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# SUMMARY SHEET

***Economic History of India***

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# 1 Indian Economy: A Brief Overview

## 1.1 Economy till 2008

In the **first five decades of the twentieth century**, till we got our independence in 1947, the **per capita GDP in India was stagnant**. The trend **growth in GDP** during this period was **0.9 per cent** with **population growing** by about **0.8 per cent.**

As compared with the near stagnant growth in the first half of the twentieth century, the **annual growth, averaging at around 3.5 per cent** during the period **1950 to 1980**, was comparatively better.

The average growth rate of the Indian economy over a period of **25 years since 1980-81** was about **6.0 per cent** – a significant improvement over the annual growth rate of the earlier three decades.

In the **new millennium**, the GDP growth rate has further accelerated **averaging 7.2 per cent** during the **seven-year period 2000-01 to 2007-08**, with the growth rate in the **five years** period between **2003-04 to 2007-08 averaging 8.8 per cent.**

Over the years, while the **GDP growth has been accelerating**, the **population growth rate has moderated**, giving a sharp **impetus to the growth in per capital income**.

The strengthening of economic activity in the years 2001-08 has been supported by a **sustained increase in the gross domestic investment rates from 22.8 per cent of GDP in 2001-02 to 35.9 per cent in 2006-07.** It may also be noted that over **95 per cent of the investment** during this period was financed by **domestic savings.**

An important characteristic of the growth phase of over a quarter century (1981-2008) was the **country's resilience to shocks.** During this period, we **witnessed only one serious balance of payments crisis**. The Indian economy, in the later years, could successfully avoid any adverse contagion impact of shocks from

East Asian Crisis, the Russian Crisis during 1997-98, sanction-like-situation in post-Pokhran scenario, the border conflict during May-June 1999 and Sub-Prime Crisis. Viewed in this context, this robust macroeconomic performance, in the face of shocks demonstrated the vibrancy and resilience of the Indian economy.

### 1.2 Economy after 2008

The **global financial crisis of 2008 affected the Indian economy also.** Despite various measures taken by the RBI and the government, the growth rate started declining. The **GDP growth**, which was **9.2 per cent in 2005-06** and **9.0 per cent in 2006-07**, came down to **7.4 per cent in 2007-08** and 2008-09. It continued to decline further and was **7.1 per cent in 2009-10, 6.8 per cent in 2010-11, and 6.5 per cent in 2011-12.** It dipped to a low of **5.1 per cent in the year 2012-13**.

Easing of global economic crisis also resulted in revival of growth in India after 2012-13. The **GDP** figure recorded a growth of **6.6 per cent for 2013-14, 7.2 per cent for 2014-15 and 7.9 per cent for 2015-16**. **India's GDP growth rate for 2021-22 was 8.7%.**

## 2 Various Sectors of the Economy

### 2.1 Agriculture

Agriculture is one of the most important sectors of Indian economy.

Agriculture (including allied activities) accounted for **17 per cent of the Gross Domestic Product** (GDP at constant prices) in **2008-09** as compared **to 21.7 per cent in 2003-04**. **This was 18.8 percent in 2021-22.**

Notwithstanding the fact that the share of this sector in GDP has been declining over the years, its role remains critical as it accounts for **more than 50% of the employment** in the country. Apart from being the **provider of food and fodder**, its importance also stems from the **raw materials that it provides to industry.** About **10% of India's exports** consist of agricultural commodities. The **prosperity of the rural economy** is also closely linked to agriculture and allied activities.

One of the biggest success stories of independent India is the **rapid strides made in the field of agriculture.** From a **nation dependent on food imports (PL-480) to feed its population**, today India is not only **self-sufficient** in grain production but also has **substantial food reserves**. Dependence of India on agricultural imports and the crises of **food shortage encountered in 1960s** convinced planners that India's growing population, as well as concerns about **national independence, security, and political stability**, required self-sufficient in food production. This perception led to a **programme of agricultural improvement called the Green Revolution**. It involved bringing **additional area** under cultivation, extension of **irrigation** facilities, the use of improved **high-yielding variety of seeds**, better techniques evolved through **agricultural research, water management** and **plant protection** through judicious use of **fertilizers**, **pesticides** and cropping practices. All these measures had a salutary effect and the **production of wheat and rice witnessed a quantum leap.**

**KEY DEFINITION**
**P.L. 480:** The term 'P.L. 480 (or Public Law 480) ' as it applies to the area of agriculture can be defined as ' P.L. 83-480 (July 10, 1954), also called Food for Peace, is the common name for food aid programs established by the Agricultural Trade Development and Assistance Act of 1954, which seeks to expand foreign markets for U.S. agricultural products, combat hunger, and encourage economic development in developing countries.

