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Economic Planning NCERT Summary (Class X to Class XII)

Economic Planning

Planning in Indian Economy

Economic planning refers to the path of actions in terms of policy measures to be followed in future, for pursuing pre-determined objectives. It is a consciously and judiciously carried out process for optimum utilization of existing resources in order to fulfill some well-defined objectives. It is a term used to describe long term plans of government to co-ordinate and develop the economy with efficient use of resources.

The erstwhile Planning Commission defined economic planning as "the utilisation of a country's resources for developmental activities in accordance with national priorities." Economic Planning in India was started in 1950 after independence, it was deemed necessary for economic development and growth of the nation.

- Under the Indian Constitution, economic planning is headed in the 7th Schedule and under Concurrent list. The economic planning in India is based on mix of capitalist and socialist economy model.

Objectives of Planning in India

- Economic Planning was introduced with the objective to bring in new productive capital, which will raise the overall productivity of the economy and raise people's income by providing them adequate employment opportunities.
- Planning consists of two sets of objectives- **long term and short term**. The short-term requirement varies from time to time, depending on the immediate problems faced by the economy. But, the process of planning is inspired by certain long-term objectives.
- The fundamental objective of planning in India is to achieve an increase in National Income and Per Capita Income.
- Another objective of planning is to improve agricultural production for:
 - ✓ Achieving self-sufficiency in food grains production.
 - ✓ Meeting the needs of industry and export.
 - ✓ Achieve industrialization with special reference to basic and heavy industries.
 - ✓ Provide more employment opportunities.
 - ✓ Reduce inequalities in income and wealth distribution.
 - ✓ Achieve self-reliance and eradicate poverty to achieve economic growth.

History of Planning in India

For planned development, many plans, proposal, reforms, etc. were passed discussed as follows: in India. Some of these are

Visvesvaraya Plan

The tribute for creating the idea of planning goes to M.Visvesvaraya, an renowned engineer and statesman of Mysore, through his book "**Planned Economy for India**" in the year 1934. He formulated a 10 year plan for economic development. He emphasised on increasing the industrial production and coordinated development of small and large enterprises.

FICCI's Proposal

- In 1934, Federation of India Chambers of Commerce and Industry (FICCI) emphasised on economic planning in India.
- It was the first formal organisation by Indian industrialists, under the Chairmanship of NR Sarkar.
- He recommended that country like India should have a comprehensive economic planning.

National Planning Committee

- In 1938, Congress President and Indian National Army supreme leader Netaji Subhash Chandra Bose initiated planning in India under the Chairmanship of Jawaharlal Nehru.
- This was followed by formation of a 15 member National Planning Committee.
- The Committee emphasised that the national independence is a primary condition for taking all the steps that might be found necessary for carrying out planning.
- The National Planning Committee appointed several sub-committees to study different aspects of the national economy.

Gandhian Strategy

- It was proposed by Acharya Shriman Narayan Agarwal in 1944.
- It emphasised on the economic decentralisation with primary to rural development by developing cottage industries.

Bombay Plan

- In early 1944, industrialists and economists of Bombay, Sir Purshottamdas Thakurdas, Mr. JRD Tata and six others attempted and published a development plan.
- Its main objective was doubling the per capita income in the country over a period of 15 years.

- It proposed an increase of about 130% and 500% in agriculture and industry. The total outlay of 10,000 crores was recommended.

People's Plan

- It was a 10 year plan prepared by MN Roy in 1945. Its emphasis was on agriculture and consumer goods industries through collectivisation and setting up of state owned industrialisation.
- It advocated nationalisation of land with the total outlay of 15000 crores.

Sarvodaya Plan

- It was drafted by Jaiprakash Narayan in 1950. It was inspired by Gandhian plan and Sarvodaya idea of Vinoba Bhave.
- It suggested the freedom foreign technology and stressed upon land reforms and decentralised participatory planning.

