882 | 78570 |

| State / Union Territory | Sikkim | Tamil Nadu | Telangana | Tripura | Uttar Pardesh | Uttarakhand | West Bengal | Andaman & Nicobar Islands | Chandhigarh | Delhi | Puducherry |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011-12 | 158667 | 93112 | 91121 | 47155 | 32002 | 100305 | 51543 | 88177 | 158967 | 185001 | 119649 |
| 2018-19 | 242002 | 142941 | 143618 | 82632 | 44421 | 155151 | 67300 | . | 234998 | 269505 | 142583 |

Source : National Statistical Of?ce (NSO)

**Growth Rate of State Domestic Product in Different States (Percent per annum)**

| Forward states | Eight plan | Ninth plan | Tenth plan | Eleventh plan |
|---|---|---|---|---|
| Gujarat | 12.4 | 4.0 | 10.6 | 9.6 |
| Tamil Nadu | 7.0 | 6.3 | 8.0 | 8.3 |
| Maharashtra | 8.9 | 4.7 | 7.9 | 9.4 |
| Goa | 8.9 | 5.5 | 7.8 | 8.9 |
| Haryana | 5.2 | 4.1 | 7.6 | 9.1 |
| Back Ward States | | | | |
| Rajasthan | 7.5 | 3.5 | 5.0 | 7.7 |
| Bihar | 2.2 | 4.0 | 4.7 | 12.0 |
| Uttar Pradesh | 4.9 | 4.0 | 4.6 | 6.9 |
| Madhya Pradesh | 6.3 | 4.0 | 4.3 | 8.9 |
| All India | 6.5 | 5.3 | 7.6 | 7.9 |

## Inter state disparities in agricultural and industrial development

Punjab, Haryana and part of U.P has recorded high rate of productivity due to its high proportion of irrigated area and higher level of fertilizer use. On the other hand states like Assam Bihar , Orissa and part of U.P have been lagging behind in respect of the pace of industrialization.

States like Punjab, Haryana, Maharashtra, Gujarat, Kerala, and Karnataka have achieved considerable development in its industrial sector. But West Bengal could not keep pace in its industrial growth as much as other industrially developed states.

## Development of Factories and Employment

Although Industrial development in India has been at a fair rate but distribution of industries to different states is quite uneven. 15 percent of total factories in India are located alone in Maharashtra. Also the credit goes to four states i.e. Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh only for having more than 50 per cent contribution in respect of factories, industrial production, employment generated by factories and investment in India. Bihar being rich in mineral wealth and Punjab being an agricultural state their share in respect of number of factories, output, generated employment and investment has been very low. It has been observed that states maintaining higher degree of industrialisation are maintaining higher proportion of industrial workers to total population.

## Infrastructure Disparities

Development of infrastructure is the backbone of economic and social development of any economy.

Sh. Montek S. Ahluwalia, "Good infrastructure not only increases the productivity of existing sources going into production and therefore helps growth, it also helps to attract more investment which can be expected to increase growth further."

## Intra State Imbalances

There is a growing tendency among most of the advanced states to concentrate its development activities relatively more towards developed urban and metropolitan areas of the state while allocating its industrial projects. These can be seen from the example of West Bengal where 70 percent of new units are located in Hoogly district. About 86 percent of factories of Maharashtra are located mostly in urban areas.

### Foreign Direct Investment

**High FDI States:** Maharashtra, Dadra nagar Haveli, Daman & Diu, Delhi, Haryana, Tamilnadu, Pondicherry, Karnataka, Gujarat, Andhra Pradesh.

**Medium FDI States:** West Bengal, Sikkim, Andaman & Nikobar islands, Rajasthan, Chandhighadh, Punjab, Haryana, Himachal Pradesh, Madhya Pradesh, Chatiishghadh, Kerala, Lakshadweep.

**Low FDI States:** Goa, Orissa, UP, Uttaranchal, Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Bihar and Jharkhand.

### Human Development Index

It is a composite statistic of life expectancy, education, and income per capita indicators. It is also an important indicator of regional disparities. Kerala, Delhi, H.P, Goa, Punjab are very highly developed. NE (excluding Assam), M.S, Tamilnadu, Haryana, J&K, Gujarat, Karnataka are highly developed. West Bengal, Uttarakhand, Andhra Pradesh, Assam, Rajasthan are medium developed. UP, Jharkhand. M.P, Bihar, Chhattisgarh are low developed, which clearly shows regional imbalances between the States in India.

The region wise trend of HDI scores suggest mostly Southern States and Northern States have performed much better as compared to their respective peers. Eastern States have a poor performance in Human development Index. The gap between Eastern region and rest of the regions which was widening till 2014 has either declined or remain same since 2015. This could be attributed to higher economic growth in Eastern States mainly Odisha and Bihar. North-eastern States which have rapidly cached up in HDI value and were well performed among other regions have slowed down in recent period and even the HDI value is declining.

**State-wise Poverty Situation (in per cent) in India**

| Population below Poverty Line | Rural Poverty | Urban Poverty | Total Poverty |
|---|---|---|---|
| Less than 10 | Goa, Punjab, Himachal Pradesh, Kerala, Sikkam | Goa, Sikkam, Himachal Pradesh, J&K, Mizoram, Kerala, Andhra Pradesh, Tamil Nadu, Meghalaya, Maharashtra, Punjab, Tripura | Goa, Kerala, Himachal Pradesh, Sikkam, Punjab, Andhra Pradesh |
| 10 to 20 | Andhra Pradesh, Haryana, Meghalaya, Rajasthan, J&K, Nagaland, Tripura, Tamil Nadu, Uttarakhand | Gujrat, Haryana, Uttrakhand, Rajasthan, West Bengal, Karnataka, Nagaland, Odisha | J&K, Haryana, Uttrakhand, Tamil Nadu, Mehalaya, Tripura, rajasthan, Gujrat, Maharashtra, Nagaland, West Bengal, Mizoram, Karnataka, uttar Pradesh |
| 20 to 30 | Gujrat, West Bengal, Maharashtra, Karnataka | Arunachal Pradesh, Assam, Madhya Pradesh, Chhattisgarh, Jharkhand, Uttar Pradesh, Bihar, Manipur | Mizoram, Karnataka, Uttar Pradeshdesh |
| 30 to 40 | Arunachal Pradesh, Manipur, Madhya Pradesh, Assam, Uttar Pradesh, Bihar, Odisha, Mizoram, | Bihar, Manipur | Madhya Pradesh, Assam, Odisha, Bihar, Arunachal Pradesh, Manipur, jharkhand, Chhatisgarh |
| Above 40 | Jharkhand, Chhatisgarh | | |

Source: Based on NITI Aayog Estimates,

The high rural poverty can be attributed to lower farm incomes due to subsistence agriculture, lack of sustainable livelihoods in rural areas, impact of rise in prices of food products on rural incomes, lack of skills, underemployment and unemployment. Total poverty (Rural & Urban) is more in M.P, Assam, Odisha, Arunachal Pradesh, Manipur, Jharkhand and Chhattisgarh.

**Per Capita Consumption of Electricity:** Punjab, Gujarat, Haryana, Maharashtra etc., having higher degree of industrialization and mechanization of agriculture, have recorded a higher per capita consumption of electricity than the economically backward states like Assam, Bihar, Orissa, Madhya Pradesh and Uttar Pradesh.

**Employment Pattern:** Maharashtra, Gujarat, Haryana, Punjab, Tamil Nadu and West Bengal are maintaining a higher average daily employment of factory workers per lakh of population as compared to that of lower average maintained in backward states like Assam, Orissa, Uttar Pradesh, Rajasthan etc.

**Conclusion**

Regional imbalance is a threat to the goal of inclusive growth and reduction of poverty. The growing regional disparities have dampened the speed of further economic reforms, and hence may pose a barrier to India's future economic growth. Regional disparities will result in regional tensions, which in turn may lead to popular agitations and at some times militant activities also. Regional disparities in economic and social development which exist within some of the States due to the neglect of certain backward regions have created and creating demand for separate States like in the past for separate Telangana and now and then for Vidhrbha and for Bodo land. As such, there is a strong need for strengthening of good governance in the backward areas. Towards this end, it is necessary that the local bodies in the backward areas are empowered and strengthened to reduce the regional imbalances in the country.

## 2.5 REGIONAL PLANNING POLICY IN INDIA

Balanced regional growth is necessary for the harmonious development of a federal state like India. India, however, presents a picture of wide regional variations in terms of per capita income, the proportion of a population living below the poverty line, working population in agriculture, the percentage of workers in manufacturing industries etc. Because of the glaring regional disparities in India, the planners have accepted the importance of balance regional development ever since the initiation of the planning process in India and explained plan wise as under:-

- In this context the first five year plan initiated regional development of agriculture and other allied activities but it was not that much focussed regional development planning. So, second plan stated that in any comprehensive plan of development it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment must be desired so as to lead balanced regional development. The problems is particularly difficult in the early stage when the resources available are very inadequate in relation to needs. The stress of developmental programmes should be on extending benefits of investment to underdeveloped regions.
- The third plan devoted a separate chapter to "Balanced Regional Development". It was once again emphasised that balanced development of different parts of the of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusions of industry are among the major aims of planned development. The third plan admitted that on account of technological regions, it might become necessary to localise production in large Industrial sector. Therefore, it was necessary to provide for more dispersed advance in sections like agriculture, small industries, however, communications and social services. The approach in the third plan was to help the states in reducing intrastate disparities by taking steps like increasing agriculture production, large feasible increase in income and employment, developing social services such as elementary education water supply and sanitation health services in rural areas, developing communication and power and raising the standard of living for less developed areas of the state.

To initiate new programmes and extend programmes adopted in the previous plans to reduce interstate inequalities. Special attention was sought to be given to areas that were relatively backward in the past. Programmes to be implemented to achieve this purpose included intensive development of agriculture, promotion of small and village industries, large scale expansion of power, development of railways and road transport. Elementary education secondary technical and vocational education programmes for scheduled castes, scheduled tribes and other backward classes, programmes of rural works to solve the poverty and unemployment.

- These policies were continued in the subsequent plans as well with some changes of emphasis on certain issues, In addition to these programmes, the fourth plan introduced a number of other schemes for the benefits of the rural poor such as small farmers . Development agency, marginal farmers, Agricultural labourers development agency, Drought prone area programmes, crash scheme for rural employment , Pilot intensive rural employment projects etc. Since a large number of rural poor live in relatively less developed regions, all these programmes were expected to benefits the less developed regions more in comparison with the developed regions. Besides a number of state government and financial institutions also announced special concessions to industries established in the backward areas so that entrepreneurs could be attracted to invest in such areas.
- These policies and programmes were continued in the fifth plan period as well. Emphasis was laid on area development approaches adopted for this purpose included the resource based or the problem based development approach, the target group approach, the incentive approach and the comprehensive area approach.
- To provide an integrated approach to the problems of regional inequalities the sixth plan adopted the mechanism of area of planning and the sub plan approach was promoted so that the area plans could be integrated fully with the national development plan. The Desert Development programmes covering 126 blocks in 21 Districts aimed at checking further of the desert areas and raising productivity of the local resources to raise the income and employment levels of the local inhabitants The Drought prone area programme covering 557 blocks

spread over 74 districts in the country aimed at optimum utilisation of land, water and livestock resources, restoration of ecological balance and stabilising the income of the people, particularly the weaker section of the society. Perhaps the most important programmes implemented during the sixth plan were the Integrated Rural Development Programmes and the National Rural Employment Programmes had considerable employment potential and their regional dimension could not be ignored.

- The seventh plan correctly recognised that the two critical determinants of a regional economic status were agricultural productivity and human resource potential and reduction in interregional disparities in these two elements would help greatly in the task of reducing regional imbalances. In order to increase agricultural productivity, the plan had great stress on increasing productivity for rice, coarse cereals, pulses and oil seeds. As far as reduction of disparities in human resource potential is concerned, the seventh plan envisaged universalistion of elementary education so that inter regional disparities in educational status could be reduced.
- The role of economic planning was redefined by the govt under the eighth five year plan. As a result the regularity planning system was replaced by market friendly indicative planning under which little scope was left for regional planning. Probably it is this reason why the eighth plan lacked regional perspective. However, the plan provided for some special areas development programmes such as hill areas development programmes, North eastern council, Border Area Development, Desert development programme. These programmes are definitely part of regional planning. However, they are no substitutes for country level regional planning. As a matter of fact, the special area development programme don't aim at removing the interstate disparities in per capita SDP, levels of human development rates of Industrial and agricultural development and infrastructural facilities.
- The Ninth Plan's approach to regional planning was also perfunctory like the eighth plan it is stated that the special area development programme would be continued. The Ninth plan document admitted that private investments may do little to eliminate regional disparities. Therefore, it is stated it will be necessary

to deliberately bias public investment in infrastructure in favour of the less well of states. The plan however did not spell out allocations of resources from this point of view.

- The tenth plan expressed concern over increasing regional inequalities. In order to emphasise the importance of ensuring a balanced development for all states, it included state wise breakup of the broad developmental targets, including targets for growth rate and social development which are consistent with the national targets. It felt that such an exercise which serve as a catalyst to reinvigorate planning at the state level.
- **The Eleventh Plan continued** with the initiative of the Tenth Plan of working out GSDP growth targets for States. These targets were further broken up into targets for each sector. The Plan also tried to break down the monitorable targets at the national level into State level targets. Since the slow growth States cannot catch up with the faster growing States within a short span of five years, the Eleventh Plan sought to target the slower growing States, and the backward areas within these States for higher levels of public investment. The Plan argued that this would enable the backlog in physical and social infrastructure to be addressed. For this purpose, it proposed to strengthen the Backward Regions Grant Fund which aims at catalysing development in backward area i) providing infrastructure, (ii) promoting good governance and agrarian reforms; and (iii) converging, through supplementary infrastructure and capacity building the substantial existing development flows into backward districts. The Backward Regions Grant Fund is proposed to be anchored in a well conceived, participatory district plan by implementation of programmes selected through people's participation for which Panchyati Raj institutions from the village upto the district level are to be the authorities for planning the implementation. The scheme has two components: (i) District Component covering 250 districts and (ii)Special Plans for Bihar State and the Kalahandi-Bolangir-Korapur (KBK) district of Odisha State. In addition to the above, the Eleventh Plan proposed to continue the Hill Areas Development Programme and the Western Ghats Development Programme with renewed vigour so that the natural resources of these fragile areas can

be used in a sustainable manner based on environment friendly technologies. Border Area Development Programme (BADP) was also proposed number of initiatives for the development of the North-East Region (NER) of the country.

- The Twelfth Plan has proposed the restructuring and strengthening of most of the programmes undertaken in the Eleventh Plan. The Plan correctly points out that the persistence of backwardness is not a problem that can be solved merely with a generous infusion of funds. In fact, overcoming under development is critically dependent on the robustness of the institutional structure of governance of these areas. To improve governance in backward areas and ensure better participatory planning, the Twelfth Plan proposes a new architecture for BRGF.

Considering the period planning as a whole, the policies adopted by the government can be classified into either of the following categories;

1. Policies aimed at industrialization of lagging regions;
2. Policies for development of irrigation, agriculture and allied activities;
3. Policies aimed at providing infrastructural facilities such as transport, communication, etc., in backward regions;
4. Transfer of resources from Centre to States in the form of plan assistances, non-plan assistances, and discretionary grants in such a way as to reduce regional disparities; and
5. Special programmes for the development of backward and less developed regions.

Under the first heading, the following measures were adopted: (a) location of public sector projects in backward regions, (b) use of industrial licensing policy to direct private investment to backward regions, and (c) encouragement to prospective entrepreneurs to set up industries in backward area by granting them subsidies and concessional finance from nationalized banks and financial institutions. A number of public sector projects were set up in the backward States of Bihar, Madhya Pradesh and Odisha. The impact of these public sector projects on the regional economies of

Bihar, Madhya Pradesh and Odisha has not been significant.

As far as development of agriculture is concerned, the most important programme initiated during the planning period was the High Yielding Varieties Programme (HYVP). As a result of this programme, foodgrains production and productivity rose. Particularly noteworthy was the increase in wheat production and productivity in Punjab, Haryana and Western Uttar Pradesh. This led to an increase in regional inequalities.

The government provides a number of fiscal and financial incentives like Central investment subsidy, tax rebates and income tax concession, etc. to units set up in these specified backward areas of the country. In addition to encouraging potential entrepreneurs to set up industries in the backward areas, a number of other programmes have also be initiated to promote industrialization of such areas, as important ones being: (1) use of industrial licensing policy to encourage setting up of industries in backward areas; (2) location of large-scale public sector projects in the backward areas; (3) setting up of rural industries projects; (4) establishment of industrial estates; and (5) development of infrastructure particularly banking, transport and communications in backward area.

**Conclusion**

Transfer through the different sources(Planning Commission, Finance Commission and discretionary grants) do not show any clear bias in favour of the backward States. The ratio of loans and grants in plan assistance is a fixed one (70:30) and does not discriminate in favour of the backward States. Thus, a paradoxical situation has emerged where the comparatively richer States received a higher per capita grant than poor States.

As far as special programmes for the development of backward and less developed regions are concerned, the important programmes in vogue are the Hill Area Development Programme, the North-Eastern Council (comprising the seven States of Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Arunachal Pradesh) and the Desert Development Programme. Under the Seventh Plan a new programme for the development of border areas was taken up.

## 2.6 LACK OF GENUINE REGIONAL PLANNING IN INDIA

**Introduction**

Although the government initiated a number of measures to develop backward regions and reduce regional disparities, the fact is that genuine regional planning is entirely missing. Whatever planning has been done at the regional level was adhoc in character since regional variables did not form part of the overall planning strategy. The models that have formed the basis of planning in India were sectoral in character and no regional variables were introduced. Therefore, regional aspects of planning never emerged in terms of an interwoven strategy of planning. Some of the loopholes of regional planning in India are discussed as under:

**1. Lopsided Policies**

Whatever discussions on location of industries are found did not directly emerge from the models themselves but were added simply as an appendage to justify the claim of planners that adequate attention was being paid to considerations of balanced regional development and regional planning. A classic example of this statement is to be found in the policy regarding the setting up of large public sector projects in backward regions. The government has invested substantial amounts in public sector projects in the three backward States of Bihar, Odisha and Madhya Pradesh (especially in steel plants). However, these investment activities have not been able to generate growth process in the backward States of Bihar, Odisha and Madhya Pradesh. This is because of the fact that the policy pertaining to investment in public sector projects in these States did not form part of a regional planning strategy. No in-depth studies were carried out to ascertain the effect of these investments on the rural hinterland and whether (i) a sufficient number of ancillary units will emerge or not, (ii)the ancillary units that might emerge will be able to spread the effects of development or not, i.e.. whether the ancillary units will remain as a separate *pocket (or enclave)* of development or whether they could be linked up with the rural hinterland in such a way that growth impulses in the hinterland could be generated. Insufficient attention to these questions have severely restricted the ability of the public sector projects in backward regions to generate spread effects and growth impulses.

## 2. The neglect of spatial factors

The neglect of spatial factors in Indian planning strategy is also evidenced from the fact that Indian plans completely ignored the role of ‘development poles’ and ‘growth centres’ in the development process. Accordingly, no conscious efforts were made in the plans to evolve a linked pattern of hierarch of different settlements (having central villages, service towns, growth points, growth centres growth poles etc. )and therefore no spatially integrated socio-economic organization could emerge. What emerged was an immensely distorted and lopsided pattern of urbanization and economic development. Large metropolitan centres like Mumbai, Kolkata, Delhi and Chennai continued to attract industries and other economic activities. In fact, all activities have tended to concentrate in these centres and labour and capital have continued to flow from the backward areas and urban centres of lower order to these large urban centres. This only shows that these metropolitan centres have worked as great suction pumps sucking up the growth potential of the vast rural hinterland, backward areas and lower order urban centres. In the dazzle of economic growth models emphasizing the rate of investment as the growth determining the growth generating process, we forgot that the question relating to where the investments should be made to minimize employment and ‘to hasten and widen spatially the transforming process’ are more important. It is only through the development of a hierarchical pattern of linked settlements that balanced regional development can be achieved, adhoc measures like the ones we have been practicing are of no avail.