LPG Reforms

- The government announced a New Economic Policy on 24th July, 1991. It is commonly known as Liberalisation, Privatisation and Globalisation model.
- The plan's objective was to put India's economy into the area of globalisation. It ended the licence/permit raj for maximum industries.

Strategies of Planning in India

Harrod-Domar Model:

It emphasized on the role of capital accumulation's dual character i.e. it shall increase the national income and It also increases the production capacity.

Nehru-Mahalanobis Model:

This model was based on two sectors i.e. consumer goods sector and capital goods sector. This model gave a special emphasis on investment in heavy industries to achieve industrialization for rapid economic development based on the Russian Model of FYP.

Gandhian Model:

This model was focused on Employment oriented planning rather than the production oriented planning of Nehru- Mahalanobis.

LPG (Liberalization, Privatization, Globalization) Model:

This model changed the nature of planning from centralized to indicative planning. Where it encouraged privatization and allowed foreign direct investment (FDI).

PURA (Providing Urban Amenities in Rural Areas) Model:

This model was the brainchild of Dr. A.P.J. Abdul Kalam. This forms the basis of Neo-Gandhian plan in which the objective of this strategy was to enhance prosperity of cluster of villages in rural areas.

The Planning Machinery:

At the national level, there are two bodies:

- The Planning Commission, which is appointed by the Union Government. It formulates the plans for the whole country, in which States' Plans are dovetailed.
- National Development Council, which consists of Chief Ministers of all States, members of the Planning Commission and some Union Ministers.

Now both are abolished.

Types of Planning

On the Basis of State and Market Inter-relation

On the basis of state and market inter-relation, types of planning are as follows:

- **Imperative Planning** A socialist planning is called imperative planning as the central planning authority performs all economic activities in the best interests of the society.
- **Indicative Planning** In this type of planning, all policies of the country operate under the direction of government. Role of state is only a motivating and promoting factor in policies.

On the Basis of Result

On the basis of result, types of planning are as follows:

- **Structural Planning:** In this type of planning the present social and economic structure is changed and a new structure emerges.
- **Functional Planning:** The functional plans could be considered an overall strategy or plan describing how, when and where the objectives and goals will be accomplished for each function as well as for the entire plan.

On the Basis of Process

On the basis of process, types of planning are as follows:

Centralised Planning: In this type of planning, all the economic decisions are taken by the Central Government. It is also known as Top-to-bottom planning. This type of planning has been found mostly in Socialist State. It was planned by direction. In such type of economy most of the means of production are won by the State. All economic decision has been taken by the central authority of State.

Decentralised Planning It is a kind of percolation of planning activities or processes from the Centre to the sub-state levels, i.e., district, sub-division, block and village level.

On the Basis of Duration

On the basis of duration, types of planning are as follows:

Perspective Planning it refers to long-term planning. In which a long range of targets are set in advance for a period of 15, 20 or 25 years.

Rolling Planning Unlike the five Year plan this type of planning has no fixed time period, means it moves forward without fixed duration. Its goals are analysed on yearly basis. Depending upon the performance of the plan in the current year, targets will be fixed for another year. Like this, it will go on a continuous basis. That is the idea behind the Rolling Plans.

Short-Term Planning in this type of planning, goals are decided on yearly basis. It can be of three or four years.

On the Basis of Area

On the basis of area, types of planning are as follows:

National Planning In this type of planning, Central Government plays a vital role as objectives of the planning are decided by it.

Regional Planning The plan that aims to target a specific region for inclusive development and to reduce the regional imbalance is called regional planning. The Eighth Five-Year Plan specified the programme of the special area such as Hilly areas North-Eastern state development, tribal areas and backward areas development.

Planning Commission

- The Planning Commission of India was set up by a Resolution of the Government of India in March, 1950.
- Institutionally, it was a part of the Cabinet organisation and the 'demands for grants' for the planning commission were included in the budget for the Cabinet Secretariat.
- It was a non-constitutional body and its first deputy Ex-officio chairman was Gulzarilal Nanda.