## 3. Rural Areas Remain Backward;

While on the one hand absence of a strategy of growth centres and development poles led to a lopsided pattern of urban development, on the other hand, it led to the adoption of measures in the rural sector which did not form a part of an integrated rural development strategy. The nearest that we came towards evolving such a strategy was the adoption of the Community Development Programme. However, absence of a regional planning framework led to the failure of the programme. Since no attempts were made to conceive of rural area as part of a hierarchy of human settlements, functional linkages between rural and urban areas were not explored. As a consequences, growth impulses were not generated and rural areas remained backward and stagnant.

**4. The Centralised Nature of Planning**;

Neglect of spatial factor and genuine regional planning also stems from the nature of the plan formulation process which is a highly centralised one. The basic task in plan formulation is done by the Planning commission at the Centre and Statement governments merely adjust their policies and programmes accordingly. In fact, they are not even competent to carry out this job since they do not possess any machinery for planning. Of course, there is a department in the Secretariat known as the Planning Department but it is a department like any other department in the Secretariat. The staff consists of clerks, typists, stenographers, superintendents, assistant secretaries, deputy secretaries and the secretary. Without any knowledge of the economic and planning problems, the department merely functions as any other department of the State governments. As noted by D.R. Gadgil, “The State plans are not made as the result of any wide consultation or efforts at coordination. There is no specific definition of the objectives of State Planning and no thinking out of a strategy appropriate to it. This follows from the fact that the State plans are prepared, basically in the same manner as the State annual budget. The departmental proposal in relation to each section and sub-section are formulated in the departments, and put together by the heads of departments, and forwarded to the Secretariat. The plan is then prepared in the sense of being pieced together in the Secretariat.”

**5. Subdued role of National Development Council**

The agency through which the State governments voice their opinion is the National Development council (NDC*)***.**The NDC was founded in 1952 and consists of Prime Minister, the Chief Ministers of States and the members of the Planning Commission. It was created with the purpose of securing the cooperation of States in planning. However, for several reasons, the rule of NDC has remained a subdued one. The Chief Ministers are generally not able to present a united front; the meetings of the NDC are conducted in a hurried way and are called for a very short period leaving no time for detailed discussion; and the NDC is not presented by the Planning Commission with alternative plans. This reduces the rule of the NDC to merely making adjustments here and there in the proposed plan.

Moreover, there are some other factors responsible for the failure of regional planning in India:

- Refusal of the richer states to transfer some of their surplus resources to the poorer states.
- Area development programmes for backward areas are lacking an integrated approach
- Failure of large central projects located in the backward regions to improve their economies.
- Non approaching attitude of the entrepreneurs to seek concessional finance from the public sector financial institutions.
- Lack of proper incentives offered by the state governments for tackling the problem of intra state imbalances existing within a state.
- Non utilisation of plan outlays and loans given to the states for the development of backward areas

## 2.7 SUMMARY

Considering the above weaknesses of the regional planning strategy in India, the problem of regional imbalances has to be considered not only in financial terms but also in physical terms. This shows that the role of States in the planning process in confined merely to bargaining for more financial resources and higher allocations. Their rule in the basic task of planning—that of plan formulation—continues to be negligible. At the State level and to lower levels there is no planning machinery. The casualness with which this aspect of planning was considered in India would be clear from the fact that it was only after the completion of three five year plans and three annual plants that the Planning commission prepared a set of guidelines for the formulation of district plan. Even these guidelines have remained on paper only since we do not possess any planning infrastructure at the district level. Thus, necessary co-ordination must be made between the agricultural and industrial development of these backward regions so that benefit of such development can percolate to the appropriate level and the people of those backward areas can reap the direct and indirect benefits of such development.

## 2.8 EXAMINATION ORIENTED QUESTIONS

1. Explain Regional Planning Policy in India under various plans.

2. What are the major failures of Regional planning in India?

******

M.A. ECONOMICS LESSON NO. 3

COURSE NO. 418 SEMESTER-IV UNIT - II

# THE STRATEGY OF PLANNING

**Structure**

3.1 Introduction

3.2 Objective

3.3 Strategy of India's development plans : The earlier phase (Mahalanobis strategy)

3.4 Appraisal of the mahalanobis strategy of development

3.5 Failure of the mahalanobis strategy of development

3.6 Departure from the mahalanobis strategy of development

3.7 Summary

3.8 Examination oriented questions

## 3.1 INTRODUCTION

In this lesson we will focus on Mahalanobis strategy of economic development which was used in initial phase of economic planning in India.

## 3.2 OBJECTIVE

The objective of this lesson is to get insight into Mahalanobis strategy of economic development. Its achievements, failure and importance. An attempt has also been made to understand the circumstances which led to departure from Mahalanobis strategy of planning.

## 3.3 STRATEGY OF INDIA'S DEVELOPMENT PLANS : THE EARLIER PHASE (MAHALANOBIS STRATEGY)

In the earlier phase of planned economic development in India the main emphasis was on economic growth. Reduction in inequalities of income and wealth, elimination of poverty and creation of employment opportunities were also mentioned as the objectives of planning, but they were never given a high priority. There were three main aspect of the strategy of development in the earlier period: (1) developing a sound base for initiating the process of long-term growth: (2) a high priority to industrialization when actual development began: and (3) emphasis on development of capital goods industries against consumer goods industries.

1. **Developing a sound base for initiating the process of long-term growth**. The economy, as it had emerged after independence was in shambles. Under the circumstances, it was strategically a correct policy to direct all efforts towards solving the problems that the country faced at that time and lay down a foundation for planned development in the future. As the First Five Year Plan was formulated to achieve these objectives, the highest priority was given to overcoming the food crisis by raising the output of food grains and the development of infrastructure with particular emphasis on energy, mean of transport and communication and irrigation facilities.

2. **A high priority to industrialization**. The strategy of long term planned development was spelt out in the Second Five Year Plan. The draft outline of this plan was prepared by P.C. Mahalanobis whose contribution in formulating this strategy is well known. Although in its final form the second Plan was somewhat different from the original draft, the strategy of development was not modified, and it guided the planning practice for more than two decades. In this strategy of planned development, the main emphasis was on industrialization. There was several reasons why Indian planners gave a high priority to industrialization.

   **First**, at the time of independence, the Indian economy was unbalanced. The country was industrially backward, and as such, establishment of new industries on a big scale and development of the traditional industry was an imperative necessity. **Secondly**, productivity of labour is the highest in manufacturing industries. Therefore, for raising national income at the fast rate there is no way out except to establish industries. **Thirdly**, the pressure of population on land is excessive and unless surplus workforce is transferred to other sectors, agriculture's potential cannot be fully realized. Hence, development of the industrial sector is a pre-condition for agriculture development. Finally, industrialization induces development in other sectors.

3. **Emphasis on development of capital goods industries.** In the strategy of planned development, a very high priority was given to heavy capital goods industries. The experience of different countries has clearly shown that unless a country develops iron and steel, heavy engineering, machine tools and heavy chemicals industries, it will fail to accelerate the pace of economic development. The dependence on foreign countries for capital equipment is a big obstacle to development. It also make the country vulnerable to external pressures. Lacking in capital for development purposes, India at the time of independence thus had no option but to adopt the strategy of 'unbalanced growth'. It was not possible to develop both capital and consumer goods industries. Growth of consumer goods industries and agriculture was left to market forces. This strategy has its own defects. It often leads to scarcity of essential commodities. This actually happened in the later years of the Second Five Year Plan when scarcity of food developed on account of bad harvests. In view of this experience, greater attention was given to agriculture in subsequent plans. However, consumer gods industries continued to retain a secondary place in the strategy of development. Had the consumer goods industries received a high priority, it would have meant indefinite dependence on foreign countries in respect of capital equipment.

4. **Import Substitution.** The Mahalanobis strategy of development would seem to be resting on import substitution. The strategy of import substitution is based on infant industry argument. Such a strategy enables the developing countries to develop their industrial structure behind tariff walls i.e. without a fear of competition from other countries. Once the process of industrialization is initiated, it tends to become self-sustaining. The experience of many developing

countries shows that import substitution starts predominantly with the manufacture of finished consumer goods that were previously imported and then moves on, more or less rapidly and successfully, to the 'higher stages of manufacture', that is, to intermediate goods and machinery, through backward linkage efforts. In India, the first temptation in adopting an import substitution strategy came from the acute balance of payments problem that we faced. This strategy enabled India to substitute foreign industrial goods by domestically produced industrial goods and save foreign exchange. By imposing high import duties on foreign industrial goods, the State also earned a sizeable revenue and invested this money in programmes of economic development. Domestic producers, on the other hand, were enabled to raise the prices of their goods and thus earn a handsome profit. When this profit was reinvested, the process of industrial growth got a boost up.

However, the basic rationale of an import substitution Policy is that it helped India- an underdeveloped country in building up its industrial structure which, in turn, is a sine qua non of economic development. Historical evidence of many developed countries shows that not only the share of industrial output rises with development, but also that the growth of industries based on import substitution accounts for a large proportion of total rise in industry. This infused a new sense of hope in the underdeveloped countries who looked upon import substitution led industrialization as a solution to their problems of economic development.

Another argument for import substitution rests on the contention that an underdeveloped country's demand for industrial imports increases much more rapidly than does the foreign demand for its exports. The inability of exports to increase r4apidly is due to the inability of primary exports to expand at the fast rate. Therefore, to meet domestic demand of industrial products, the underdeveloped countries must set up import substitution industries.

**Other Related Issues**

There were three major problems which this country was expected to face in following the above strategy of development in the earlier phase of economic planning:

(1) The possibility of the scarcity of essential commodities.

(2) The pressing need for raising the level of saving, and

(3) The problems of payments for the import of capital equipment required for setting up heavy industry.

1. **The possibility of the scarcity of essential commodities**: When a country makes a deliberate effort to divert massive resources for the development of capital goods industries, not much resources are left for other productive activities. In this situation, there is a possibility that shortages of consumer good develop. This was precisely the problem with the strategy of development in the earlier phase of planning. Hence, various incentives were given to cottage and small-scale industries which generally manufacture consumer goods and require little capital. In order to avert serious food crisis, certain efforts were made to raise the production of food grains though initially heavy reliance was placed on imports of foodgrains. In periods of acute shortages of essential articles like foodgrains, sugar, vegetable oils and kerosene, physical controls were introduced for ensuring their fair distribution.

2. **Raising the level of saving**: The rate of saving was around 9 percent of GDP at the time of independence. No development planning was conceivable at this level of capital formation. The government was, however, committed to achieve 5 percent per annum increase in the national income and this required adoption of various measures for raising the level of capital formation. In this regard, two policy decisions deserve particularly mention. **First**, on the completion of development projects, whatever surplus they could generate had to be utilised for investment. Second, if mobilization of adequate resources of development plans was not possible, foreign capital could be invited to meet the deficiency.

3. **Payments problem caused by the import of capital equipment**: Because India had no machine building industry in the early years of economic planning, it had no choice but to import all the capital equipment which it needed for setting up industries. This involved such a large amount of foreign exchange that this country could not hope to earn it through exports in normal course. Hence, the development strategy laid stress on export promotion efforts. Obviously the planners were aware of the limitations of this regard.

Therefore, they made a provision for long-term foreign borrowings in the development strategy.

**Check your progress:**

1. What do you think Mahalanobis strategy helpful in achieving the objectives of planning in India?

2. How did import substitution help in achieving industrialization in a developing country like India?

## 3.4 APPRAISAL OF THE MAHALANOBIS STRATEGY OF DEVELOPMENT

The strategy of planned development as followed in the earlier phase of planning did not receive universal approval. But the criticism of the approach made by various experts differed both in content and degree. While C.N. Vakil rejected the basic framework of the strategy, others criticized it for some minor snags in the approach or for its poor implementation. C.N. Vakil and P.R. Brahmananda had put forward an alternative approach to Indian planning at the time of the formulation of the Second Five Year Plan. Their approach in essence was diametrically opposite to that adopted by the planners in the mid-1950s.

1. **Missing the role of wage goods as capital**: As against the Planning commission's entire emphasis on the role of fixed capital, Vakil and Brahmananda's total emphasis was on the role of wage goods as capital. Taking a serious note of the existence of massive overpopulation in agriculture, they asserted that India needed a development strategy whereby the concealed saving potential that existed in the form of disguised unemployment in the country side could be realized. Like Nurkse they were quite optimistic that with the transfer of surplus labour from the agriculture to capital producing projects, India could overcome the problem of shortage of capital.

**Check your progress:**

**How does the role of wage goods as capital ignored by mahalanobis? Discuss.**

2. **Pre-occupation with self-sufficiency and thus non-warranted stress on import substitution.** I.G. Patel criticized the strategy of planned development

adopted by the planners for its pre-occupation with self-sufficiency. In his opinion, the assumption of Indian planners that export possibilities in the earlier phase of economic planning in general were limited was not correct and, therefore, the strategy evolved on this basis was also not without snags. I.G Patel asserts, "The important fact is that there are no inherent limitations to exports in a developing economy so that it would be both unnecessary and wasteful to try and erect a structure of production with an accent on self-sufficiency from the outside.

**3.** **Some other snags**: The development of the earlier phase had a few other snags. **In the first place**, the strategy assumed that the current consumption needs of the people would be adequately met through productive capacities already available and in case some shortages developed, the problems could be overcome by introducing controls. In any case the strategy did not visualize any major problem on this front. The experience, however, proved that the complacency of the planners in this respect had no justification. Even in respect of a basic commodity like food-grains, the development strategy did not provide as to how the supply of food-grains was to be ensured for meeting the growing demand. The measures relied upon for this purpose were extension of irrigation and community development programmes. These measures, however, proved to be inadequate and the country imported foodgrains in large quantities which generated extra strains on the already difficult balance of payments position. The correct approach would have been to try for a technological breakthrough along with meaningful institutional changes for releasing the latent forces of agricultural development. Unfortunately this was not done.

**Secondly,** there was a major snag in the employment aspect of development strategy. The strategy had visualized that full employment would be attained by realizing 5 percent annual increase in the national income. It was admitted that modern industries would not generate much employment but it was hopefully asserted that the traditional sector meeting the demand for basic consumption goods had the capacity to absorb all the available labour force outside the modern sector. Thus, the objective of additional employment was to be taken care of by the policies which were parallel to but not integral part of, the strategy of growth. Here the basic defect in the approach was that "this aspect of strategy was not translated in terms of actual projects or project complexes and the expectation did not materialize."

**Finally,** the development strategy greatly relied on percolation effect of growth for reduction in income inequalities. Now it is widely admitted that economic growth by itself may not solve or even alleviate the problem within any reasonable time period. The policy measures at redistribution of existing assets proved to be ineffective. The fact is that with the passage of time, income inequalities have actually increased.

## 3.5 FAILURE OF THE MAHALANOBIS STRATEGY OF DEVELOPMENT

The development strategy with its emphasis on heavy industries proved to be a great success in the initial phase of planned development. During the Second Plan period, both saving and investment rates rose considerably and output target were nearly achieved. Further, the country managed to develop a heavy industry complex. This could happen because the high rate of investment was matched with a high rate of agricultural production. During the Third Plan period, however, the development process ran into serious difficulties. There were several reasons for this;

- In the first place, the process of agricultural growth slowed down, particularly because the potentiality of raising the agricultural output through extending the area under cultivation had almost exhausted, while the demand for good continued to increase rapidly on account of rapid growth of population. This created an alarming situation and the country had to import large quantities of foodgrains.

- A serious failure of mahalanobis development strategy with its emphasis on basic heavy industries is that it failed to generate adequate amount of employment opportunities. Pattern of industrialization has been based on capital intensive technology imported from abroad and has been oriented towards urban large scale industries. Besides, this attention was not paid to absorb labour in the agricultural sector, and the agricultural development strategy that could absorb more labour in productive employment was not adopted.

- Another problem which the country faced was large trade deficits as this strategy heavily depends upon foreign exchange requirements. Massive investments in heavy industries had required large imports without a matching increase in exports. Because of low priority to agriculture and consumer goods industries which had export potentials, export could not rise much, and secondly due to highest priority to heavy capital goods industries large imports of capital equipments and material had to be made.
- Finally, the net saving rate instead of rising further slumped down and, as a result, on an average around 25 percent of the investment had to be financed by foreign aid.

During the second half of the 1960s, since the excess demand generated through a high rate of public investment could not be matched with the supply of food-grains and other consumer goods, an inflationary situation developed and the general price level rose at a rate of about 8.6 percent per annum. It was at this juncture that several studies clearly indicated that income inequalities in the country had not diminished during the planning period and the gains of development had not trickled down to reach the poorest. Slow agricultural growth in many parts of the country coupled with rapid population growth had also resulted in widespread unemployment in large parts of rural India. The faith in the development strategy as defined in the Mahalanobis model was shaken and a 'Plan holiday' was declared for three years. G. S. Bhalla has aptly stated, "The poor shape of economy due to low growth rate, lack of diversification, widespread prevalence of poverty among the rural and urban masses led to mounting discontent with the chosen path of development. It was, therefore, as a consequences of poor performance of the economy that the basic strategy of Indian development came under fierce attack."

**Check your progress:**

What are the major defects of Mahalanobis strategy of planning?

## 3.6 DEPARTURE FROM THE MAHALANONIS STRATEGY OF DEVELOPMENT

The major attack on the Mahalanobis strategy of development come from the World Bank economists in the early 1970s, when they argued that the most important problem of the Third World countries was that of the removal of poverty, and growth by itself could not be relied upon to achieve this objective. Hollis Chenery of the World Bank remarked, "It is now clear that more than a decade a rapid growth in underdeveloped countries has been of little or no benefit to perhaps a third of their population…. Paradoxically, while growth policies have succeeded beyond the expectations of the first development decade, the very idea of aggregate growth as a social objective has increasingly been called into question." Expressing his displeasure at the growth-oriented strategy of planning in these countries Mahbub-ul-Haq remarked, "People could not eat tractors." Precisely at this juncture studies of Dandekar and Rath, Pranab Bardhan and B.S. Manhas in India clearly indicated that the benefit of growth had failed to reach the poor despite the government's intention to that effect. A few like Keith Griffin, Pranabn Bardhan, Francine Frankel, and Biplab Das Gupta argued that rapid agricultural growth in the green revolution belt had simultaneously resulted in accentuation of rural poverty. The cry, therefore, was for priority to Minimum Needs Programme over growth.

**The Fifth Plan actually brought this idea when it accorded the highest priority to removal of poverty**. The Draft Fifth Five Year Plan stated, "Economic development during the two decades since the inception of planning has resulted in sizeable increase in average per capita income. Yet large numbers have remained poor. The existence of poverty is incompatible with the vision of an advanced prosperous, democratic, egalitarian and just society implied in the concept of socialist patter of development. In fact, it holds a potential threat to the unity, integrity and independence of the country. Elimination of poverty must, therefore, have the highest priority." The Plan, however, stressed that elimination of poverty required a rising rate of growth of domestic product. Thus, the development strategy of the earlier phase of planning was not discarded altogether. There was a clear shift in the strategy of planning when Janata Government decided to terminate the Fifth Five Year Plan before its period was over. The Draft Five Year Plan 1978-83, which the Janata Government had adopted, stated a new development strategy. For the first time, the Planning Commission acknowledged that denial of social justice to the poorest sections of population to achieve a little higher rate of growth was not correct policy. Therefore, it decided that in the next phase of planned development there would not be undue emphasis on growth rates. The Planning Commission thus stated in the Draft

Five Year Plan 1978-83, "what matters is not the precise rate of increase in the national product that is achieved in five or ten years, but whether we can ensure within a specified time-frame a measurable increase in the welfare of the millions of the poor." This statement clearly indicates a shift in the strategy. Thus Mahalanobis strategy of heavy industry development stood condemned. Its main criticism was that it had led to an enclave type development resulting in islands of prosperity amidst an ocean of poverty and unemployment. However, despite a big attack on the Mahalanobis strategy of development, the new strategy failed to completely reverse it. The only significant changes that could be made in the field of industrial development were that the area of private sector was extended and more liberal imports were allowed. The continuing programmes in heavy industry area had to be pursued, and they took away major portion of the public investment.

When Janta party lost power to the Congress in 1980, the Five Year Plan 1978-83 was terminated and the Sixth Five Year Plan 1980-85 was adopted. The Sixth Plan document stated, "The basic task of economic planning in India is to bring about a structural transformation of the economy so as to achieve a high and sustained rate of growth, a progressive improvement in the standard of living of the masses leading to the eradication of poverty and unemployment and provide the material base for a self-reliant economy." The strategy to achieve these objectives was chosen after examining various alternative development profiles with their attendant costs and benefits. Keeping in view the experience of the past, the Planning Commission asserted that for realizing these objectives a substantial acceleration in the overall growth rate of the economy was necessary. At the same time, the failure of trickle-down effects was admitted. Therefore various redistributive measures were advocated for raising the share of poorer sections in the national income and consumption income. The planning Commission particularly emphasized the need for incorporating specific action programmes like IRDP and NREP and such other anti-poverty schemes in the strategy which aimed at removal of poverty and unemployment.

The Sixth Plan noted that the planning for medium and long term has to cope with certain inherent uncertainties. Particularly emphasis was placed on the following two uncertainties—the Weather and the international environment. Weather induced fluctuations in agricultural production and hydel generation could throw plan calculations out of gear. Similarly, adverse effects on the plan performance could be caused by favourable international environment particularly steep hike in oil prices. The Planning Commission felt that it was necessary to ensure a rapid increase in the domestic production of oil and alternate energy sources and reduce the rate of growth of consumption of petroleum products ‘safeguard the integrity of our development plans.

## 3.7 SUMMARY

Mahalanobis strategy of development emphasising basic heavy industries which was adopted first of all in the Second Plan also continued to hold the stage in Indian planning right up to the Fifth Plan which was terminated by the Janata Government in March 1978, a year before its full term of five years.

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.’

Thus Mahalanobis strategy involved industrialisation of import-substitution type. The question whether the new heavy industries would have a compara-tive advantage or not was not considered as a relevant consideration.

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.

## 3.8 EXAMINATION ORIENTED QUESTIONS

1. Explain how various economists criticize Mahalanobis’ strategy of Planning.
2. Discuss in detail the departure from the Mahalanobis Development strategy.

******

M.A. ECONOMICS LESSON NO. 4

COURSE NO. 418 SEMESTER-IV UNIT - II

# THE STRATEGY OF PLANNING

**Structure**

4.1 Introduction

4.2 Objective

4.3 The seventh plan development strategy

4.4 The new development strategy

4.5 The tenth plan strategy

4.6 the eleventh plan development strategy

4.7 Summary

4.8 Examination oriented questions

## 3.1 INTRODUCTION

This lesson will cover the phase of economic planning after the departure from Mahalanobis strategy. From agricultural development led growth strategy in seventh plan to development strategy of eleventh plan.

## 3.2 OBJECTIVE

The objective is to gain familiarity with development strategies across different five year plans. Get insight into their goals, features and achievements.

## 4.3 THE SEVENTH PLAN DEVELOPMENT STRATEGY : AGRICULTURAL DEVELOPMENT LED GROWTH STRATEGY

The Seventh Plan draft was approved on November 1985 by the National Development Council to create, by the end of the century, the conditions necessary for self-sustaining growth and to provide basic minimum needs for all.

**Objectives:**

The main objectives of the 7th five year plan were to establish growth in the areas of increasing economic productivity, production of food-grains and employment generation. The seventh plan had strived towards socialism and energy production at large. Following are the major objectives of Seventh Five year Plan:

(i) Decentralisation of planning and full public participation in development.

(ii) Removal of poverty and reduction in income disparities

(iii) The maximum possible generation of productive employment

(iv) Self sufficiency in food at higher level of consumption.

(v) Higher level of social consumption, particularly in education and health and other basic amenities.

(vi) A higher degree of self reliance through export promotion and import substitution

(vii) Improved capacity utilization and productivity.

(viii) Efficiency, modernization and competition in industry

(ix) Integration of science and technology into the main stream of development planning.

The Seventh plan spelt out a new long term development strategy. The plan stated that over the next fifteen years the planning in this country should address itself to solving the basic problems of the people besides creating conditions for self-sustaining growth in terms of both the capacity to finance growth internally and the development of technology. In other words, this meant that the planning activity had to be directed towards the elimination of poverty and creating conditions of near full employment, the satisfaction of the basic needs of the people in terms of food, clothing and shelter, attainment of universal education and access to health facilities for all. The attainment of these goals required a strategy different from the one followed in the country in the earlier face of economic planning.

The policymakers asserted that while formulating the new development strategy they had taken into account the objective conditions in the economy and the likely developments over the next fifteen years. In their opinion the demographic perspective provided the starting point for deciding the long term development strategy. On the basis of prevailing indications, around 12 crore persons were expected to join the labour force in a period of 15 years beginning from 1985. This required that productive employment must receive highest priority. Since creation of jobs in social and economic overhead capital and modern manufacturing industries involved investment on a scale that was beyond the capabilities of the economy. Therefore, planners intended to create job opportunities in rural areas through development of agriculture, irrigation, rural infrastructure and promotion of village and cottage industries. The planners focused on the prospects of agricultural growth for employment generation under the seventh plan. Accordingly, the compulsion of job creation on a big scale called for the adoption of an output model oriented to the wage goods model of Vakil and Brahmananda. This strategy was termed as **Agricultural Development Led Growth(ADLG) Strategy**.

We can easily confer that there was not much new in this strategy of Development. About three decades ago when India had started drifting away from the Mahalanobis strategy of development, ADLG strategy was strongly recommended to India by John W. Mellor. Simulations with single country computable general equilibrium models have also shown that in the low growth world environment, the ADLG results in higher rates of economic growth, faster industrialization, reduced income inequalities and a less adverse balance of payments. The ADLG strategy was expected to show better results on account of the following reasons.

First, the strong domestic linkages of agriculture with industry through both demand and input sides results in high domestic demand multipliers for agricultural output. Secondly, as indicated in the World Bank study devoted to agriculture the rate of return to investment in agriculture exceeds the rate of return to investment in industry.

Thirdly, investment in agriculture is less import intensive than that in industry. Fourthly, investment in agriculture has greater employment potential than that in industry on account of the difference in the nature of techniques employed in the two sectors. Finally, as long as the rural population remains poorer than the urban population, policies that raise the incomes of the cultivators and agricultural workers improve the domestic size distribution of income.

**Check your progress:**

1. What are the major objectives of Seventh Plan?
2. Why the strategy of seventh plan is termed as Agricultural development Led Growth Strategy?

## 4.4 THE NEW DEVELOPMENT STRATEGY

**Introduction**:

In order to achieve the long term and short term objectives set in each five year plan, specific strategies are required. It involves allocation of resources across different sectors of the economy, selection of strategies and choices in agriculture, industry and investment scenarios. Indian planning strategies can be split into two phases- pre reform phase (pre 1991) and post reform phase (after 1991). During pre 1991 phase, India followed the strategy of planning with greater reliance on the public sector with a regulated private sector and an inward looking trade strategy. In post reform phase, strategy of planning in India witnessed a marked shift from these polices to outward, more competitive and free market economy.

The New Development Strategy: The National Income of India registered 5.5 percent per annum during the 1980s. This was significantly higher than the trend rate of increase in the national income of this country during the first three decades of economic planning. However, the strategy which enabled the country to step up the rate of economic growth during the 1980s pushed the economy towards economic crisis. The crisis began in 1990-91 and the year 1991-92 turned out to be an exceptionally difficult year for the economy with the deepening of the crisis. The Balance of Payments problems, which developed in 1990-91, reached crisis proportions by June 1991. In this period, the country faced a serious foreign exchange problem and was on the brink of default in payments. The government tried to combat this problem through reduction in import reduction, as a result of which industrial production was disrupted. The industrial production has fallen in the year 1991-92 and inflationary pressure reached a peak level of 16.7 percent in august 1991. Moreover, growth of real GDP in this period of crisis decreased sharply.

The government has tried to tackle the crisis through number of ways. Firstly, it took some emergency actions to restore confidence in the government's ability to manage the balance of payments. Among the emergency actions, devaluation of the rupee by around 18 percent in July 1991 and shipment of gold to the Bank of England to raise $600 million were particularly important. However, these measures helped temporarily to revive the economy. Therefore, substantial reforms were introduced and government adopted a NEW DEVELOPMENT STRATEGY. The new approach involved four major policy initiatives which were expected to restore the health of the economy and put it back on the development path. These Structural policies were as (a) Macro Economic Stabilisation through Fiscal Correction(b) Trade Policy Reforms to provide stimulus to exports.(c) Industrial policy Reforms to provide greater competitive stimulus to industry and the (d) the financial sector reforms to improve its performance.

Broadly speaking, the policy regime governing trade, technology and foreign capital flows, industrial deregulation and administered price policy and financial sector reforms taken together constitute structural policies. These policies aim at improving supply side of the economy. Monetary and Fiscal Correction policies are known as stabilisation policies. They aim at controlling aggregate demand in accordance with the long run growth path of an economy. Since both macro economic stabilization and structural policies are important to create an economic environment which is conducive to economic growth, the government has introduced significant policy changes in both these areas of economic policy with varying degree of success such as

- Fiscal and Monetary policy have been reoriented to facilitate the free play of market forces.
- Foreign Capital in the form of FDI and FII are encouraged.

- Import restrictions are restricted to the minimum, while export promotion has been accorded a high priority.
- Competition rather than controls have become the fulcrum of the growth process.
- Direct participation of the government is significantly tempered and confined only to strategic industries such as atomic energy, minerals and railways.
- Partial convertibility of Indian Rupee

The Year 1991 was a watershed for the Indian Economy and a fundamental departure from pre independent India to independent post reform economy due to these following reasons:

First, economic growth combined with economic efficiency became the objective function. Although the objective of reducing poverty was not totally abandoned, it was subsumed in the pursuit of growth on the premise that economic growth is both necessary and sufficient for improving the living conditions of the poor. Second, there was a conscious decision to substantially reduce the role of the state in economic development and pass it on to the private sector. Third, the degree of openness of the economy was increased at a faster pace. The doors of the economy were thrown open widely to foreign capital and technology. In sum, India moved from a quest for State Led capitalism for a world of market driven capitalism.

The New Development strategy is often characterized as Export Led Growth Strategy. It assumes that Trade is an Engine of Growth implying that the performance on the export front will determine the overall growth performance of the economy. However, the export performance to a great extent depends upon the external economic environment which in recent years has not been very favourable due to recession in the major industrialized countries. The planning Commission has thus suggested that " it will be safer to take the external condition as it unfolds and concentrate on providing a domestic economic environment which is conducive to efficient growth of the economy.

The Export Led growth Strategy leads to Globalisation of the economy which, in turn, exposes it to fluctuations in other countries. Moreover, it cannot eliminate poverty in this country in near future due to weak trickle down effect. Therefore, expansion of employment opportunities, and augmentation of productivity and income levels of both the underemployed and employed should be the main instruements of poverty alleviation. Therefore, employment oriented growth strategy will achieve the goal of poverty elimination in the medium and long run.

**Conclusion**: The ELG strategy under the ninth plan was oriented to enabling India's broad based and varied private sector to reach its full potential for raising production and income levels. It hoped that,"a vigorous private sector operating under the discipline of competition and free markets, will encourage efficient use of scarce resources and ensure rapid growth at least cost."

**Check your progress :**

1. What are the four major policy measures taken to improve the economic crisis during the ninth five year plan?
2. Why the strategy of ninth plan termed as Export Led Growth strategy?
3. How far the ELG strategy successful in achieving the objectives of Ninth plan in India?

## 4.5 THE TENTH PLAN STRATEGY

**Introduction**:

The National Development Council, headed by then Prime Minister Atal Behari Vajpayee, approved unanimously in December 2002 the Tenth Five Year Plan, envisaging an 8 percent annual growth rate with a strong pro poor focus so as to eliminate poverty. The NDC decided to constitute four sub committees to remove trade and investment barriers and improve governance. The approach paper focuses on the need for revamping resource structure and also for reorienting expenditure management so as to achieve the other targets set by it for the plan. The tenth plan was prepared against a backdrop of high expectations arising from some aspects of the recent performance. GDP growth in the post reforms period improved to about 6.1 percent in the eighth and ninth plans from an average of about 5.7 percent in the 1980's making India one of the ten fastest growing developing economies. The percentage of population in poverty continued to decline, even if not as much as was targeted. Population growth decelerated below 2 percent for the first time in four decades. Literacy rate increased from 52 percent in 1991 to 65 percent in 2001 and improvement was evident from all the states. Sectors such as software services and IT enabled services have emerged as new source of strength creating confidence about India's potential to be competitive in the world Economy.

**Objectives and targets of the tenth plan :**

To reflect the importance of economic and social dimensions in development planning, the tenth plan must establish specific and monitorable targets for a few key indicators of human development other than the objective of achieving 8 percent Growth rate. These are discussed as under :

1. The approach paper proposed that the tenth plan should aim at an indicative target of 8 percent GDP growth for 2002-07. It is certainly an ambitious target, especially in view of the fact that GDP growth has decelerated to around 6 percent during the last two years of the ninth plans.
2. Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points percent by 2012.
3. Gainful employment to the addition to the labour force over the tenth plan period.
4. Universal access to primary education by 2007.
5. Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2 percent
6. Increase in literacy rate to 75 percent by 2007.
7. Reduction of infant mortality rate(IMR) to 45 per 1000 live births by 2007 and to 28 by 2012.
8. Reduction of Maternal Mortality Ratio(MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.
9. Increase in forest and tree cover to 25 percent by 2007 and 33 percent by 2012.
10. All villages to have access to potable drinking water by 2012.
11. Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012.

The development strategy as envisaged in the tenth plan had the following elements:

**Redefining the role of Government:**

An important aspect of the redefinition of strategy that is needed relates to the role of the government. An all pervasive government role may have appeared necessary at a stage where private sector capabilities were underdeveloped, but the situation has changed dramatically. India now has a strong and vibrant private sector. The public sector is much less dominant in many critical sectors and its relative position is likely to decline further as government ownership in many public sector enterprises is expected to decline to a minority. It is clear that industrial growth in future will depend largely on the performance of the private sector and the policies must therefore provide an environment that is conducive to such growth.

This is not to say that the government has no role to play or only a minimalist role, in promoting development. On the contrary, it has an important role but different from the past. There are many areas such as the social sectors, where its role clearly have to increase. There are many other areas like infrastructure development, where gaps are large and the private sector cannot be expected to step in significantly. In other areas like telecommunications, power and ports, the private sector can play a much larger role provided an appropriate policy framework is in place. Here, the role of the government needs to change to facilitate such investment as much as possible while still remaining a public sector service provider for quite some time. In all these areas, the role of government as a regulator ensuring a fair deal for consumers, transparency, and accountability, and a level playing field is also extremely important.

According to the tenth plan,it is necessary to redefine the role of the government in the new emerging economic scenario. In the past, the government took too many responsibilities imposing severe stress on its limited financial and administrative capabilities. Therefore, the focus of government policies should now shift to providing an environment which is appropriate for the growth of the private sector.

**Reappraisal of Macroeconomic management**:

With the growing importance of the private sector in economic matters, and the consequent increase in the sensitivity of the economy to business cycle fluctuations but the role and manner of macroeconomic management require a reappraisal. Greater flexibility in fiscal and monetary policies has now become necessary to ensure that the economy is consistently maintained on the fiscal growth path. It is imperative that a reformulation of the fiscal management system be undertaken expeditiously to make it more appropriate for the changed context.

**Laying Down State Level Targets:**

The Indian Plans have traditionally focused on setting only national targets. However, the performance of different states has varied significantly as some states have registered fast growth and some poor states have seen a deceleration in growth. According to the tenth plan, it is important to recognize that the sharp increase in the growth rate and significant improvement in the social indicators that are being contemplated in the plan will be possible only if there are corresponding improvement in the performance of the laggard states. In order to emphasise this fact, the tenth plan lays down state specific targets for different states that are consistent with the national plan.

**Equity with Social Justice :**

The plan proposed the following three pronged strategies for attaining equity and social justice along with high rates of growth.

1. Agricultural development must be viewed as a core element of the plan, since growth in this sector is likely to lead to the widest spread of benefits especially to the rural poor.
2. The growth strategy of the tenth plan must ensure rapid growth of those sectors which are most likely to create gainful employment opportunities and deal with the policy constraints which discourage growth of employment. Particular attention must be paid to the policy environment influencing a wide range of sectors which have a large employment potential.
3. There will be continuing need to supplement the impact of growth with special programmes aimed at special target groups which may not benefit sufficiently from the normal growth process. Such programmes have long been part of our development strategy and they will have to continue in the tenth plan as well.

**Conclusion**:

The primary aim of the 10th plan is to renovate the nation extensively, making it competent enough with some of the fastest growing economies across the globe and targets an annual economic growth of 10 percent. This was decided after India registered a 7 percent GDP growth consistently over the last decade. This GDP growth of 7 percent is much higher than the world's average GDP growth. Thus the planning commission of India sought to stretch the limit and set targets which would propel India to the super league of industrially developed countries. In a nutshell, the tenth five year plan of India envisages:

- More investor friendly flexible economic reforms
- Creation of congenial investment environment
- Encourage private sector involvement
- Setting up state of the art infrastructure
- Capacity building in industry
- Corporate transparency
- Mobilizing and optimizing all financial resources
- Implementation of friendly industrial policy instruments.

**Check your progress:**

1. What is the theme of approach paper of tenth plan?
2. Whether "Equity with Social Justice" achieved during the tenth plan? Explain

## 4.6 THE ELEVENTH PLAN DEVELOPMENT STRATEGY

**Introduction**: The National Development Council in December 2006 approved the approach to the 11th plan document titled "Towards faster and more Inclusive Growth" and directed the Planning Commission to prepare a detailed plan to assess the resources required to meet the broad objective set forth in the approach paper. Outlining its vision, the eleventh plan noticed that the economy accelerated in the Tenth plan period to a record average of growth of 7.6 percent- the highest in any plan period so far. It emphasized the fact that during the last four years of the tenth plan, average

GDP growth was 8.6 percent making India one of the fastest growing economies in the world. The saving and investment rates have also increased. The industrial sector has responded well to face competition in the global economy. Foreign investors are keen to invest in the Indian Economy. But a major weakness in the economy is that growth is not perceived as being sufficiently inclusive for many groups, especially SCs, STs and minorities.

The plan envisages a high growth of GDP of the order of 9 percent for the country as a whole. This implies per capita GDP would grow at about 7.5 percent per year to double in 10 years. However, the plan document hastens to add that the target is not just faster growth but also inclusive growth which ensures broad based improvement in the quality of life of the people, specifically the poor SCs/STs, OBCs and the other minorities. According to the plan document, "the strategy for inclusive growth in the eleventh plan is not just a conventional strategy for growth to which some elements aimed at inclusion have been added. On the contrary, it is a strategy which aims at achieving a particular type of growth process which will meet the objectives of inclusiveness and sustainability. This strategy must be based on sound macro economic preconditions for rapid growth and support key drivers of this growth. It must also include sector specific policies which will ensure that the structure of growth that is generated, and the institutional environment in which it occurs, achieves the objective of inclusiveness, in all its many dimensions."

**Vision for the strategy of eleventh plan:**

In accordance with the above, the Eleventh plan Strategy aimed at :

1. Rapid growth that reduces poverty and creates employment opportunities.
2. Access to essential services in health and education especially for the poor.
3. Equality of opportunity.
4. Empowerment through education and skill development.
5. Employment opportunities underpinned by the National Rural Employment Guarantee.
6. Environment sustainability.

7. Recognition of women's agency.
8. Good Governance.

Let us discuss these points in detail:

**Rapid growth and poverty reduction :**

Rapid growth has to be an essential part of the strategy since it is only in a rapidly growing economy that we can expect to raise the incomes of the mass of the population.The eleventh plan emphasized rapid growth of the economy as this is an essential requirement for poverty reduction and expansion in economic opportunities for all sections of all population sufficiently to bring about a general improvement in living conditions. However, this growth should be better balanced to rapidly create jobs in the industrial and service sectors. This is necessary if a significant portion of the labour force is to shift out of agriculture where it is currently engaged in low productivity employment into non-agriculture activity that can provide higher real incomes per head. This must be accompanied by efforts to improve the income earning opportunities of those who remain in agriculture by raising land productivity sector, the focus has to be an labour-intensive industries and small and medium enterprises.

**Access to essential services :**

The growth objective must be accompanied by a major effort to provide access to basic facilities such as health, education, clean drinking water etc. Access to these basic facilities impact directly on welfare in the short run while in the longer run, it determines economic opportunities for the future. The plan envisaged a major expansion in the supply of these services through publicly funded systems. Access to these services is not necessarily assured even when growth leads to rising income levels. Governments at different levels must ensure provision of these services. Improved levels of health and education are in fact critical inputs that determine the growth potential in the longer term.