However, On January 1, 2015, the Planning Commission was replaced by the National Institution for Transforming India (NITI Aayog).

National Development Council (NDC)

- It was set up on 6th August, 1952. It is a non-constitutional and non-statutory body and also known as Rashtriya Vikas Parishad.
- NDC's objective is to strengthen and mobilise the effort and resources of the nation in support of the plan.
- It was presided over by the Prime Minister of India and included all Union Ministers, Chief Ministers of all the States, Administrators of Union Territories and Members of the Planning Commission.
- Ministers of State with independent charge were also invited for the deliberations of the council.

The National Development Council (NDC) has been inactive since the establishment of the NITI Aayog in 2014.

NITI Aayog

The Planning Commission was replaced by a new institution called NITI Aayog on 1st January, 2015 with emphasis on 'Bottom-Up' approach to envisage the vision of Maximum Governance, Minimum Government, echoing the spirit of 'Cooperative Federalism'.

Administrative structure of NITI Aayog

1. **Chairperson** Prime Minister
2. **Vice-Chairperson** To be appointed by Prime Minister Governing Council Chief Ministers of all states and Lt. Governors of Union Territories
3. **Regional Council** To address specific regional issues, comprising Chief Ministers and Lt. Governors
4. **Adhoc Membership** Two members in ex-officio capacity from leading Research institutions on rotational basis
5. **Ex-Officio Membership** Maximum four members from the Union Council of Ministers to be nominated by the Prime Minister
6. **Chief Executive Officer** Appointed by Prime Minister for a fixed tenure, in rank of Secretary to Government of India
7. **Special Invitees** Experts, Specialists with domain knowledge nominated by the Prime Minister

Objectives and Functions of NITI Aayog

Objectives of NITI Aayog

- Fostering co-operative federalism, and In initiating active involvement of states
- Formulation of plans at rural levels and accumulation at higher levels.
- Looking into sections which are at risk of not benefiting adequately from economic progress
- Formulating economic policy that incorporates national security interests
- Creating partnerships with national and international think-tanks
- Creating platform for intersectional and interdepartmental issues
- Focusing on technology up gradation and capacity building
- Creating a state-of-the art resource center for research on good governance.

Functions of NITI Aayog

- There was a center to state one way movement of policy previously which is now shifted to be replaced by a genuine and continuing partnership of states.

- The Aayog will function as a Think Tank which will provide government at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy.
- It shall also develop a shared vision of national developmental priorities, foster co-operative federalism, recognizing that strong states make a strong nation
- Aayog will also seek to formulate a critical directional and strategic input into the developmental process.
- It will also develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of the government
- It will ensure special attention to the sections of the society that is at risk of not benefitting adequately from economic progress.
- The NITI Aayog will also provide a knowledge, innovation, and entrepreneurial support system through a collaborative community of national and international experts, practitioners and partners.
- Moreover, it will monitor and evaluate the implementation of programmes and focus on technology up gradation and capacity building.

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

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

Five Year Plans in India

- After independence, India launched a programme of Five Year Plans which were inspired from the former Soviet Union (now Russia) to make the optimum use of the country's available resources and to achieve rapid economic development.
- In India, development plans were formulated and carried out within the framework of the mixed economy.
- Our plan documents upto the year 2017 not only specify the objectives to be attained in the five years of a plan but also, what is to be achieved over a period of twenty years.

Long term objectives of our Five Years Plan are-

- A high rate of growth to improvement in the standard of living.
- Economic self-reliance.
- Modernization of economy
- Social justice
- Economic Stability

The five year plans were supposed to provide the basis for the prospective plan. The following gives us a description about the Five Year Plans (FYPs) in India:

1: First Five Year Plan (1951-1956):

- The first five year plan was presented by first Indian Prime Minister Jawahar Lal Nehru.
- It was based on the Harrod-Domar Model with a few modifications. Its main focus was on the agricultural development of the country. This plan was successful and achieved a growth rate of 3.6% (more than its target of 2.1%).
- At the end of this plan, five IITs were set up in the country.