**Social justice and empowerment :**

To ensure inclusiveness, individuals belonging to disadvantaged groups should be provided special opportunities to develop their skills and participate in the growth process. This outcome can only be ensured if there is a degree of empowerment that creates the true feeling of participation so necessary in a democratic polity. Empowerment of disadvantaged and marginalized groups is therefore an essential part of any vision of inclusive growth. The eleventh plan argued that democracy at the level of third layer of poility, i.e Panchayati Raj Institutions, provides opportunities for empowerment and participation of all groups with reservations for SCs, STs and women. These institutions should be made more effective through greater delegation of power and responsibility to the local level. Education and Health are the critical factors that will empower the poor to participate in the growth process

**Environmental sustain ability :**

The eleventh plan emphasized a development process that is environmentally sustainable. Natural resources such as water and land are limited and their per capita availability is actually diminishing because of rising population and irrational exploitation of natural resources. Therefore the plan advocated a strategy that not only preserves and maintains natural resources, but also provides equitable access to those who do not have access to them. Unless environmental protection is brought to the centre stage of policy formulation, what is perceived as development may actually lead to a deteriorating quality of life. Environmental concerns are growing globally as well as within the country. While there may appear to be a trade off between environmental sustainability and economic growth in the short run, it has to be recognized, that in the long run environmental sustainability and human well being are necessarily in conflict. Neglect of environmental considerations, as for example, in profligate use of water or deforestation can lead to adverse effects very quickly. Our development strategy has to be sensitive to these growing concerns and should ensure that these threats and trade offs are appropriately evaluated.

**gender equity :**

The most important divide which compels immediate attention is gender discrimination. It begins with the declining sex ratio and goes on to literacy differential between girls and boys plus the high rate of maternal mortality.The eleventh plan document went beyond considerations of empowerment and recognized women as agents of sustained socio economic growth and change. It acknowledged women’s agencies and committed itself to ensure that their needs, rights and contribution are reflected in every area of activity. Special, focused efforts must be made to purge society of this malaise by creating an enabling environment for women to become economically empowered.

**Good governance :**

All our efforts to achieve rapid and inclusive development will come to naught if we cannot ensure good governance both in the manner public programmes are implemented and equally important the way, government interacts with the ordinary citizens. Corruption is now seen to be endemic in all spheres and this problem needs to be addressed urgently. The strategy of the eleventh plan in the field of governance aimed at bringing about major improvements in order to make government funded programmes in critical areas more effective and efficient. In this regard, the plan emphasized the following measures:

1. Involving communities in both the design and implementation of such programmes as experience shows that Civil society Organisations can work effectively with Panchayati raj Institutions to improve the effectiveness of these programmes.

2. It is especially important to improve evaluation of the effectiveness of how government programmes work and to inject a commitment to change their designs in the light of experience gained.

3. Accountability and transparency are critical elements of good governance. The Right to Information Act(RTI) enacted in 2005 empowers people to get information and constitutes a big step towards transparency and accountability.

Quick and inexpensive dispensation of justice is an aspect of good governance which is of fundamental importance in a successful civil society. Fundamental reforms are needed to give justice two attributes: speed and Affordability. Much more needs to be done by both the centre and the states to reduce the discretionary power of the government, ensure greater transparency and accountability, and create awareness among citizens.

**Check your progress:**

1. Explain in detail the objectives of $11^{Th}$ five year plan.

2. “Towards more inclusive and Sustainable growth” achieved under Eleventh Five Year plan. What do you think?

3. What do you understand by Good Governance?

## 4.7 SUMMARY

The 7th Five Year Plan started off on a string ground since the foundation for economic development was laid by the 6th Five Year Plan**.** Overall improvement was the aim of the 7th Five Year Plan. Therefore care was taken to establish a harmony in all the sectors that are contained in an economy**.**

The government of India also strove to maintain a balance in the economy and by striking a balance within export and import.

8th Five Year Plan commenced on 1992 and carried on till 1997. The basic objective of this period was the modernization of industrial sector. This plan focused on technical development. Through this plan the reduction of deficit and foreign debt was aimed at. The rectification of certain flawed plans and policies were also done under this five year plan.

The title of the 11th Plan was ‘Towards Faster and more Inclusive Growth’. It envisaged a high growth rate of around 9 percent implying a growth rate of around 7.5 percent in the per capita GDP. It also ensured an overall improvement in the quality of life of people.

## 4.8 EXAMINATION ORIENTED QUESTIONS

1. Discuss in detail the strategy of Eleventh Five Year Plan.

2. What are the major objectives and targets of tenth five year plan?

3. What were the important temporary measures adopted by the government to revive the economy from financial crisis in 1991?

******

# ASSESSMENT OF INDIAN PLANNING

**Structure**



## 5.1 INTRODUCTION

An attempt has been made in this lesson to assess planning of economic development over time since independence. Goals and achievements of plans, and their appraisal. The lesson also throws light at factors leading to establishment of NITI ayog replacing erstwhile planning commission.

## 5.2 OBJECTIVE

The objective of this lesion is to critically analyze economic planning strategy in India over time. Their achievements as well as their drawbacks and their contribution towards nation building.

## 5.3 TARGETS AND ACHIEVEMENTS OF PLANS

**Introduction**:

During the last fifty years of planning, Indian economy has attained considerable progress on different fronts. The rate and diversity of economic growth, the increase in savings and investment, the almost entire self-reliance realized in food-grains production, the big transformation in the industrial structure, the capacity in training highly skilled manpower etc. have shown positive outcomes of planning. Moreover, the quality of life like Infant mortality rate, expectation of life at birth and death rate have also recorded a welcome change. When we say that a particular plan had failed or was not a success, it only means that the targets fixed during a given plan were not achieved fully. We should remember that with every five year plan, India could start at a higher level of growth and development. We shall now discuss the targets and achievements of the development plans as under:

1. **National Income**: National income, being an indicator of development, can show the progress of the economy achieved during the plans. Accelerating the growth rate of the economy with stable prices is central to the attainment of number of other objectives. The first five year plan focused at increasing the national income at the rate of 2.1 percent per annum and per capita income at the rate of 0.9 percent per annum. As against this, the actual achieved rate were 4.6 percent and 2.7 percent per annum respectively. The second plan aimed at achieving 4.1 percent national income and 3.3 percent per capita income per annum but the actual annual growth rate achieved was 4.1 percent and 2.1 percent respectively. The third plan aimed at increasing national income at 5.6 percent per annum and per capita income at 3.2 percent per annum as shown in the table below:

**Growth performance in Five Year Plans (at 1993-1994 prices)**

| S. No. | Five Year Plan | Target (in Percentage) | Actual (in Percentage) | Remarks |
|---|---|---|---|---|
| 1 | First Plan (1951-56) | 2.1 | 2.1 | Focused agriculture |
| 2 | Second Plan (1956-61) | 4.5 | 4.1 | Rapid industrialization |
| 3 | Third plan (1961-66) *(1966-69 plan holidays) | 5.6 | 2.8 | Drought of 1956, 1966, Indo-China war and Indo-Pakistan war of 1965) |
| 4 | Fourth plan (1969-74) | 5.7 | 3.3 | Three years drought (1971-73) and oil price shock of 1973), under utilization of capacity of industrial sector |
| 5 | Fifth plan *(terminated in 1978 and two rolling plans till 1980) | 4.4 | 4.8 | Removal of poverty and self reliance |
| 6 | Sixth plan (1980-85) | 5.2 | 5.7 | Poverty eradication and productivity enhancement were focused |
| 7 | Seventh plan (1985-90) | 5.0 | 6.0 | Due to volatile political situations at centre, two annual plans were commenced for the year 1990-91 and 1991-92) |
| 8 | Eighth plan (1992-97) | 5.6 | 6.8 | New economic policy with LPG model were launcehed, human resource development |
| 8 | Ninth plan (1997-2002) | 5.6 | 6.8 | New economic policy with LPG model were launcehed, human resource development |

| | | | | |
|---|---|---|---|---|
| 9 | Ninth Plan (1997-2002) | 6.5 | 5.5 | Growth with justice and equity |
| 10 | tenth Plan (2002-2007) | 8.0 | 7.5 | Faster and inclusive growth |
| 11 | Eleventh plan (2007-2012) | 9.0 | 8.3 | Faster and more inclusive growth |
| 12 | Twelfth plan (2012-2017) | 8.0 | | Faster, more inclusive and sustainable growth |

*The growth targets of the first three plans were set with respect to national income. In the fourth plan, it was with NDP. In all the subsequent plans GDP was used.

Source: Planning commission, Ninth Five Year plan(1997-2002), Vol. I and Tenth Five year plan(2002-07),CSO Press release 2012

However, the achieved annual growth rate was 2.8 percent in the former case and only 1.0 percent in the latter. The fourth plan kept the target for increase in national income at 5.7 percent per annum(revised to 4.4 percent per annum later on) while actual rate of growth was 3.3 percent per annum. Except for the third and fourth plan, the actual performance of the economy has usually been at or above the planned or targeted level till the eighth plan. Keeping in view the fact that national income had declined by 5.9 percent in 1979-80,5.2 percent increase in NNP under the sixth plan cannot be considered an impressive performance by any measure. During the seventh plan national income registered a growth of 6.0 percent as against the target of 5.0 percent. However, in 1990-91 a severe economic crisis developed and therefore in the following year there was virtually no growth. The government thus introduced economic reforms to revive the health of the economy. The rate of growth of national income increased upto 6.5 percent per annum in the eighth plan while the rate of growth of per capita was 4.4 percent per annum. However the performance of the economy was not satisfactory during the ninth plan and the growth rate of national income was only 5.4 percent per annum. The tenth plan registered a remarkable recovery and the rate of growth of national income rose to as high as 7.5 percent per annum against the target of 8.0 while the rate of growth of par capita income was 5.9 percent per annum. In the eleventh plan the national income growth was 8.3 percent per annum as against the target of 9.0 percent per annum. The CSO has released a new series of national accounts with revised base year of 2011-12 on January 2015. As per this new series, the rate of growth of GDP was 5.1 percent in 2012-13 and as high as 6.9 percent in 2013-14 which were 4.7 percent and 5.0 percent on the basis of earlier series having base year 2004-05. The twelfth plan is the last five year plan as the government has decided to replace the five year plans with three year action plan beginning from april 2017 under NITI Aayog.

2. **Industrial Sector:** Industrial sector of the country has attained a considerable progress during planning period. It has achieved significant diversification and modernization despite some ups and downs in the industrial sector. The compound growth rate of industrial output was quite impressive during the first three plans. In fact, it increased from 5.7 percent in the first plan to 7.2 percent in the second plan to 9.0 percent in the third plan. After this, the performance of the industrial sector deteriorated considerably. During the eleven year period (1966 to 19760), the annual growth rate fell to about 4.1 per cent, including the 10.6 per cent increase in 1976. If we leave out the year 1976, the annual growth rate falls to an even lower level of 3.7 per cent. Shetty notes that the share of the secondary sector in net domestic product (at 1960-61 prices),which had continuously risen and reached the peak of 23.4 cent in 1966-67 failed to increase thereafter and stood at 22.8 per cent in1965-66.The share of registered manufacturing which was 6.3 per cent in 1950-51 showed a continuous increase till 1965-66 when it touched the peak level of 10.4 per cent .Thereafter ,it tended to stagnate and stood at 10.4 per cent even after a decade (i.e.,in 1975-76) while the share of the tertiary sector continued to increase .Thus the economy faced what shetty calls ‘the phenomenon of structural retrogression since the mid –sixties .The position did not improve even after 1975-76 as the annual rate of industrial growth during the four –year period (1956-77) to 1980-81) remained as low as 3.3 per cent (on the basis of old IIP

with base 1970=100).During the 1980 industrial growth showed signs of recovery of liberalisation in the industrial policy. The Sixth Plan had laid down the target of 7.6 percent per annum growth. This target could not be realized. Nonetheless the industrial production increased at the rate of 6.4 percent per annum during the period 1981-85. This was followed by an industrial growth at the rate of 8.5 percent per annum in the latter half of the 1980s. During the Seventh Plan period, that is 1985-90, production increased at satisfactory rates in almost all types of industries, Industrial sector registered a robust growth of 9.0 percent in 1990-91, the year in which the country was overtaken by a serious economic crisis. However, industries suffered a serious setback in 1991-92 and the production declined by 0.8 percent. In the following year there was near stagnation. The industrial recovery started in 1993-94 and in the four year period from 1993-4 to 1996-97 the industrial production increased at the annual rate of 8.6 percent which was quite encouraging. However, there was a setback to industrial growth during the period the Ninth plan (1997-98 to 2001-02) as the rate of growth fell to 5.0 percent per annum in this Plan. The rate of growth of industrial production picked up to 8.2 percent per annum in the Tenth Plan. Though this was less than the targeted rate of growth of 10 percent per annum, yet it marked a considerable increase over earlier Plans (excepting the Third Plan). The rate of growth of industrial production was 15.5 percent in 2007-08 but fell to only 2.5 percent in 2008-09 due to economic slowdown caused by global recession. However, it picked up to 5.3 percent in 2009-10 and 8.2. percent in 2010-11. However, the growth rate of industrial production fell to only 2.9 percent in 2011-12. Thus, the average rate of growth of industrial production over the Eleventh Plan period works out at only 6.9 percent per annum. The industrial sector suffered a severe setback in the first two years of the Twelfth Plan with its rate of growth declining to just 1.00 percent in 2012-13 and further to 0.4 percent in 2013-14. The main reason for this poor performance in the decline in the growth rate of the manufacturing sector to only 1.3 percent in 2012-13 and-0.8 percent in 2013-14 (the rate of growth of industrial production for 2012-13 and 2013-14 has been considerably in the new series with base year 2011-12. According to the new series, the rate of growth of industrial production was 2.4 percent in 2012-13 and 4.5 percent in 2013-14).

**3. Agriculture Sector** : In case of agriculture sector the Performance of the First Plan was satisfactory. Production of food-grains rose from 45 million tonnes in 1950-51 to 64.8 million tonnes in 1955-56 against the target of 61.6 million tonnes. Achievement was well above target in the case of oilseeds and was marginally less than target in the case of cotton. However, it was considerably below target in the case of jute and sugarcane. Target for food-grains production was kept at 75 million tones in the Second Plan, while achievement was 76 million tones. Achievement was greater than target for oilseeds and sugarcane which it was less than target for jute. Target for foodgrains production for the terminal year (1965-66) in the Third Plan was kept at 100 million tones, but actual production was merely 72.0 million tones because 1965-66 happened to be drought year. Production in 1964-65 was 89 million tones. The performance of the Third Plan on the agricultural front can be considered quite satisfactory keep in view the facts that achievements were below targets for most of the crops. The Fourth Plan kept the target of 129 million tonnes for foodgrains production in 1973-74 which actual production was merely 104.66 million tonnes. Achievements were below target in most of the commercial crops, like jute, sugarcane, cotton, oilseeds etc. Taking agricultural production as a whole the rate growth was only 2.8 percent per annum in the Fourth Plan against the target of 5 percent per annum. The Draft Fifth Five Year Plan kept the target of 140.0 million tones for food-grains production (for the terminal year 1978-79. Target for sugarcane was kept 170 million tones and for cotton at 80 lakh bales. However, the actual production of food-grains in 1978-79 was 131.90 million tones and the sugarcane and cotton was 151.7 million tones and 79.6 lakh bales respectively.

During the Sixth Plan period actual production of food-grains rose to 152.4 million tones due to exceptionally good crops in 1983-84 against the Plan target of 153.6 million tonnes. The production of food-grains however declined to 146.2 million tones in 1984-85, that is, in the terminal year of the Sixth Plan. The production of cotton, jute and sugarcane also remained much below the Sixth Plan targets. The production target for oilseeds was however realized. The performance of agriculture during the Seventh Plan period was once again not very satisfactory. Against food-grains production target of 178.00 million tones, the actual production was only 171.0 million tones in the terminal year of the Plan. Under the Seventh Plan while the production levels of oilseeds and jute were below the targets, the production target for sugarcane and cotton were realized. In the terminal year of the Eighth Plan, the foodgrains output was 199.0 million tones against the target of 210 million tones. Further, the output of oilseeds, sugarcane, cotton and jute also increased only at modest rates during the Eighth Plan. Foodgrains output rose to 212 million tonnes in the last year of Ninth Plan while the output of oilseeds, cotton and jute did not register any growth. Output of sugarcane was only marginally higher in 2001-02 as compared to its output in 1996-97.

In line with the New Agriculture Policy 2000 which envisaged a growth rate exceeding 4 percent per annum in the agricultural sector, the Tenth Plan aimed at a 4 percent per annum growth. The demand for foodgrains was put at 236 million tones by the end of Plan, i.e. 2006-07, while supply projection for foodgrains in the year made by the Planning commission ranged from 225 million tones to 243 million tones. The actual production of foodgrains in 2006-07 was, however, 217.3 million tones. The First year of the Eleventh Plan, 2007-08, recorded a foodgrains production level of 230.8 million tones which rose further to as high as 259.3 million tones in 2011-12, the last year of the Eleventh Plan. The agricultural sector, as a whole, registered an impressive growth rate of 4.1 percent per annum in the Eleventh Plan which was higher that the targeted rate of growth of 4.0 percent per annum. Production of foodgrains in the first year of the Twelfth Plan, 2012-13 stood at 257.1. million tones which rose to the recorded level of 264.8 million tones in 2013-14-the highest level recorded so far.

4. **Balance of Payments** : Right from the beginning of the First Five Year to 1991-92 (excepting 1972-73 and 1976-77 when there were small surpluses of Rs. 103.3 Crore and Rs. 68.9 Crore respectively), the balance of trade has always been against India. For most part of the planning period, net income from invisibles has been positive but it has been too meager to outweigh the deficit in balance of trade. Thus, balance of payments has also been against India and the gap has had to be filled up through foreign aid. The extent of the problem would be clear from the fact that deficit in balance of payments which was only Rs. 42.3 crore during the First Five Year Plan, rose to Rs. 1,646.6 crore during the Second Plan to Rs. 1,972 Crore during the Third Plan and further to Rs, 2,015 crore during the Three Annual Plans.

The Fourth Plan placed the target for exports at Rs. 1,900 crore in 1973-74 against Rs. 1,360/ Crore in 1968-69 implying a compound annual rate of growth of 7 percent per annum. This target was over fulfilled because of a spectacular increase in export earnings in the last two years of the Plan. Export earnings which were Rs. 1,403.9 Crore in 1969-70 rose to Rs. 2,350.7 crore in 1973-74. The rate of growth was 13.6 percent per annum taking the period of the Fourth Five Year Plan as a w3hole. But because of a sharp increase in the prices of petroleum and petroleum products there was a sharp increase in import expenditure also. As a consequences, the Fourth Plan faced a deficit of Rs. 1,564 Crore in balance of trade and Rs. 2,221.1 Crore in the balance of payments. In the Fifth Plan exports were projected to grow at an annual rate of 8.5 percent in the constant prices. The First three year of the Fifth Plan experienced a buoyancy in export when rate of growth averaged 27 percent. However, the performance in 1977-78 and 1978-79 was poor and the exports rose by only 4.5 percent and 2.2. percent respectively. As a result, there was an overall trade deficit of Rs. 5,589 Crore during the Plan period. However substantial remittances by the overseas Indians reduced the pressure on the country's balance of payments and the deficit in balance of payments thus was only Rs. 1,146 crore.

Under the Sixth Plan the planners had expected a trade deficit of Rs. 17,773 crore, The net receipts from invisibles were projected to be Rs. 8,710 crore was anticipated. On the whole the balance of payments performance during the Sixth Plan period turned out to be worse than that was anticipated. The net current account deficit during the 1980-85 period was Rs. 11,885 crore, that is about 25.6 percent more than the projected deficit. There was unprecedented pressure on balance of payments during the Seventh Plan. While the trade deficit amounted to Rs. 54,205 crore, net earrings from invisible were only Rs. 13,158 crore. As a result, the current account deficit was a large as Rs. 41,012 crore. The ratio of current account deficit to GDP thus averaged 2.4 percent, that is far above the figure of 1.6 percent projected for this period in the Seventh Plan document. The already difficult situation further deteriorated in 1990-91 by a sharp rise in oil prices and a decline in net earnings from invisibles due to Gulf War. The current account deficit rose to Rs. 17,369 crore in 1990-91.Thus massive deficit in the current account came at a time when this country's ability to finance it had had weakened substantially. In the wake of precarious balance of payments position, the government resorted to severe import curtailment measures. This is no doubt reduced the current account deficit to around Rs. 2,237 crore in 1991-92, but the import curbs also affected the growth rate of exports and of national income adversely. During the period of the Eighth Plan as a whole, the current account deficit exceeds Rs. 62,900 crore which was much larger than the projected current account deficit of Rs. 55,000 crore. However the overall situation was satisfactory as there were substantial inflows on capital account.