2. Second Five Year Plan (1956-1961)

- It is also known as Mahalanobis Plan
- Its main focus was on the rapid industrial development of the country.
- This plan lags behind its target growth rate of 4.5% and achieved a growth rate of 4.27%.

Mahalanobis Model

This strategy was based on the two sector model-consumer goods sector and capital goods sector. The strategy emphasised investment in heavy Industry to achieve Industrialisation for rapid economic development. It was based on the Russian experience.

3. Third Five Year Plan (1961-1966)

- This plan is also called 'Gadgil Yojana', after the name of Deputy Chairman of Planning Commission Dr. Gadgil.
- The main target of this plan was to make the economy independent. The stress was laid on agriculture and the improvement in the production of wheat.
- Special focus was given on achieving state of self-reliance in agriculture and industry.
- The objective of import substitution was seen as sacrosanct.
- During the execution of this plan, India was engaged in two wars:
 - ✓ The Sino-India war of 1962
 - ✓ The Indo-Pakistani war of 1965

These wars exposed the weakness in our economy and shifted the focus to the defence industry, the Indian Army and the stabilisation of the price (India witnessed inflation).

The plan was a flop due to wars and drought. The target growth was 5.6% while the achieved growth was 2.4%.

Three Annual Plans (1966-1969)

- This period was known as Plan Holiday.
- A whole new agricultural strategy was implemented, involving widespread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploration of irrigation potential and soil conservation.
- Due to the failure of the previous plan, the government announced three annual plans called Plan Holidays from 1966-1969.
- During this plan, annual plans were made and equal priority was given to agriculture, its allied sectors and the industry sector.

In a bid to increase the exports in the country, the government declared devaluation of the rupee.

4. Fourth Five Year Plan (1969-1974)

- There were two main objectives of this plan i.e. growth with stability and progressive achievement of self-reliance.
- Importance was given to providing benefits to the marginalized section of the society through employment and education.
- During this time, 14 major Indian banks were nationalised and the Green Revolution was started. The Indo-Pakistani War of 1971 and the Bangladesh Liberation War also took place.
- The Green Revolution started in 1960's in India towards advancement of agriculture.
- Implementation of Family Planning Programme was amongst major targets of the Plan.
- This plan failed and could achieve a growth rate of 3.3% only against the target of 5.7%.
- Industry growth is too low at 3.9%.

5. Fifth Five Year Plan (1974-1978)

- The 5th plan was prepared and launched by D.D. Dhar.
- The fifth five-Year plan laid stress on two objectives: **Poverty alleviation and attainment of self-reliance.**
- This plan focused on Garibi Hatao, employment, Justice, and attainment of self-reliance in agricultural production and defence.
- In 1975, The Electricity Supply Act was amended, a Twenty-Point Programme (TPP) was launched, and the Minimum Needs Programme (MNP) and the Indian National Highway System was also introduced at the same time.
- Overall this plan was successful, which achieved a growth of 4.8% against the target of 4.4%.
- This plan was terminated in 1978 by the newly elected Morarji Desai government.

Rolling Plan (1978-1980)

- After the termination of the Fifth Five Year Plan, the Rolling Plan came into effect from 1978 to 1980.
- In 1980, Congress rejected the Rolling Plan and a new sixth Five Year Plan was introduced.
- Three plans were introduced under the Rolling plan:
 - ✓ For the budget of the present year.
 - ✓ this plan was for a fixed number of years- 3,4,years.
 - ✓ Perspective plan for long terms- 10,15 or 20 years.

The plan has several advantages as the targets could be mended and projects, allocation etc. were variable to the country's economy.