During the Ninth Plan period, current account deficit was Rs. 53,175 crore as against the projected deficit of Rs. 1,59,800 crores. In fact, India's external sector performed credibly during the Ninth Plan period. There was a surplus on current account of Rs. 16,426 crore in 2001-02—the last year of the Ninth Plan. The next two years (2002-03 and 2003-04) which were the first two years of the Tenth Plan, also witnessed a surplus on current account of as much as Rs.94,643 crore. It was for the first time in the post Independence period that there was a current account surplus for three consecutive years. The current account again witnessed a deficit in the remaining three years of the Tenth Plan (2004-05 to 2006-07) of Rs. 1,00,294 crore. As a result, the overall current account deficit in Tenth Plan was only 5,6,71 crore. Given the fact that there were large surpluses on capital account during this Plan, the overall position on balance of payments front was satisfactory. During 2007-08, current account deficit was Rs. 63,479 crore which rose considerably to Rs. 1,27,600 crore in 2008-09. The surplus on capital account also fell considerably from Rs. 4,33,167 crore in 2007-08 to just 30,500 crore in 2008-09. Thus, the position on balance of payments front deteriorated significantly. The main cause of this was the global recession in the year 2008-09. The year 2009-10 registered a current account deficit Rs. 1,79,700 crore while there were strong capital inflows of as much as Rs. 2,43,900 crore due to better performance of the country vis-à-vis the developed countries. As a result, there was a reserve accumulation of $ 13.4 billion in this year. Strong capital flows continued in 2010-11 as well as there a reserve accumulation of $ 13.05 billion in this year. However, the situation deteriorated considerably in 2011-12 as current account deficit rose to as high as Rs. 3,76,000 crore (equivalent to $ 78,155 million). This was mainly due to a high trade deficit which was basically due to higher growth in imports of petroleum, oil and lubricants, gold and silver, and machinery. Capital inflows also increased but fell short to increase in current account deficit. As a result, there was reserve drawdown in 2011-12. This reserve drawdown amounted to $ 12.83 billion. Current account deficit rose further to $ 88.16 billion in 2012-13 but on account of higher capital inflows, there was a reserve accumulation of $ 3.83 billion in this year. A sharp improvement was seen in 2013-14 with the current account deficit being contained at $ 32.4 billion as against as high as $ 88.16 billion in 2012-13. This improvement was basically due to a reduction in trade deficit by as much as $ 47 billion. An important reason for this decline was a sharp reduction in imports of gold and silver. As a production of GDP, current account deficit in 2013-14 was just 1.7 percent where it was as high as 4.7 percent in 2012-13. The reserve accretion in 2013-14 was $ 15.5 billion.

5. **Saving and Investment:** Before concluding this section, let us briefly examine

the rates of saving and investment in the plans, for it is on the achievements in this field that the success of an investment-oriented planning strategy (as the Indian strategy has been) ultimately depends. A study of the data for the planning period indicates a steady rise in the rates of gross domestic saving and gross domestic investment during first three plans. In 195051, the rate of investment and rate of saving were estimated to 9.3. percent and 9.5 percent respectively of GDP.The rate of domestic capital formation rose to 14.3 percent in 1960-61 and to 15.1 percent in 1970-71. As against this, the rate of domestic saving was 11.6 percent in 1960-61 and 14.03 percent 1070-71. Obviously, the gap had to be filled by foreign capital. In the Fourth Plan and Fifth Plan periods, the gap narrowed down considerably. For example, in the terminal year of the Fourth Plan, the rate of domestic capital formation was 17.3 percent per annum which the rate of domestic saving was 16.8 percent leaving a gap of only 0.5 percent. The performance of the Fifth Plan was still better, since the rate of saving as higher than the rate of domestic capital formation in the years 1975-76, 1976-77 and 1977-78. However, after 1977-78, it again fell below the rate of domestic capital formation. 198081, the rate of domestic capital formation was 19.2 percent while the rate of domestic saving stood at 17.8 percent. During the Sixth Plan period, rates of both domestic saving and domestic investment declined. In 1984-85 while the rate of domestic saving was 17.8 percent, the investment rate was 19.1 percent. This left a gap of 1.3 percent to be filled by external assistance. Under the Seventh Plan, both saving and investment rates increased. Saving rate in the last year of the plan (1989-90) was 21.3 percent and the rate of gross domestic capital formation 23.7 was percent. The period of economic reforms has witnessed marked increase in both these rates. The gross domestic saving rate was 22.4 percent in the last year of the Eighth Plan (1996-97) and 24.9 percent in the last year of the Ninth Plan (2001-02). In these years, the rate of gross domestic capital formation was 23.7 percent and 24.3 percent of GDP respectively. The gross domestic saving rate for the last year of the Tenth Plan i.e. 2006-07 was 34.6 percent while gross domestic capital formation rate was 35.7 percent. Gross domestic saving rate in 2007-08 (the first year of the Eleventh Plan was 36.8 percent while investment rate was 38.1 percent. These are the highest rates recorded in the entire planning period. In 2013-14, the gross domestic saving rate was 30.6 percent and investment rate was 32.3 percent (on the basis of the new series with 2011-12 as the base year).

**Check Your progress:**

1. How come the objective of increasing growth rate is achieved under various plans?
2. What was the position of Balance of payments during planning period in India?
3. How does agriculture sector respond to planning?

## 5.4 ACCOMPLISHMENT OF ECONOMIC PLANNING

Economic Planning in India, formally conceived in 1951, has come a long way in helping the economy to tackle the challenges in various sectors and has enabled it to achieve rapid economic progress. In the last about 67 years since planning began, the national income has increased many times. Today, India is the third largest economy in Asia with about $ 2.25 trillion GDP after China and Japan. For the first time in 150 years, India surpassed, India surpassed its erstwhile colonial master in terms of GDP and is now the fifth largest in the world after the U.S, China, Japan and Germany. The main achievements of planning in India are as follows :

1. **Initiation of the process of Growth**: During the first half of the twentieth entury, there was virtually no growth in this country. Under the British colonial rule, the per capita income remained more or less stable at a very low level and economy was caught in low level equilibrium trap. Hence, economic planning was adopted to break this long spell of stagnation. The first five year plan which was merely a bunch of some ongoing projects showed satisfactory results. Although the amount of investment under this plan was extremely small yet the long spell of stagnation was broken and economy found itself on the path of development. The national income at 1999-2000 prices rose from Rs.224,786 crores in 1950-51 to Rs. 3114,452 crores in 2006-07. The national income at constant prices(2011-12) has increased from Rs. 345,1829 crore in 2007-08 to Rs. 45,73,382 crore in 2011-12 showing

the annual growth rate of 7.8 percent. During the Twelfth plan period, the national income at constant price(2011-12) has increased from Rs. 8,193427 crores in 2012-13 to Rs. 9,400,266 crore in 2014-15 showing the Annual growth rate of 4.9 percent. This has been mainly the result of economic planning.

2. **Development of Infrastructure**: Another achievement of great significance is the creation of economic infrastructure which provides the base for industrialization. Means of transportation, communication, irrigation facilities and energy resources broadly constitute the infrastructure of a country. Lack of this basic infrastructure often proves to be a serious obstacle in the development process. Hence, a high priority has been accorded to the development of infrastructure under the various plans in India. The railways have grown into a vast network of 7030 stations spread over a route length of 64015 kilometers. The total road length has increased from about 400,000 km in 1951 to about 4.7 million km in 2011. India has the second largest road network in the world with about 5472,444 kilometers of road, as on march 2015. The energy generation capacity stood at 2,43,000 MW at the end of march 2014 as against a mere 3400 MW during second five year plan. The investment in infrastructure as a percentage of GDP was about 5.9 percent during the tenth plan and increased to about 7.2 percent during the eleventh plan.

3. **Development of Basic and capital goods industries in the public sector**: The public sector played a predominant role in the economy immediately after the Independence. There were hardly any basic or capital goods industries before independence. In the second plan Mahalanobis strategy of growth followed and a high priority was accorded to the basic and capital goods industries. As a result, industrial machinery and machine tools, electrical tools, engineering, transport, equipment, iron and steel industries were developed in the public sector on a considerable scale. These industries involve massive investments which perhaps the private entrepreneurs could not have mobilized easily. Further, the gestation period was long in these industries so the private investors might not be interested in them. Under these circumstances, the government had to take the initiative for setting up capital goods industries in the various plans.

Following the mahalanobis strategy of growth, the country has moved towards self sufficiency in the field of capital equipment though much remains to be done. Very high profits were recorded by petroleum, telecommunication services, power generation, coal and lignite, transport services and metal industries. The government has eliminated a number of restrictions on the operational and financial powers of navratnas, miniratnas and other profit making public enterprises.

4. **Development of Agriculture**: planning has contributed to agricultural development mainly through agrarian reforms and green revolution. At the time of independence, conditions conducive to development in agriculture did not prevail on account of presence of exploitative land relations between the Tenants and Zamindars. So, the state paid attention to land reforms in the early phase of economic planning. Although land reforms were not properly carried out in India and failed to give desired results but they did create a congenial environment for agricultural development in the country. In every plan government spent 23 to 24 percent plan outlay on the development of agriculture and allied activities. As a result of this agricultural production had increased considerably though not to the extent planned by the government. Since 1966 the main emphasis has been on the introduction of new technology for raising the agricultural productivity. This work was first undertaken in some selected areas covered under Intensive Agricultural Area Programme in the form of increased use of fertilizers along with high yielding varieties of seeds. This was followed by New Agricultural Strategy . This phenomenal increase in the production of foodgrains is termed as Green Revolution in India. However in the initial period of planning the benefits of green revolution were confined to wheat growing areas of Punjab, Haryana and western Uttar Pradesh leading to regional inequalities. In recent decades Green revolution has spread to new crops and new areas. The progress in agriculture witnessed from the spectacular production of Rice, wheat potatoes, sugarcane, cotton, cereals etc. Foodrains production had gone up from 51 million tonnes in 1951 to 218 million tonnes by 2009-10 –increase by over five times. All this has been made possible because of the use of New Agricultural Strategy. Inspite

of this progress, there have been many shortcomings such as failure to fulfil the targets of production of many crops, shortfall in the production of pulses and oilseeds in the face of continuous rise in demand for them and year to year fluctuations in the production of commercial crops such as sugarcane, cotton and jute. Now India has achieved self sufficiency in foodgrains and required to import a very small quantity of foodrains. Indian economy is now stronger and better equipped to tackle any eventuality or food crisis than ever before.

5. **Attainment of Self Reliance**: Five Year plans in India set an objective to attain self reliance and to phase out dependence on foreign assistance gradually. India all along used to import huge amount of foodrains, fertilizers, raw material and industrial machinery and equipments. This resulted in draining of India's precious foreign exchange reserves. India has achieved near self sufficiency in the production of foodgrains. Moreover, with the building up of basic as well as import substitutes industries, our dependence on imports for transport and communication machinery, industrial equipments, engineering goods, chemicals, etc. has diminished to a greater extent.

6. **Diversification of Exports and Imports Substitution**: As a consequence of the policy of rapid industrialization, India's dependence on foreign countries for the import of capital goods has declined. Similarly, quite a good number of consumer goods imported earlier are being produced indigenously. This has led to import substitution. Consequently, the commodity composition of India's exports has changed in favour of manufactures, handicrafts, mineral ores and engineering goods. In this way, diversification of exports and containment of import through import substitution have reduced the pressure on the balance of payments position of the country.

7. **Structural and Institutional changes**: During the period of planning, the country has attained considerable success in bringing structural and institutional changes in the economy. It includes changes in the sectoral contribution or composition of national income with increasing contribution of industries and services sector, increased share of IT sector in GDP, shift in economic activities from agricultural to non agricultural occupations, shift towards modern technology, adoption of new

techniques in agriculture etc. the service sector contributed to about 53.2 percent of the gross value added growth in 2015-16. It has recorded a growth rate of about 138 .5 percent in the last decade. Financial services, insurance, real estate and business services are some of the leading services that have been recording robust growth in the past few years. Institutional changes have also been playing an important role in attaining economic development during the periods of planning. Such institutional changes include developing source of institutional finance, expansion of small and medium scale industries, expansion of public sector, development of small and medium scale of industries, introducing price support system and public distribution system, restrictions of monopoly practices and formation of human capital. Moreover, the adoption of policies of liberalization, privatization and globalization is also an important landmark in bringing structural changes in the economy.

8. **Development of Science and Technology**: Another achievement of significance is the growth of Science and Technology and the development of technical and managerial cadres to run the modern industrial structure. The country has attained considerable progress in respect of information technology and has earned a good name in supplying efficient manpower to foreign countries for their IT sector. In this way, India has not only become self reliant in many technical spheres but has earned a place in exporting technical expertise to some South East Asian , Middle East African countries. India is the third most preferred destination for technology investments. India is making rapid progress in nuclear technology, scientific research and space exploration. ISRO has made a record of launching 104 satellites in one go on a single rocket.

9. **Development of Education and Health Services**: Social services like education, health, family planning etc has improved considerably during planning. Life expectancy at birth has increased from 32.1 years in 1950-51 to 68.6 years in 2015. Infant mortality has reduced from149 per thousand in 1966 to 37.42 per thousand in 2015. The death rate has declined significantly from 27.4 per thousand persons in 1950-51 to 7.3 per thousands in 2016 as a result of near eradication of dangerous epidemics and diseases like malaria, chickenpox, polio,TB and improvement in health facilities. In order to improve

the health conditions of the people the country has developed an improved health system by developing hospitals, dispensaries and medical research centre. Education and Health Care are considered as human capital as they contribute to increased productivity of human beings. The number of universities has increased from about 22 in 1950-51 to 254 in 2000-01. There were 22 central universities,345 state universities,123 deemed universities and 41,435 colleges in 2016. With the growth in number of institutions, the literacy rate has increased from 16.7 percent in 1950-51 to 74.04 percent in 2011.

10. **Savings and Investment**: Savings and Investments are the major driving forces of economic growth. The gross domestic savings in India as a proportion of GDP has increased from 8.6 percent in 1950-51 to about 30 percent in 2012-13. The gross capital formation has increased from 8.4 percent in 1950-51 to 34.70 in 2012-13 . Capital Accumulation is the key to economic development. It helps in achieving rapid economic growth and has the ability to break vicious circle of poverty.

## 5.5 AN APPRAISAL OF THE PLANNING PROCESS

The planning process in India has been criticized for defects in its form and policy frame and implementation failures. It can be observed that achievements of planning in India is far short of its targets. While formulating these plans were too ambitious and they failed to consider the actual state of the economy and its technological and socio-economic constraints. To fulfil the various objectives of planning, Indian planners should set realistic targets and introduce new strategies for achieving these strategies. The failures of Planning in India can be summarized as under:

1. **Inappropriate Form of Economic Planning**: There are number of economists who had criticized Indian planning because it lacked policy framework. According to Ashok Rudra," Economic planning in India has been a total disaster." Firstly, The multi sector model is highly questionable. These models can take no account of constraints imposed by natural disasters. Planning authorities obviously have to take different approaches towards different renewable and non renewable resources. Unfortunately, multi sector models

offer no guidance in this regard. Secondly, the Indian planning has implicitly vested the planner with full authority of decision making power in all the important variables. Such an assumption would be correct if made in respect of socialist economies where central planning covers all the sectors. Finally, the political philosophy of economic planning in India has been patently wrong. The role of public sector ultimately depends entirely on the classes which have control over the state power.

2. **Absence of Financial Strategy**: The planning process in India suffered from the absence of financial strategy. The implementation of' heavy investment goods' sector strategy required heavy resources both domestic( monetary and real) and external in the form of capital goods, machinery, industrial raw material and technical knowledge. On both these fronts, there was a lack of concern and rational economic thinking and whatever planning was done in the form of adhoc measures. The assumption involved was that ' what is physically possible is financially possible too' which was inherently wrong. The neglect of financial strategy proved fatal. The plans continually increased in size, and in the absence of a financial strategy the government was forced to depend more on deficit financing. Under the seventh plan this also necessitated sharp increase in administered prices. The inflationary forces unleashed by these methods of financing have created various complications in the planning process. Coming down to external methods of raising resources, one again finds absence of any strategy. The best method of raising external resources is by earning more through expansion of exports. All attempts or measures adopted were adhoc in nature and were not interwoven into a well thoughtout strategy.

3. **Flaws in Industrial Strategy**: The progress of the industrial sector between the mid 1960s and late 1970s was characterized by a rapid growth of consumer goods industries catering to the demands of the richer section of the population and a relatively slower rate of growth of basic and capital goods industries. This is called Structural Retrogression in the Indian economy. It was also accompanied by low rate of industrial growth or industrial deceleration. During the 1980s the industrial sector, in response to liberalization policy of the government, showed definite signs of recovery. The industrial output in this

period increased at an annual rate of 7.8 percent. However, distortions in the industrial sector further increased. Before undertaking massive actual investments, it was necessary to determine the type of machines to be produced initially in the capital goods industries, capacity of personnel, time phasing, management and organizational problems, detailed project analysis and number of other issues in an efficient and integrated manner. However, these consideration were unfortunately ignored. This resulted in delays in completion of major projects, lags causing inter industry bottlenecks, bunching of capital goods projects, higher than estimated costs and a number of other problems. Major steel, heavy machinery, fertilizers and chemical plants lagged behind schedules and through forward and backward linkages, had an adverse effect on the development of a number of other industries.

4. **Neglect of Agriculture**: The five year plans failed to pay attention to the agricultural sector except for the first five year plan. As a result the agricultural growth rate declined from 3.62 percent in 1991-92 to 0.81 percent in 2009-10. And the share of agriculture in GDP declined from about 50 percent during 1950-51 to about 16 percent of the GDP in 2016. Moreover, land reforms, under which ownership of land be transferred to the peasantry, was not properly implemented.

5. **Failure to generate employment**: Provision of employment to all those seeking employment has been explicitly recognized as an important objective of planning in many plan documents for the establishment of socialist pattern of society. The planners assumed that production and employment are uniquely and directly related. Consequent, no attempt was made to formulate an employment strategy as such. However, the assumption of direct relation between production and employment was not justified. The number of unemployed was 7.49 million in 1993-94 and this number rose to as high as 10.84 million in 2011-12. The unemployment rate has marginally reduced from 8.35 percent during 1972-73 to about 6.53 percent in 209-10. It was about 4.19 percent in 2013. In addition to unrealistic assumption about the relationship between production and employment, neglect of employment strategy also arose

from the nature of the planning models wherein attention was concentrated on scarce resources like capital and foreign exchange labour, which is abundant in supply was not considered at all. There were number of rural works programmes were initiated under different plans like CSRE, MFAL, National Rural Employment Programme, The Rural landless Employment Guarantee Programme , Integrated Rural Development Programme, Jawahar Rozgar Yojana etc . However, all these schemes were hurriedly drawn up, were ill conceived and adhoc in nature. The latter employment programmes were much better conceived than the earlier employment schemes. Nonetheless, they failed to tackle the problem of unemployment in the country. It is only with the initiation of Mahatma Gandhi National Rural Employment Guarantee Scheme in 2006 that some amount of seriousness in tackling the problem of rural unemployment is in evidence although a lot of problems are being encountered at the implementation level.

6. **Failure to eliminate poverty**: The basic objective of planning is the provision of a national minimum level of living. The various poverty elimination programmes were initiated under 'Garibi hatao' slogan in fifth five year plan. The data presented in the sixth five year plan document reveal that 50.82 percent of rural population and 38.19 percent of urban poupation were below the poverty line in 1977-78. The poverty line was defined at Rs. 65 per capita per month at 1977-78 prices corresponding to minimum daily calories requirement of 2400 per person in rural areas and the poverty line at Rs. 75 per capita per month corresponding to daily calories requirement of 2100 per person in urban areas. In 2009, Tendulakar committee pointed out that 41.8 percent of rural population and 25.7 percent of urban population was below the poverty line in 2004-05. According to the estimates issued by planning commission, 29.1 percent of the population was below the poverty line for the year 2011-12. In absolute terms 269.8 million people were below the poverty line. The Rangarajan committee, which submitted its report in june 2014, revised the definition of poverty line in 2011-12 to Rs.47 per capita per day for urban areas and Rs. 32 per capita per day for rural areas. According to this definition, 29.5 percent people in the country were below the poverty line in 2011-12(30.9 percent in rural areas

and 26.4 percent in urban areas). In absolute terms,363 million people were below the poverty line in 2011-12. Although, India had followed number of poverty alleviation programmes during planning period, but they have achieved only success.

7. **Misplaced Faith in Investment**: India's development strategy gave primacy to the rate of investment in the overall planning process. The emphasis on the rate of investment as the growth determining and growth generating factor led to the belief that more investment was the panacea of all economic ills and consequently attention should be concentrated on increasing the rate of investment. It has reduced the importance of many other factors in the economic development such as improvements in skill, techniques, management, operational efficiency and human capital formation.

8. **Price Instability**: Price Instability is another failure of Indian planning. Except the first Five Year Plan, all other plans have experienced a continuous rise in the price with moderate trends during some plans. The average rate of Inflation has reached the level of 10.9 percent in 1994-95 and then gradually declined to 2.6 percent in 2002-03. It was around 10 percent in 2012. Poverty is aggravated under the situation of inflation and five year plans have not been able to stabilize the prices.

9. **Failure to Reduce inequalities of Income and wealth**: There are extreme inequalities in income and wealth when planning process was initiated in India. To begin with the planners had relied on "Trickle Down effect" for reduction in economic disparities. Having realized that this was not working in India, reduction in Income inequalities was proclaimed as an explicit objective of Indian planning. Nonetheless this objective was never in focus. Infact income inequalities have increased over time. For example, the share of top 10 percent households in household expenditure rose from 27.1 percent in 1989-90 to 33.5 percent in 1997 and stood at 29 percent in 2010. Prices of foodstuffs and essential consumer goods rose at a much higher rate than the prices of luxuries and semi luxuries. Between 1990-91 and 1996-97, the general price index moved up by 72 percent but the index of foodgrains prices shot up by 87 percent.

The prices of other consumer goods like sugar, matches, kerosene, clothes, vegetables etc. also moved at a faster rate vis-à-vis articles used by the upper classes. In a socialist economy, failure to control the prices of food and essential consumer goods is the denial of economic justice to the masses. The black income in the economy has also increased substantially. It is estimated to have grown from 9.1 percent of GDP in 1961 to 28.6 percent in 1971, 41.1 percent in 2001 and further to as high as 50 percent in 2008. This has concentrated tremendous economic and political power in the hands of a selected group of people who are now in a position to guide all economic policies in their favour. Naturally, corruption and various anti social activities have encouragement.

10. **Growing Deficit in Balance of Payment**: The planning in India has also failed to contain the trend of growing deficit in the balance of payments of the country leading to a serious foreign exchange crisis as experienced during the year 1991. There was current account surplus of Rs. 16,426 crores in 2001-02- the last year of the ninth plan. The next two years which were the first two years of tenth plan also witnessed a surplus in the current account of as much as Rs. 94,643 crores. It was for the first time in the post independence period that there was s current account surplus for three consecutive years. After that the current account and capital account deficit continued throughout the planning and the situation of balance of payments deteriorated significantly.

11. **Implementation failure**: The level of implementation of plan projects particularly in respect of rural development, agriculture and social welfare sector remained all along poor as the benefits of plan projects did not reach the reach the target group of people in proper time and also in adequate quantity due to huge leakages in the plan fund at the implementation level arising out of growing corruption at the administrative level. In India the plans have often failed to realize their proclaimed objectives. The macro targets have rarely been achieved under various plans and the micro level, completion of different projects have taken more time than expected.

**Check your progress:**

1. What are the major failures of planning in India? Discuss.

## 5.6 ESTABLISHMENT OF NITI AYOG

After independence in 1947, the Economic Programme Committee (EPC) was formed by All India Congress Committee with Nehru as its chairman. This committee was to make a plan to balance private and public partnership and urban and rural economies. In 1948, National Planning Committee was accordingly set up by the government. The Planning Commission was set up on the 15th of March, 1950 through a Cabinet Resolution. The Planning Commission from 1950 to 2014 formulated twelve five year plans.

The Planning Commission of India supervised the five-year plan for the economic development of the country. However, in 2014, the 65-year-old Planning Commission was dissolved and a think tank – NITI Aayog (National Institution for Transforming India) took its place.

On 29 May 2014, the Independent Evaluation Office submitted an assessment report to Prime Minister Narendra Modi with the recommendation to replace the Planning Commission with a “control commission.” On 13 August 2014, the Union Cabinet scrapped the Planning Commission, to be replaced with a diluted version of the National Advisory Council (NAC) of India. On 1 January 2015 a Cabinet resolution was passed to replace the Planning Commission with the newly formed NITI Aayog (National Institution for Transforming India). The Union Government of India announced the formation of NITI Aayog on 1 January 2015. The first meeting of NITI Aayog was chaired by prime minister Narendra Modi on 8 February 2015.

The Government of India, in keeping with its reform agenda, constituted the NITI Aayog in order to better serve the needs and aspirations of the people of India. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism.

NITI Aayog is the premier policy ‘Think Tank’ of the Government of India, providing both directional and policy inputs. While designing strategic and long term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre and States. It was established with the aim to achieve sustainable development goals with cooperative federalism by fostering the involvement of State Governments of India in the economic policy-making process using a bottom-up approach.

The Prime Minister appoints a CEO and a Vice-Chairperson of the NITI Aayog. Further, it has some full-time as well as part-time members along with four Union Ministers serving as ex-officio members. It also has a governing council which includes all State Chief Ministers and Lt. Governers of the Union Territories.

Since it serves as a think tank of the government or as a directional and policy dynamo, it provides advice on strategic policy matters to the governments at the Center and the States. Further, it includes economic issues of both domestic and international importance.

**Objectives of NITI Aayog**

1. The active participation of States in the light of national objectives and to provide a framework 'national agenda'.
2. To promote cooperative federalism through well-ordered support initiatives and mechanisms with the States on an uninterrupted basis.
3. To construct methods to formulate a reliable strategy at the village level and aggregate these gradually at higher levels of government.
4. An economic policy that incorporates national security interests.
5. To pay special consideration to the sections of the society that may be at risk of not profiting satisfactorily from economic progress.
6. To propose strategic and long-term policy and programme frameworks and initiatives, and review their progress and their effectiveness.
7. To grant advice and encourage partnerships between important stakeholders and national-international Think Tanks, as well as educational and policy research institutions.
8. To generate knowledge, innovation, and entrepreneurial support system through a shared community of national and international experts, etc.
9. To provide a platform for resolution of inter-sectoral and inter-departmental issues to speed up the accomplishment of the progressive agenda.

10. To preserve a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their distribution to participants.

11. To effectively screen and assess the implementation of programmes and initiatives, including the identification of the needed resources to strengthen the likelihood of success.

12. To pay attention to technology improvement and capacity building for the discharge of programs and initiatives.

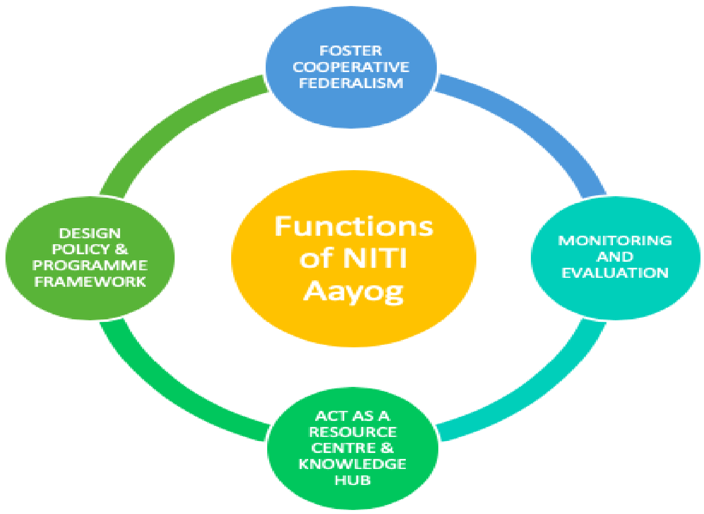
13. To undertake other necessary activities to the implementation of the national development agenda, and the objectives.

**Features**

NITI Aayog is developing itself as a State-of-the-art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues.

NITI Aayog's entire gamut of activities can be divided into four main heads:

1. Design Policy & Programme Framework
2. Foster Cooperative Federalism
3. Monitoring & Evaluation
4. Think Tank and Knowledge & Innovation Hub




The NITI Aayog is based on the **7 pillars of effective Governance**. They are:

1. Pro-people: it fulfils the aspirations of society as well as individuals
2. Pro-activity: in anticipation of and response to citizen needs
3. Participation: involvement of the citizenry
4. Empowering: Empowering, especially women in all aspects
5. Inclusion of all: inclusion of all people irrespective of caste, creed, and gender
6. Equality: Providing equal opportunity to all especially for youth
7. Transparency: Making the government visible and responsive

**NITI Aayog Composition**

The NITI Aayog comprise the following:

1. **Prime Minister** of India is the Chairperson
2. **Governing Council** consists of the **Chief Ministers** of all the States and Lt. Governors of Union Territories in India.
3. **Regional Councils** will be created to address particular issues and possibilities affecting more than one state. These will be formed for a fixed term. It will be summoned by the Prime Minister. It will consist of the Chief Ministers of States

and Lt. Governors of Union Territories. These will be chaired by the Chairperson of the NITI Aayog or his nominee.

4. **Special invitees:** Eminent experts, specialists with relevant domain knowledge, which will be nominated by the Prime Minister.

5. The full-time organizational framework will include, in addition to the Prime Minister as the Chairperson:

    1. Vice-Chairperson (appointed by the Prime Minister)
    2. Members :
        - Full-time
        - Part-time members: Maximum of 2 members from foremost universities, leading research organizations, and other innovative organizations in an ex-officio capacity. Part-time members will be on a rotational basis.
    3. Ex Officio members: Maximum of 4 members of the Council of Ministers which is to be nominated by the Prime Minister.
    4. Chief Executive Officer: CEO will be appointed by the Prime Minister for a fixed tenure. He will be in the rank of Secretary to the Government of India.

    On 7 June 2018, the Prime Minister approved the reconstitution of NITI Aayog to include Ex-officio members and special invitees.

**Present composition of niti aayog:**

**Chairperson;**

Shri Narendra Modi, Hon'ble Prime Minister

**Vice Chairperson:**

Dr. Rajiv Kumar

**Full-Time Members:**

Shri V.K. Saraswat

Prof. Ramesh Chand

Dr. V. K. Paul

**Ex-officio Members:**

1. Shri Raj Nath Singh, Minister of Defence
2. Shri Amit Shah, Minister of Home Affairs
3. Smt. Nirmala Sitharaman, Minister of Finance and Minister of Corporate Affairs
4. Shri Narendra Singh Tomar, Minister of Agriculture and Farmers Welfare; Minister of Rural Development; Minister of Panchayati Raj.

The differences between NITI Aayog and Planning Commission are:

| **NITI Aayog** | **Planning Commission** |
|---|---|
| NITI Aayog has not been given the mandate or powers to impose policies on States. NITI Aayog is basically a thinktank or an advisory body. | The Planning Commission had a power to impose policies on States and for the projects approved by the Planning Commission. |
| The powers for allocation of funds have not been given to the NITI Aayog. The powers are with the Finance Ministry. | The planning Commission had to power to allocate funds to the State Governments and various Central Government Ministries for various programmes and projects at National and State Levels. |
| In NITI Aayog, State Governments have to play a more proactive role. | State Governments did not have much role to play apart from taking part in the meetings. The State Government's role was confined to the national Development Council. |
| Based on the requirements, there are part-time members appointed in NITI Aayog. | The Planning Commission did not have any provisions for the appointment of part-time members. |
| The Governing Council of NITI Aayog has Lieutenant Governor of Union Territories and State Chief Ministers. | The National Development Council had Lieutenant Governors and Chief Ministers. Planning Commission had to report to the National Development Commission. |

| | |
|---|---|
| Under NITI Aayog organisation structure new posts were created - CEO, Vice-Chairperson. CEo has the rank of a Secretary. Four Cabinet members would serve as ex-officio members. NITI Aayog has two part-time members and five full-time members. | The Planning Commission organisational structure consisted of full-time members, member secretary and Deputy Chairperson. |
| In NITI Aayog, the final policy would bear fruit after due consultations are held with State Governments in the policy formulation stage. | The Planning Commission first formulated policies and then State governments were consulted regarding the allocation of funds for the programmes or projects. |

**Strategy for New India at 75**

NITI Aayog has released 'Strategy for New India @ 75' document by replacing five year plans with an aim to accelerate economic growth to 9-10%, make the country a $4-trillion economy by 2022-23 and to achieve UN Sustainable Development Goal. This aspirational strategy aims to achieve a 'New India' by 2022 when the country celebrates its 75th year of Independence

The document defines the strategy for 2022-23 across forty-one areas. Each chapter includes:

- Objectives for 2022,
- Progress already made,
- Binding constraints,
- Way forward for achieving stated objectives.

The document was prepared after extensive consultation at – central, state and district levels stakeholders.

The document has been disaggregated under four sections: Drivers, Infrastructure, Inclusion and Governance.

The Strategy document has disaggregated **the 41 sectors under four sections: drivers, infrastructure, inclusion and governance.**

The first section on **drivers** focuses on the engines of economic performance – in macroeconomic terms with chapters on growth and employment. The section also discusses strategies for the doubling of farmers' incomes; boosting Make in India; upgrading the science, technology and innovation eco-system; and promoting sunrise sectors like fintech and tourism. An annual rate of growth of 9 per cent by 2022-23 is essential for generating sufficient jobs and achieving prosperity for all. Four key steps, among others have been spelled out for achieving this GDP growth rate. These are:

(a) Increase the investment rate as measured by gross fixed capital formation (GFCF) from present 29 percent to 36 per cent of GDP by 2022. About half of this increase must come from public investment which is slated to increase from 4 per cent to 7 per cent of GDP. Government savings have to move into positive territory. This sharp increase in investment-to-GDP ratio will require significantly higher resource mobilization efforts as elaborated in the chapter on Growth.

(b) In agriculture, emphasis must shift to converting farmers to 'agripreneurs' by further expanding e-National Agriculture Markets (e-NAMs) and replacing the Agricultural Produce Marketing Committee (APMC) Act with the Agricultural Produce and Livestock Marketing (APLM) Act. The creation of a unified national market, a freer export regime and abolition of the Essential Commodities Act are essential for boosting agricultural growth

(c) A strong push would be given to 'Zero Budget Natural Farming' (ZBNF) techniques that reduce costs, improve land quality and increase farmers' incomes. This is a tested method for putting environment carbon back into the land. Therefore, ZBNF allows India to significantly contribute to reducing the global carbon footprint.

(d) To ensure maximum employment creation, codification of labour laws must be completed and a massive effort must be made to upscale apprenticeships.

The second section on **infrastructure** deals with the physical foundations of growth. A lot of progress has been made across all infrastructure sectors. This is crucial to enhancing the competitiveness of Indian business as also ensuring the citizens' ease of living. Three key steps, among others, are:

(a) Expediting the establishment of the Rail Development Authority (RDA). RDA will advise or make informed decisions on an integrated, transparent and dynamic pricing mechanism for the railways. Investment in railways will be ramped up, including by monetising existing railway assets.

(b) The share of freight transported by coastal shipping and inland waterways will be doubled. Initially, viability gap funding will be provided until the infrastructure is fully developed. An IT-enabled platform would be developed for integrating different modes of transport and promoting multi-modal and digitized mobility.

(c) With the completion of the Bharat Net programme in 2019, all 2.5 lakh gram panchayats will be digitally connected. In the next phase the last mile connectivity to the individual villages will be completed. The aim will be to deliver all government services at the state, district, and gram panchayat level digitally by 2022-23, thereby eliminating the digital divide..

The section on **inclusion** deals with the urgent task of investing in the capabilities of all of India's citizens. The three themes in this section revolve around the various dimensions of health, education and mainstreaming of traditionally marginalized sections of the population. While there are multiple dimensions and pathways contained in the chapters in this section, four key steps, among others, are:

(a) Successfully implementing the Ayushman Bharat programme including the establishment of 150,000 health and wellness centres across the country, and rolling out the Pradhan Mantri Jan Arogya Abhiyaan.

(b) Upgrading the quality of the school education system and skills, including the creation of a new innovation ecosystem at the ground level by establishing at least 10,000 Atal Tinkering Labs by 2020.

(c) As already done in rural areas, affordable housing in urban areas will be given a huge push to improve workers' living conditions and ensure equity while providing a strong impetus to economic growth.

(d) Implementing strategies to achieve regional equity by focusing on the North-East region and successfully rolling out the Aspirational Districts Programme

The final section on **governance** delves deep into how the tasks/business of government can be streamlined and reformed to achieve better outcomes. It involves a sharp focus on ensuring accountability and a shift to performance-based evaluation. The government will revamp its data systems and analysis so that all policy interventions and decision-making are based on evidence and real-time data. This will yield efficient and targeted delivery of services and justice to those who need them the most. Three key steps, among others, are:

(a) Implementing the recommendations of the Second Administrative Reforms Commission as a prelude to appointing a successor for designing reforms in the changing context of emerging technologies and growing complexity of the economy.

(b) A new autonomous body, viz., the Arbitration Council of India, may be set up to grade arbitral institutions and accredit arbitrators to make the arbitration process cost effective and speedy, and to preempt the need for court intervention.

(c) The scope of Swachh Bharat Mission may be expanded to cover initiatives for landfills, plastic waste and municipal waste and generating wealth from waste.

## 5.7 SUMMARY

It can be observed that although the economic planning in the country has become successful to build social and economic infrastructure, to develop basic and heavy industries as well as to enhance educational, health and public health facilities but it failed to eradicate poverty, to eliminate involuntarily unemployment as well as to reduce the degree of inequality in the distribution of income and wealth.

The achievements and failures of the economic planning in India, thus, reveal the underlying gaps in the process of planning. It is undeniable fact that current level of growth and development that the country has achieved could not have been possible without planning. Yet, systematic and efficient implementation of the plans and strategic policies to tackle the problem of unemployment and poverty could take the country to greater heights. It is strongly believed that the NITI Aayog would address these gaps that existed in the planning process in India and would strive to build a vibrant economy over the years.

## 5.8 EXAMINATION ORIENTED QUESTIONS

1. What are the major targets and achievements of various sector in the period of five year plans?
2. Discuss in detail the various achievements of Economic Planning in India
3. Discuss the aims and objectives of NITI ayog. Also mention how NITI ayog differs from planning commission.

******

| | | |
|---|---|---|
| **M.A. ECONOMICS** | | **LESSON NO. 6** |
| **COURSE NO. 418** | **SEMESTER-IV** | **UNIT - IV** |

# BLACK ECONOMY IN INDIA

**Structure**

6.1 Introduction

6.2 Objective

6.3 Definition of black economy

6.4 Methods of estimating black economy

6.5 Estimates of the size of black economy

6.6 causes of black economy

6.7 Consequences of black economy

6.8 Govt. measures to curb black money

6.9 Summary

6.10 Examination oriented questions

## 6.1 INTRODUCTION

Generation of black money and its stashing abroad in tax havens and offshore financial centres have dominated discussions and debate in public fora during the last two years**.** This lesson will throw light on different aspects of black money in India.

## 6.2 OBJECTIVE

The objective of this lesson is to be familiar with the problem of black money in India. Its estimates as well as measures to curb black money in India.

## 6.3 DEFINITION OF BLACK ECONOMY

There is no uniform definition of black money in the literature or economic theory. In fact, several terms with similar connotations have been in vogue, including 'unaccounted income', 'black income', 'dirty money', 'black wealth', 'underground wealth', 'black economy', 'parallel economy', 'shadow economy', and 'underground' or 'unofficial' economy. All these terms usually refer to any income on which the taxes imposed by government or public authorities have not been paid. Such wealth may consist of income generated from legitimate activities or activities which are illegitimate per se, like smuggling, illicit trade in banned substances, counterfeit currency, arms trafficking, terrorism, and corruption. For the purpose of simplicity, 'black money' can be defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.

In its 1985 report on Aspects of Black Economy, National Institute of Public Finance and Policy (NIPFP) defined 'black income' as 'the aggregates of incomes which are taxable but not reported to the tax authorities'. Further, black incomes or unaccounted incomes are 'the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives'.

Thus, in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities:

- to evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
- to evade payment of other statutory contributions;
- to evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or

- to evade compliance with other laws and administrative procedures.