6. Sixth Five Year Plan (1980-1985)

- The basic objective of this plan was economic liberalisation by eradicating poverty and achieving technological self-reliance.
- It was based on investment yojana, infrastructural changing and trend to the growth model.
- Its growth target was 5.2% and it achieved 5.7% growth.

7. Seventh Five Year Plan (1985-1990)

- The objectives of this plan include the establishment of a self-sufficient economy, opportunities for productive employment and upgradation of technology.
- The Plan aimed at accelerating food grain production, increasing employment opportunities and raising productivity with a focus on 'food, work and productivity'.
- For the first time, the private sector got priority over the public sector.
- Its growth target was 5.0% and it achieved 6.01%.

8. Eighth Five Year Plan (1992-1997):

- The plan was postponed by two years due to political volatility at the Centre.
- In this plan, the top priority was given to the development of human resources i.e. employment, education and public health.
- During this plan, Narasimha Rao Government launched the New Economic Policy of India i.e., LPG Reforms.
- Several structural modifications policies were brought in to put the country in a path of high growth rate.

- Some radical economic changes were undertaken to combat worsening economic situation which involved devaluation of rupee, dismantling of license prerequisite and decrease in trade barriers etc.
- During this period, Pradhan Mantri Rozgar Yojana (PMRY) was started in the year 1993.
- Some of the main economic outcomes during the Eighth Five Year plan period were rapid economic growth (highest annual growth rate so far - high growth of agriculture and allied sector, 6.8%), manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.
- A high growth rate was achieved even though the share of the public sector in total investment had declined considerably to about 34%.

9. Ninth Five Year Plan (1997-2002)

- It was observed in the 8th plan that even though the economy performed well, the gains did not percolate to the weaker sections of the society.
- The ninth plans therefore laid greater impetus on increasing and rural incomes and alleviate the conditions of the marginal farmer and landless labourers.
- The main focus of this plan was 'Growth with Social Justice and Equality'.
- It was launched in the 50th year of independence of India.
- This plan failed to achieve the growth target of 6.5% and achieved a growth rate of 5.6%.

10. Tenth Five Year Plan (2002-2007)

- The objective of this plan was to make the Indian economy the fastest growing economy in the world, with a growth target of 8%.
- This plan coveted to bring in investor friendly market reforms and create a friendly environment for growth. It sought active participation by the private sector and increased FDI's in the Financial Sector.
- It also aimed to reduce the poverty ratio to 15% by 2012.
- Its growth target was 8.0% but it achieved only 7.6%.

11. Eleventh Five Year Plan (2007-2012)

- It was prepared by the C. Rangarajan.
- Its main theme was 'Rapid and Inclusive growth'.
- It achieved a growth rate of 8% against a target of 9% growth.

12. Twelfth Five Year Plan (2012-2017)

- Its main theme is 'Faster, More Inclusive and Sustainable Growth' achievement.
- Its growth rate target was 8% but it achieved only 7.1% approx.

Abolition of Five Year Plans

As India is a diverse and big centralised planning could not work beyond a point due to its one-size-fits-all approach. Therefore, the Planning Commission was formed, which was replaced by the NITI Aayog. Thus, there was no Thirteen Five Year Plan, however, the five-year defense plan was made. The NITI Aayog have no financial role as they are only policy guide maps for the government.

15 Years Vision Document in Place of Five Year Plan

The Five Years Plans were discontinued and were replaced with 15 Years Vision Document. The first 15 Year Vision Document came into effect from 2017-18 after the end of the Twelfth Five Year Plan.

It was formulated with central objective of eradication of poverty. It came along with a 7 year National Development Agenda which lay down the programmes, schemes and strategies to achieve a long term vision. The long vision document (Perspective plan) comprise three year mass economic framework:

- 2017-18 to 2032-33 Vision Document
- 2017-18 to 2024-25 National Development Agenda
- 2017-18 to 2019-20 Three Year Action Agenda (to be repeated after every three year).





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