Therefore underground economy, also called shadow economy refers to transaction of goods or services not reported to the government and therefore beyond the reach of tax collectors and regulators. The term may refer either to illegal activities or to ordinarily legal activities performed without the securing of required licenses and payment of taxes. Examples of legal activities in the underground economy include unreported income from self-employment or barter. Illegal activities include drug dealing, trade in stolen goods, smuggling, illegal gambling, and fraud.

Spurious notes or counterfeit money is generally not counted as black money. Counterfeit notes are currency notes that are illegally printed by unauthorised agents.

**How is black money generated?**

Black money is generated by any of the following three ways:

| | |
|---|---|
| **Illegitimate activities** | The illegal activities that can lead to black money generation are:<br>1. Crime<br>2. Corruption<br>3. Non-compliance with tax requirements<br>4. Complex procedural regulations<br>5. Money laundering<br>6. Smuggling |
| **Tax evasion** | This is where an entity willfully does not pay taxes that are due to the government. |
| **Tax avoidance** | This is where an entity takes advantage of the existing loopholes in the system and avoids paying taxes. This is not illegal though |

## 6.4 METHODS OF ESTIMATING BLACK ECONOMY

Following are the commonly used methods to estimate black money:

**1. Input-output ratio method**

The first method tries to find the difference between how much money should be generated and how much is actually generated. The only trick is to estimate how much "should" be the income. And it depends from industry to industry.

**For example -**

Count the number of houses built in a city and estimate how much cement is needed to build a house. Make a list of all the cement suppliers in that city and see how much they have sold (as per tax records). You will find a huge gap in what the cement manufacturers have declared as sold and what the customers should have bought. The difference is unaccounted black money.

Look at the quantity of raw material purchased by a manufacturer and see how much output should ideally have been generated as per worldwide norms. Then compare it with the actual output declared by the manufacturer. If there is a huge gap, then the manufacturer is declaring loss where, in fact, he is generating black money.

As we can see, this is a very crude way of estimating the black money and is subject to a lot of assumptions. Normally, this is very accurate if you are estimating the black money in one particular sector, such as real estate, or cement, or bullion. But replicating this for the entire economy is very difficult, time consuming and not much reliable.

**2. Circulation velocity method**

To estimate the black money in an economy, this is what you do:

Count the number of currency notes in circulation and Estimate how many times the currency should change hands. In real world, this number is different for different economies. Cash based economies like India have a higher number, whereas economies using plastic money will have a lower number.

Multiply the currency notes with the velocity number. For example, if ₹ 1000 note is changing hands 4 times, then the total income of the country should be ₹ 4000. This is the estimate of total actual income.

Now compare this with the declared income. This is available with the tax authorities. If the declared income is ₹ 3000, then your black money is ₹ 1000.

This is a systematic approach but the problem is that this number changes drastically depending on your assumption of the currency circulation.

**3. Sampling/survey method**

As per the statistical survey method, there is a sample population selected from within the country. The pattern of consumption of this sample is found. How much money do they earn? How much money do they spend? What is the amount of money that they declare to the tax authorities?

Based on this focused study of a particular group, their black money is estimated. Then this percentage is replicated to the entire economy. This is a simple method. But, the challenge here is to select the correct representative sample.

**4. Kaldor's approach to black money calculation**

Economist Nicholas Kaldor estimated the black money in a different way. He first looked at the total GDP of the economy. From this, he deducted all the salary income (assuming that salaried people can't evade taxes). Now the remaining portion is the income earned through rent, income, profit etc.

If we assume that all people in the country are honest, then these people would pay tax on this total income (subject to a basic exemption limit of Rs. 2.5 lakhs). Using this assumption, he calculated the amount of money that should have been taxed. We compare this with the amount of income actually taxed. The difference is black money.

The problem with this approach is that it is difficult to estimate the income that should have been taxed because each sector has it's own set of tax rules, exemptions, complications and other challenges. Therefore, Kaldor estimated the "should have been" amount separately for each industry.

It was a complicated approach. Over time, many economists have developed on this model with their own set of assumptions.

**5. Other methods**

There could be other methods as well. For example, some economists believe that we can separately assume the amount of black money generated by different categories of people working in different industries and then superimpose that assumption to the country's population.

Recently, the Reserve Bank of India issued a notification cancelling the validity of Rs. 500 and Rs. 1000 notes. RBI, in it's press release said that total currency in circulation rose by 40% over the last 5 years, whereas the number of Rs. 500 and Rs. 1000 notes increased by 76% and 109%. This goes to show that these high value notes are not moving. Mostly, this happens because these notes are stashed as black money. Therefore, the number of currency notes declared now (after this scheme) and the currency notes in circulation earlier should give you a fair estimate of the number of notes that were stashed (not in circulation).

## 6.5 ESTIMATES OF BLACK INCOME IN INDIA

Attempts have been made in the past to quantify 'black' money generation in India. Broadly speaking, the estimates made so far have followed two distinct approaches:

(i) Kaldor's approach of quantifying non-salary incomes above the exemption limit of income tax; and

(ii) The Edgar L. Feige method of working out transaction income on the basis of currency-deposit ratio and deriving from it the 'black' income of the economy.

N. Kaldor in his report (1956) estimated non-salary income on the basis of the break-up of national income into:

(i) Wages and salaries,

(ii) Income of the self-employed, and

(iii) Profit, interest, rent, etc.

Excluding wages and salaries from the contribution to net domestic product, he derived total non-salary income. An estimate of the actual non-salary income assessed to tax was made for each sector in order to arrive at the total non-salary income assessed to tax. The difference between the estimated non-salary income above the exemption limit and the actual non-salary income assessed to tax measures the size of 'black' income.

**The Direct Taxes Enquiry Committee (Wanchoo Committee)** followed the method adopted by Kaldor with some modifications. It estimated assessable non-salary income for the year 1961-62 at rupees 2686 crore and non-salary income actually assessed to tax to be of the order of 1875 crore. Accordingly the income which escaped income tax was of the order of 811 crore. After making rough adjustments for exemptions and deductions, the Wanchoo Committee found that 'the estimated income on which tax has been evaded (black income) would probably be 700 crore and 1000 crore for the years 1961-62 and 1965-66 respectively'. 'Projecting this estimate further to 1968-69 on the basis of percentage increase in national income from 1961-62 to 1968-69, the income on which tax was evaded for 1968-69 was estimated as 1800 crore.'

**Rangnekar's estimate**: Dr D.K. Rangnekar, a member of the Wanchoo Committee, dissented from the estimates made by the Wanchoo Committee. According to him, tax-evaded income for 1961-62 was of the order of 1150 crore as compared to the Wanchoo Committee's estimate of 811 crore. For 1965-66, it was 2,350 crore against the 1000 crore estimated by the Wanchoo Committee. The projections for 1968-69 and 1969-70 were 2833 crore and 3080 crore respectively. Ragnekar concluded the compound rate of growth of national income for the same period was 11 percent pe annum. Ragnekar further clarifies that if one took into account the leakage of foreign currency incomes and suspicious foreign income transfers , the estimates of black income may have to be marked up by Rs. 200 crores.

**Chopra's estimate:** Noted economist O.P. Chopra published several papers on the subject of unaccounted income. He prepared a series of estimates of unaccounted income for a period of 17 years, i.e. 1960-61 to 1976-77. Chopra's methodology marked a significant departure from the Wanchoo Committee approach and, as a consequence, he found a larger divergence in the two series from 1973 onwards when income above the exemption limit registered significant increase. The broad underlying assumptions of his methodology were: i. Only non-salary income is evaded. While this may be true for govt. employees , this does not capture additional benefits given by the private sector to its salary earners.; ii. Taxes other than income tax are evaded and the study is restricted to only that part of income which is subject to income tax. Thus tax evasion which may be due to (a) non-payment or under-payment of excise duty, (b) sales tax,(c) customs duties, or (d) substituting agricultural income for non-agricultural income is not captured; iii. The efficiency of the tax administration remains unchanged; iv. The ratio of non-salary income above the exemption limit to total non-salary income has remained the same; and v. The ratio of non-salary income to total income accruing from various sectors of the economy remains the same. Vi. Unaccounted income generation in the agricultural sector has not been taken into account.

The crucial finding of Chopra's study was that after 1973-74, the ratio of unaccounted income to assessable non-salary income went up, whereas the Wanchoo Committee assumed this ratio to have remained constant. As a consequence, after 1973-74 there was wide divergence between the estimates of the Wanchoo Committee and those of Chopra. Chopra's estimates corroborated the hypothesis that tax evasion was more likely to be resorted to when the rate of tax was comparatively high. His findings also supported the hypothesis that increase in prices lead to an increase in unaccounted income. Further, he gave a significant finding that funds were diverted to the non-taxable agriculture sector to convert unaccounted (black) income into legal (white) income. Chopra's study estimated unaccounted income to have increased from  916 crore in 1960-61, i.e. 6.5 per cent of gross national product (GNP) at factor cost, to  8098 crore in 1976-77 (11.4 per cent of GNP).

**NIPFP Study on Black Economy in India**: The NIPFP conducted a study under the guidance of Dr S. Acharya (1985). The study defined 'black' money as the aggregate of incomes which were taxable but which were not reported to tax authorities. The study, however, gave a broader definition of 'black' income and called it 'unaccounted income' for purposes of clarity. As there was lack of sufficient data, the NIPFP study followed 'the minimum estimate approach'. That is to say, not being able to ascertain the most probable degree of under-declaration or leakage, it used a degree of under-declaration which could safely be regarded as the minimum in the relevant sector. In several cases the study also made use of a range rather than a single figure of underestimation.

While preparing the estimate of 'black' income, the study excluded incomes generated through illegal activities like smuggling, black market transactions, and acceptance of bribes and kickbacks. To prepare a global estimate of black income, the study confined itself briefly to six areas:

i. factor incomes received either openly or covertly while participating in the production of goods and services,

ii. 'black' income generated in relation to capital receipts on sale of asset,

iii. 'black' income generated in fixed capital formation in the public sector,

iv. 'black' income generated in relation to the private corporate sector,

v. 'black' income generated in relation to export, and

vi. 'black' income generated through over invoicing of imports by the private sector and sale of import licences.

After aggregating the different components of 'black' income the study quantified the extent of 'black' money for different years as shown in Table .

NIPFP Estimate of Black Money in India 1975-1983

| Year | Estimate for Black Money (in crore) | Percent of GDP |
|---|---|---|
| 1975-76 | 9,958 to 11,870 | 15 to 18 |
| 1980-81 | 20,362 to 23,678 | 18 to 21 |
| 1983-84 | 31,584 to 36,784 | 19 to 21 |

The NIPFP study concluded that total black income generation of 36,784 crore out of a total GDP at factor cost of 1,73,420 crores was on the higher side, although it turns out to be less than 30 per cent of GDP as against some extravagant estimates placing it at 50 or even 100 per cent of GDP. The study suggested with some degree of confidence that black income generation in the Indian economy in 1983-84 was not less than18 per cent of GDP at factor cost or 16 per cent of GDP at market prices.

While the NIPFP report estimated the 'black' economy (not counting smuggling and illegal activities) at about 20 per cent of the GDP for the year 1980-81, Dr. Suraj B. Gupta made a guess estimate of black income for three particular years, i.e., 1980-81. 1983-84 and 1987-88. Dr. Gupta was of the opinion that the estimate of black income by NIPFP is an under-estimate. But the amount of black income in India which was Rs. 50,977 crores in 1980-81, increased to Rs. 85,208 crores in 1983-84 and to Rs. 1,49,297 crores in 1987-88 which were 41.7 per cent. 45.8 per cent and 51.7 per cent of GNP respectively. Arun Kumar pointed out certain defects in Gupta's method as well as in the NIPFP study. He estimated 'black' income to be about 35 per cent for the year 1990-91 and 40 per cent for the year 1995-96.

It may be useful to see how India compares with other countries in the world on estimates of black money or black or shadow economy. The World Bank Development Research Group on Poverty and Inequality and Europe and Central Asia Region Human Development Economics Unit in July 2010 estimated 'Shadow Economies' of 162 countries from 1999 to 2007. It reported that the weighted average size of the shadow economy (as a percentage of 'official' GDP) of these 162 countries in 2007 was 31 per cent as compared to 34 per cent in 1999. For India, these figures were 20.7 per cent and 23.2 per cent respectively, comparing favourably with the world average. Shadow economy for the purposes of the study was defined to include all market-based legal production of goods and services that are deliberately concealed from public authorities

The estimates of black money made by NIPFP is the last official estimate. Since then no official study has been conducted by either Planning Commission, or Finance Ministry or any other research institute. Despite economic reforms bringing in their wake a simplified taxation structure, unaccounted money in the economy has risen sharply.

However, a Parliamentary Standing Committee on Finance quoted unofficial estimates of black money at Rs. 1.10,000 crore in 1994-95. Again Prof. Madhu Dandavate, the then Deputy Chairman of the Planning Commission recently quoting an unofficial estimate, disclosed that black money worth Rs. 80,000 crore was in circulation in the country.

While there is no official estimate of quantum of black money in India or abroad, a 2010 World Bank. There have been other estimates which have placed size of India's parallel economy at higher levels including a FICCI report which has estimated it to as high as 75 per cent of GDP. As per a study conducted by Chandan Sharma, black economy as a percentage of GDP is quite substantial in India. However, on a positive note, study also indicates that fiscal reforms in important areas in 1990s helped in reducing the size of the black economy. Specifically, it was as large as 64% of the reported GDP in 1970s, in terms of current market value it was 280 billion Indian rupees. The size had gone down to 44% in 1997, but increase to 7000 billion rupees in value terms. More importantly, it has been constantly around 50% of GDP in the last two decades. In the last year of analysis, 2013, it was 52% of GDP, which is around 60000 billion in Indian currency, while in terms of U.S. dollar, it was 957 billion. According to the 3rd report published in May, 2012, Swiss National Bank estimates total deposits by various countries. Here also, India tops the chart, again reinstating the fact that a huge sum of black money is finding its way out of the country.

| Country | Money deposit |
|---|---|
| INDIA | $ 1,456 Billion |
| RUSSIA | $ 470 Billion |
| U.K | $ 390 Billion |
| UKRAINE | $ 100 Billion |
| CHINA | $ 96 Billion |

According to a report released by Global Financial Integrity (GFI) in December 2012, India is among the top 10 developing countries in the world with a black money outflow of $1.6 billion (Rs. 8,720crore) in 2010. Total outflow of black money from India since independence until 2010 was $232 billion, generally in the form of corruption, bribery and kickbacks. In the post-reform period of 1991-2008, deregulation and liberalization accelerated the outflow of illicit money from the Indian economy. About a third of India's black money transactions are believed to be in real estate, followed by manufacturing and shopping for gold and consumer goods.

- A Bank of Italy calculation reveals India's share in tax havens globally to be \$152-181 billion or Rs. 10 lakh crore.
- India is ranked eighth in the world in black money generation by the Global Financial Integrity Report.
- A former director of the Central Bureau of Investigations has said that the total black money in India is around USD 500 billion.

## 6.6 CAUSES OF BLACK MONEY

### 1. Inflation

There are several ways in which inflation enhances the incentives and opportunities for making black incomes: First, with a progressive income (and wealth) tax structure, defined with respect to nominal values, inflation results in "bracket creep" which increases the effective burden of taxation at any given level of real income (and wealth), and hence the incentive to evade. Second, general inflation is usually accompanied by pronounced scarcities and windfall gains in certain sectors which are unlikely to be fully declared to the revenue authorities. Third, in a system where some prices are fixed by legal or executive fiat, adjustments in these prices are likely to lag behind the changes in market-clearing prices. The likely consequence is increases in the illegal scarcity premia, at least temporarily. Fourth, inflation reduces the real incomes of those whose nominal incomes do not keep pace with rate of change in prices. This includes government servants, many of whom have access to various forms of discretionary authority which can be bartered for money. Thus inflation, especially when it is prolonged and severe, increases the incentive to succumb to such temptations.

### 2. Prohibition causes black money

Certain activities are usually forbidden by law such as gambling, production of illicit liquor, smuggling, trafficking illegal drugs, lending at exorbitant interest charges, money lending without proper license etc. When some individuals wish to undertake these activities, these will apparently go unreported and incomes so earned would be totally black.

### 3. Public Expenditure

The NIPFP Report mentions that the Government itself lives in the Glass

House, as the rapid growth of its spending over the last two decades has been a major contributory factor in generating black money.

Due to the rapid rise of public spending for multiple Governmental programmes and activities, the unscrupulous elements in public service and public life could find ample opportunities for amazing black income and wealth by dubious methods.

**4. Political Funding encourages black money**

Political funding in India also causes a significant amount of black income. Our election laws and behavior of political parties are primarily responsible for this. Today contesting of elections has become a very costly affair.

The candidate has to spend much in excess of the officially sanctioned amount. This has to be arranged somehow in black money. The politicians largely resort to industrialists and trading community for the help — the funds are raised in terms of black money.

The NIPFP Report thus holds that “a close relation between political funding and black incomes is extremely dangerous as it places public policy on the auctioneer’s block”. But in recent elections, such political funding is considerably reduced.

**5. Deficiencies of the Tax System pays way for black money**

There are various lacunae in the tax system that encourages generation of black income. First, high personal Income Tax Rates cause people to try and evade taxes, and thus lead to generation of black income. The dilemma for the Government is that even efforts at lowering tax rates do not lead to larger payments of income tax by the higher income groups.

Although there are a number of tax laws pertaining to income tax, stamp duties, GST etc. enforcement is weak due to widespread corruption in these departments

**6. Generation of Black Income in the Public Sector**

There are huge investments marked for the public sector in every five-year plan. The usage of these has to be monitored by the bureaucrats in Government and public sector undertakings. A symbolic relationship often develops between the contractors, bureaucrats and politicians. Costs are often artificially escalated and underhand deals generate black money.

**7. Standards of Public Morality**

The Wanchoo Committee Report pointed "to the general deterioration in moral standards of our people" as a significant factor fuelling the growth of tax evasion. B.K. Nehru (1982) observes, "Corruption is rampant in every sector of our society ... A large number of politicians and ministers are corrupt, corruption is universal in the lower ranks of the public services, it has affected the middle ranks as well and is now infecting the apex of our administrative structure, the All-India Services. Among the reasons cited by Nehru and others for this precipitous drop in public morality are: the relative decline of old elites and their established values and the rise of new, moneyed elites with little to offer except their example of material success; the example set by the political rulers in using public office to advance party and private interest and their apparent ability to flout the rule of law with substantial impunity; the sharp decline in real incomes of government servants coupled with growing opportunities for deploying their discretionary authority for personal profit; the cumulative character of corruption; and the growing weakness of established institutions and sources of authority.

**8. Weak Deterrence encourages black money**

Despite of adequate legal provisions to curb the growth of black economy in India, it has persisted because of weak deterrence against tax evasion in practice. No serious action has been taken against detected cases of tax evaders. Till recently, too trivial penalties were imposed, too few prosecutions have been launched and even fewer have been convicted.

**9. Demonstration Effect causes black money**

The conspicuous consumption and luxurious life style of black moneyed people have created a sort of demonstration effect on many others to inspire for such consumption patterns.

Black money arising from illegal activities such as crime and corruption has an underlying antisocial element. The 'criminal' component of black money may include proceeds from a range of activities including racketeering, trafficking in counterfeit and contraband goods, smuggling, production and trade of narcotics, forgery, illegal mining, illegal felling of forests, illicit liquor trade, robbery, kidnapping, human trafficking, sexual exploitation and prostitution, cheating and financial fraud, embezzlement, drug money, bank frauds, and illegal trade in arms. Some of these offences are included in the schedule of the Prevention of Money Laundering Act 2002. The 'corrupt' component of such money could stem from bribery and theft by those holding public office – such as by grant of business, leakages from government social spending programmes, speed money to circumvent or fast-track procedures, black marketing of price-controlled services, and altering land use regularizing unauthorized construction. All these activities are illegal per se and a result of human greed combined with declining societal values and inability of the state to prevent them. Factors leading to their generation are both social and administrative.

Significant amount of black money, however, is generated through legally permissible economic activities, which are not accounted for and disclosed or reported to the public authorities as per the law or regulations, thereby converting such income into black money. The failure to report or disclose such activities or income may be with the objective of evading taxes or avoiding the cost of compliance related to such reporting or disclosure. It may also be the result of non-compliance with some other law. For example, a factory owner may under-report production on account of theft of electricity which in turn leads to evasion of taxes. Generally, a high burden of taxation, either actual or perceived, provides a strong temptation to evade taxes and generate black money. Sometimes the procedural regulations can be such that complying with them may increase the probability of further scrutiny and thereby the incidence of the burden of compliance, creating a perverse incentive not to report at all and remain outside the reported and accounted proportion of the economy. Culture and social practices may also play a vital role in deciding the preferences of citizens between tax compliance and black money generation. In a society where tax evasion and under-reporting of activities and income is perceived to be very common or the norm, such activities may be considered acceptable and honest tax compliance and paying one's due share to the public fund may not be considered a virtue. Studies indicate that countries with relatively poor implementation of regulations tend to have a higher share of unaccounted economy, whereas countries with properly implemented regulations and sound deterrence have smaller ‘black’ economies.

## 6.7 CONSEQUENCES OF BLACK MONEY

The flow of black money can seriously affect the entire economic system, some major impacts are discussed below:

1. **Dual economy:** The increase in the amount of black money in India over a period of time lead to the perpetual growth of economic dualism which consists of Parallel economy(black money economy) operating side by side with the Official or Reported economy on the country. The black economy represents not less than one fifth of the aggregate economic transactions. There is also interaction between the reported and unreported activities such that it is difficult to identify black money from the white money economy. Such a Parallel Economy will ruin the entire economic development of the country.

2. **Corruption:** While corruption creates black money in the economy, it can also be a result of the growing underground market. People with black money are able to bribe the administrators and politicians to get what they want. By doing this, they are able to get what they want and others are pushed down the stack.

3. **Uncontrollable Inflation:** When black money is out in the market, the amount of money in the system is higher than the Government expects. This causes the prices of commodities to increase to a level beyond normal. This is a direct result of people having more money offering more money on specific items. Even if the Government tries to control the credit flow in the market by taking necessary measures, the amount of black money present upsets the move, resulting in some sort of pressure on the economy.

4. **Impact on Growth by moving investments on Gold, Stones and Jewellery:** People who are looking to turn black money into white money are largely investing in precious metals like Gold and other jewelry. There are people who believe that almost 70% of the total gold investment in our country is

black money. One reason for people to invest in gold is that it is hard to trace. People in black market may buy gold bars, coins, jewelries etc. because one can buy gold easily and can be converted back to money anytime. This flow of underground money has caused Indian economy to stall on its growth.

5. **Loss of Revenue to the Government:** Black money is largely attributed to tax evasion. Its direct impact is the loss of the Government revenue. Since the Government fails to get sufficient tax revenue due to largescale tax evasion, it is forced to resort to high taxation and deficit financing which again carry their illeconomic effects. As it is almost impossible to estimate the amount of black money in any economy, unreported earnings cannot be included in a country's gross national product (GNP) or gross domestic product (GDP).

6. **Inflated Real Estate:** When people with deep pockets are ready to pay more for a piece of land, the price of surrounding land also tends to increase; thus artificially inflating the prices of an entire area. Generally, people involved in black money market are always ready to pay more for a piece of land as this helps in converting their colored money to legal money.

7. **Transfer of Indian Funds Abroad to Safe Heavens:** The black money generated in India is kept in foreign tax havens. For this, money has to be transferred from India to other countries through secret channels. Under-invoicing of exports and over-invoicing of imports are two of the main methods used by black money holders for transferring money overseas. These are called Hawala transactions

8. **It affects the financial system of the country:** The central bank is not able to control money supply in the economy causing higher inflation. This will lead to a fall in the value of the currency.

9. Black money affects the credibility of a country negatively.

10. Black money is most often used for illegal activities such as drugs and narcotics dealing, terrorism, etc. which is detrimental to the heath of the country.

Black money creates a parallel economy in the country, which is completely underground. For example, in Mexico, there is a thriving parallel economy because of the illegal trafficking of drugs. This leads to governance problems.

11. Misdirection of precious natural resources: A part of black money instead of investing in productive activities is invested in conspicuous consumption and unproductive assets.

12. Difficult to make correct economic analysis: The existence of black money is a big handicap in making a correct analysis and formulation of right economic policies. The government policies cannot be firm in their perception and design because of weak data base.

13. A threat to price stability: Black money which is held in cash increases the liquidity power. Whenever the Government attempts to control excess demand to stabilize prices with the help of measures of credit control or rationing, such attempts are frustrated by the huge liquidity provided by black money. Since this liquidity results in heavy inventory build-up, it becomes a threat to price stability.

14. Corrupting the political system: Black money has corrupted the political system. National policies are being bent in favour of the big businessmen under the pressure of black money. It is the parallel economy which does the back seat driving in policy decisions rules the nation in reality. The parallel economy poses a serious threat to stability and growth of the official economy. Black incomes are accentuating the inequalities in income and wealth and breeding a new class of 'black-rich' in our society.

## 6.8 GOVT MEASURES TO CURB BLACK MONEY

**Evolution of Strategies to Control Black Money in India**

The problem of tax evasion and generation of Black Money is not new. As far back as 1936, the Ayers Committee, while reviewing the income tax administration in India suggested large-scale amendments to secure the interests of the honest taxpayer and effectively deal with fraudulent evasion. An Income-tax Investigation Commission was appointed in 1947 to investigate tax evasion and suggest measures for preventing it in future. A Taxation Enquiry Commission (1935-54) also went into the question of tax evasion and recommended several legal and procedural changes. In 1956, Nicholas

Kaldor made a specialized study of the Indian tax system, that also included prevalence of tax evasion, and his recommendations resulted in several amendments and new legislations like the Wealth Tax Act. A Direct Taxes Administration Enquiry Committee formed in 1958 suggested an integrated scheme of taxation for facilitating compliance and preventing tax evasion. It also made substantial contribution to the reorganization of tax administration. Important reforms based on the reports of various committees as well as the Administrative Reforms Commission have been made from time to time to strengthen tax compliance and plug tax evasion.

One of the main thrusts of these reforms consists of optimising the tax rates. The income tax rates were in the range of 25-30 per cent till the early 1960s, but gradually increased to reach a peak of 85 per cent with a 15 per cent surcharge during the 1970s. These high rates, necessitated by contingencies like drought and war, when combined with the prevailing shortages, resulted in controls and licences, and thereby provided further incentives for evasion of taxes. It was largely in this economic environment that generation of black money became highly prevalent and acquired serious proportions. The Wanchoo Committee was appointed in 1971 to examine and suggest legal and administrative measures for unearthing black money and countering evasion and checking avoidance. It comprehensively dealt with the causes of and methods of tackling tax evasion and made a number of recommendations for strengthening tax administration.

In the past, the government has also resorted to voluntary disclosure schemes providing amnesty to tax evaders if they declared their unaccounted income and paid due taxes on the same. These voluntary schemes have been criticized on the grounds that they provide a premium on dishonesty and are unfair to honest taxpayers, as well as for their failure to achieve the objective of unearthing undisclosed money .The high marginal tax rates of over 90 per cent in the early 1970s, often considered a major reason for tax evasion and generation of black money, were brought down subsequently and have been at around 30 per cent since 1997. In the meantime, liberalisation of tariff and non-tariff barriers also removed some of the underlying reasons for black money. However, with liberalisation of restrictions on cross-border flow of goods and services and relaxation of foreign exchange control, new opportunities opened up for tax evasion through tax havens, misuse of transfer pricing, and other sophisticated methods. Globalisation reduced the cost of these sophisticated methods thereby facilitating generation of black money and its transfer across the border. These changes required new strategies to curb black money.

The role of tax havens has gradually come under scrutiny globally. With near-zero tax regimes, banking secrecy, and weak financial regulations, these tax havens facilitate hiding of money accumulated through tax evasion and other illegal means in addition to creating risks of terrorist financing and money laundering. At the G-7 summit in Lyons in 1996, a call was given to the OECD to prepare a report to address these issues with a view to establishing a multilateral approach under which countries could operate individually and collectively to limit the extent of these practices. The OECD came up with a report in 1998 and called for action against tax havens. The report envisaged blacklisting of and internationally coordinated sanctions against havens that persisted in luring other states' tax bases.

A number of significant changes were brought about through the Finance Act 2011 to check the menace of black money and in line with our joining the global crusade, which are summarised as follows:

(a) A new section 94A was introduced in the Income Tax Act to discourage transactions between residents and persons located in jurisdictions which do not effectively exchange information with India (non-cooperative jurisdictions). The section provides that if an assessee enters into a transaction with a person in a non-cooperative jurisdiction, then all the parties to the transaction shall be treated as associated enterprises and the transaction treated as an international transaction resulting in application of transfer-pricing regulations. Further, no deduction in respect of any payment made to any financial institution shall be allowed unless the assessee furnishes an authorization allowing for seeking relevant information from the said financial institution. Similarly, no deduction in respect of any other expenditure or allowance arising from the transaction with a person shall be allowed unless the assessee maintains and furnishes the prescribed information. If any sum is received from a person located in such jurisdictions, then the onus is on the assessee to satisfactorily explain the source of such money in the hands of such person or in the hands of the beneficial owner, and in case of his failure to do so, the amount shall be deemed to be the income of the assessee. Any payment made to a person located in such jurisdictions shall be liable for withholding tax at 30 per cent or rate higher than that prescribed in the Income Tax Act.

(b) To facilitate prompt collection of information on requests received from tax authorities outside India under the provisions of DTAAs/TIEAs, the powers under section 131 and 133A of income tax authorities have been extended

(c) The time limit for completion of assessments if a request is made to foreign tax authorities has been extended to six months through the Finance Act 2011, which has been further extended to one year through the Finance Bill 2012.

A number of other significant changes have been proposed in the Income Tax Act through the Finance Bill 2012 .

1. **Prevention of Money Laundering Act :** The Prevention of Money Laundering Act 2002 was enacted to prevent money laundering and provide for confiscation of property derived from, or involved in, money laundering and for matters connected therewith or incidental thereto. The Act also addressed international obligations under the Political Declaration and Global Programme of Action adopted by the General Assembly of the United Nations to prevent money laundering. The Act enables government authorities to confiscate property and/or assets earned from illegal sources and through money laundering.

2. **Benami Transactions(prohibition) amendment act 2016 :** The Benami Transactions (Prohibition) Amendment Act, 2016 designed to curb black money was passed by parliament in August 2016, came into effect in November 2016. The new law amended the Benami Transactions Act, 1988 and renamed the same as Prohibition of Benami Property Transactions (PBPT) Act, 1988. The amendment act strengthens the parent Act in terms of legal and administrative procedure. The aim of the act is to redirect the unaccounted money into the financial system.

   The PBPT Act defines benami transactions, prohibits them and further provides that violation of the PBPT Act is punishable with imprisonment and fine. The

PBPT Act prohibits recovery of the property held benami from benamidar by the real owner. Properties held benami are liable for confiscation by the Government without payment of compensation.

3. **Prevention of Corruption Act, 1988 :** The Prevention of Corruption Act, 1988 (henceforth referred to as PCA) came into force on 9th September, 1988. he Prevention of Corruption Act, 1988 (PC Act) was enacted to prevent corruption in Government departments and to prosecute and punish public servants involved in corrupt practices.

As the PC Act saw limited success an amendment was enacted (Amendment Act) and brought into force on 26 July 2018. The Amendment Act attempted to bring the PC Act in line with United Nations Convention against Corruption 2005, which was ratified by India in 2011.

The Amendment Act provides that any public servant who accepts or attempts to accept from any person, any 'undue advantage', either for himself or for any other person, in lieu of performance of a public duty, shall be punishable with imprisonment for a minimum term of 3 (three) years and maximum of 7 (seven) years.

4. **Lokpal and Lokayukta Bill :** The Lokpal and Lokayukta Act, 2013 provided for the establishment of Lokpal for the Union and Lokayukta for States. These institutions are statutory bodies without any constitutional status. They perform the function of an "ombudsman" and inquire into allegations of corruption against certain public functionaries and for related matters.

**The Lokpal and Lokayuktas (Amendment) Bill, 2016** : This Bill was passed by Parliament in July 2016 and amended the Lokpal and Lokayukta Act, 2013. It enables the leader of the single largest opposition party in the Lok Sabha to be a member of the selection committee in the absence of a recognized Leader of Opposition.

**Appointment of the Lokayukta :** The Lokayukta is usually a former High Court Chief Justice or former Supreme Court judge and has a fixed tenure.

**Selection of Lokayukta :** The Chief Minister selects a person as the Lokayukta after consultation with the High Court Chief Justice, the Speaker of the Legislative Assembly, the Chairman of the Legislative Council, Leader of Opposition in the Legislative Assembly and the Leader of Opposition in the Legislative Council. The appointment is then made by the Governor. Once appointed, Lokayukta cannot be dismissed nor transferred by the government, and can only be removed by passing an impeachment motion by the state assembly.

5. **Whistleblower Protection Act, 2014 :** The act establishes a mechanism to receive complaints related to disclosure of allegations of corruption or wilful misuse of power or discretion, **against any public servant,** and to inquire or cause an inquiry into such disclosure. The act also provides adequate safeguards against victimization of the person making such complaints.

   It allows any person, including a public servant, to make a **public interest disclosure** before a **Competent Authority.** The law has elaborately defined various competent authorities. For instance, Competent authority to complaint against any union minister is the Prime Minister.

   The law does **not allow anonymous complaints** to be made and clearly states that no action will be taken by a competent authority if the complainant does not establish his/her identity. The maximum time period for making a complaint is **seven years.**

6. **Black Money and Imposition of Tax Act, 2015 (Undisclosed Foreign Income and Assets ) :** The Act became effective from July 1, 2015 with the starting of the one-time compliance window black money in the form of undisclosed foreign income and assets comes under the purview of this law. The UFIA Act gives an opportunity to the black income holders to reveal black money and pay a tax within a compliance window time. After this time, black income holders will come under severe penal and prosecution measures prescribed under the law.

   *'Undisclosed foreign income and asset'* is defined as the total amount of undisclosed income of an assessee from a source located outside India and the value of an undisclosed asset located outside India.

7. **Demonetisation** of Rs. 500 and Rs. 1000 was carried out in 2016 with the primary view of making black money useless. As per government figures, the number of income tax returns filed for 2016–17 grew by 25 per cent to 2.82 crores (compared to growth rate of 9.9% in the previous year), and the advance tax collections during that period rose 41.8% over the one-year period, as more individuals filed their tax returns after demonetization.

8. **Direct Payment into Bank Accounts of Payees :** With the aim of reforming Government delivery system by re-engineering the existing process in welfare schemes for simpler and faster flow of information/funds and to ensure accurate targeting of the beneficiaries, de-duplication and reduction of fraud Direct Benefit Transfer (DBT) was started on 1st January, 2013.

9. **Measure to check tax evasion**: Tax evasion is the source of generation of Black Money. Therefore plugging loopholes in tax laws by a large number of legal and administrative measures was undertaken. Most of these measures were based on the recommendations of various committees and commissions. Most of the recommendations pertained to improvement in tax laws. From time to time, the tax laws have been amended to arrest in evasion of taxes. At one time, the marginal rate of income tax was as high as 97.5 % and they were gradually brought down to 40 % in 1996. They were reduced by Government in 1997-98 budget to 30 % for individuals and 35 % for corporations. As of now corporate tax stands at 25 percent (2020-21) for domestic companies If turnover or gross receipt of the company does not exceed Rs. 400 crore in the previous year 2018-19.

10. **Special Bearer Bond Scheme:** This scheme was introduced in 1981 to channelize unaccounted money for productive purpose. They carry an interest of 2 % per annum. Complete immunity has been granted to the original subscriber of the bonds from being questioned about the possession of bonds or about the sources of money from which the same have been acquired. The amount subscribed to this scheme is very meagre amount of Rs. 964 crores. The government measures described above have indeed achieved something. Bur this is too little considering the big size and complex nature of the problem. The sources of Black money remain as before, and the flow of such money continues.

11. **Voluntary Disclosure Income Schemes**: This was adopted as far back as 1951 and then thrice in 1965, 1975 and again in 1997. The scheme envisaged a voluntary disclosure of concealed income by the persons. Under these schemes those declaring their income were not to be punished and they need not declare the source of income. Some success was achieved. But the amount came out was very small compared to the black money. The new voluntary Disclosure Income Scheme which netted tax collections estimated to exceed Rs. 10,000 crores.

12. **Unique Identity (UID)-Aadhaar :** This initiative will cut down corruption and the generation of black money in India.

13. **Setting up Institutions for Dealing with Illicit Money :**
    - Enforcement Directorate (ED)
    - Central Board of Direct Taxes (CBDT)
    - Financial Intelligence Unit
    - Central Board of Excise and Customs
    - Directorate of Revenue Intelligence (DRI)
    - National Investigation Agency (NIA)
    - Central Economic Intelligence Bureau
    - Central Bureau of Investigation (CBI)
    - Police authorities
    - Directorate of Criminal Investigation
    - Cell for Exchange of Information
    - Income Tax Overseas Units
    - Goods and Services Tax Network (GSTN)
    - Committee on Black Money

14. Constitution of the Special Investigation Team (SIT) on Black Money in May, 2014 under Chairmanship and Vice-Chairmanship of two former Judges of Hon’ble Supreme Court. The SIT has so far submitted 6 reports to Hon’ble Supreme Court.

15. Constitution of Multi-Agency Group (MAG) for coordinated and effective investigation in 'Panama paper leaks' cases and Paradise Leaks cases.

16. Task Force (TF) on Shell Companies constituted under the joint chairmanship of Revenue Secretary and Secretary (Ministry of Corporate Affairs) in February, 2017.

17. Linking of Aadhar with PAN has been made mandatory for filing Income Tax Returns and for applying for new PAN from 1st July 2017.

18. Restriction on cash transaction of Rs. 2 lakh or more (Section 269ST of I. T. Act), no deduction under section 80G if cash donation exceeds Rs. 2000 w.e.f. 01.04.2018, restriction on donations of Rs.2000/- or more to political parties otherwise than by a bank account or through electoral bonds.

19. Quoting of PAN made mandatory for all cash deposits above Rs. 50,000 and aggregating to more than Rs. 2.5 lakh for the period from 9 November to 31 December, 2016.

20. The government is encouraging cashless/digital transactions with a view to making things more transparent.

21. Electoral reforms are also intended to curb black money as much of the black money generated in India is used in elections.

22. **Income declaration scheme and Pradhan Mantri Garib Kalyan Yojana**: An amnesty Scheme to encourage voluntary disclosure of black money and avoid prosecution after paying a fine of 50% on the undisclosed income. An additional 25% of the undisclosed income is invested in the scheme which can be refunded after four years, without any interest.

23. **Promoting Cashless Economy:** So as to ensure better control over money flow in the economy and prevent the creation of black money.

24. **Transparency in political funding**: By limiting the anonymous cash donations to Rs 2000 and introduction electoral bonds to prevent entry of black money in politics.

25. **International Cooperation**: India joined a group of 48 countries as early adopters to new global standards for automatically exchanging information from 2017. India-Mauritius and India-Singapore tax treaties amended to adopt source based taxation of capital gains with a view to help curb tax evasion and tax avoidance.

**Conclusion :**

High tax rates, corruption in public sector units, multiple tax rates and inefficient tax authorities are the main causes of tax evasion. It suggested that reduction in tax rates, simplifications of tax laws, remove loopholes in the tax system and some extent proper processing of information available the under the annual information return can be best tool for improving Indian tax compliance. Therefore there is a need for creating transparent, friendlier and less discriminatory administrative system. Further there is also a need to educate the people about Indian Tax law and create such an environment in which they pay their due taxes, do not evade the tax and feel proud in discharging their duty to pay.

## 6.9 SUMMARY

An income which is not declared by a person or a group of persons in a nation is termed as black money. It is also termed as 'illegitimate' as it goes unrecognized for the tax declaration. In an ideal economy, all money that is transacted should be accounted for. This would help the government to collect taxes. Cash transactions without proper accounting are known as black money. Black money has some serious consequences on the economy of a country. It affects the financial system of the country and affects the credibility of a country negatively. Black money creates a parallel economy in the country, which is completely underground.

Black money is generated through illegal activities, tax avoidance and tax evasion. though we have formulated different strategies and policies to combat black money, its effect is not reflected in implementation. The need of the hour is greater political will and global coordination to counter the issue.

## 6.10 EXAMINATION ORIENTED QUESTIONS

1. What are the causes and consequences of black money in economy.
2. What are the different estimates of black money in India.
3. Mention some of the measures adopted by govt to curb black money.

******