However, there are still a host of issues that need to be addressed regarding Indian agriculture. Indian agriculture is **heavily dependent on monsoons**. The monsoons play a critical role in determining whether the harvest will be rich, average, or poor. The structural weaknesses of the agriculture sector are reflected in the **low level of public investment, exhaustion of the yield potential of new high yielding varieties of wheat and rice, unbalanced fertilizer use, low seeds replacement rate, an inadequate incentive system and post-harvest value addition**. High number of farmers' suicide is also an indication of the stress in the rural sector.

## 2.2 Industry

**Industry or the secondary sector** of the economy is another important area of economic activity. After independence, the government of India emphasized the role of industrialization in the country's economic development in the long run. Accordingly, the blue print for industrial development was made through the **Industrial Policy Resolution (IPR) in 1956**. The 1956 policy emphasized on establishment of **heavy industries** with **public sector taking the lead** in this area. Adoption of heavy or basic industries strategy was justified on the ground that it will reduce the burden on agriculture, enable growth in the production of consumer goods industries as well as small industries that are helpful for employment generation and achieving self-reliance. After the adoption of the IPR, 1956 there was **tremendous growth in industrialization during the second and third plan periods** i.e., 1956-61 and 1961-66. Public sector contributed maximum to this growth. But towards the **end of 1960s, investment in industries was reduced** which adversely affected its growth rate. In the **1980s, this trend was reversed** and investment in industries was increased by making the infrastructure base such as power, coal, rail much stronger.

In **early 1990s** it was found that the **public sector undertakings** were **not performing** up to expectation. There has been **reports of mismanagement** in these under takings resulting in loss. So, in **1991** the government of Indian decided to **encourage the role of private sector** in industrial development, **remove the rigid license system** which is known as **liberalization** and **allow international players to compete** in the domestic country as well as domestic players to explore foreign territories. The aim of taking all these steps was to **strengthen the process of industrialization** in the country. Such a model of industrial development is called **Liberalization, Privatization and Globalization (LPG) model.**

After the adoption of this new policy in 1991, there has been **phases of growth followed by slowdown** in the industrial development process. In the **early years of 1990s there was significant growth** in industrialization due to increase in investment in infrastructure, reduction in excise duty, availability of finance etc. But **towards the end of 1990s the growth rate slowed down** due to stiff competition from international companies, inadequate infrastructure support etc.

The **contribution of industrial sector has been increasing slowly over time after independence**. **In 2021-22** the share of this sector was around 28.2 percent in India's Gross Value Added (GVA). At the time of independence, it was only 14 percent. The increase is due to increase in number of manufacturing units and increase in industrial production. (**Note: Share of Services Sector in India's GDP off late has been increasing at the cost of both Agricultural and Industrial Sectors**)

### 2.2.1 Micro, Small and Medium Enterprises (MSMEs)

As per the **Annual report 2021-22** of the Ministry of Micro, Small and Medium Enterprises, the MSME sector provided employment to **11.10 Crore people**. MSMEs sector contributes around 30% to India's GDP and has 50% share in the country's exports.

## 2.3 Services

The services sector now accounts for **about 53% of India's GVA**. This sector has **gained importance at the expense of both the agricultural and industrial sectors through the 1990s.** The rise in the service sector's share in GDP marks a **structural shift in the Indian economy** and takes it closer to the **fundamentals of a developed economy** (in the developed economies, the industrial and service sectors contribute a major share in GDP while agriculture accounts for a relatively lower share).

Some economists caution that if the **service sector bypasses the industrial sector, economic growth can be distorted.** According to them service sector growth must be supported by proportionate growth of the industrial sector; otherwise, the service sector growth will not be sustainable. It is true that, in India, the service sector's contribution in GDP has sharply risen and that of industry has fallen. Phenomenal growth has been noticed in selected service sector segments like IT/ITES, telecom, banking, insurance and real estate, and civil aviation.

# 3 Features of the Indian Economy

## 3.1 Low per capita income

India is known in the world as a country with low per capita income. India's per capita income at **constant prices for the year 2021-2022 is estimated at Rs 91,481**. At current prices, the per capita income rose by 18.3 per cent to Rs 1.5 lakh during in 2021-22 fiscal. **If we compare India's per capita income with other countries** of the world then it can be seen that **India is well behind many of them**. For example, the per capita income of USA is 20 times more that of India while China's per capita income is more than four times of India.

## 3.2 Heavy population pressure

India is **world's second largest populated country** after China. As per 2011 census India's population stands at more than 121 crores. The main cause of **fast rise in India's population** is the **sharp decline in death rate** while the **birth rate has not decreased as fast. Low death rate is not a problem**. In fact, it is a sign of development. Low death rate reflects better public health system. But **high birth rate is a problem** because it directly pushes the growth of population. **After 1921, India's population increased very fast** because **birth rate declined very slowly while death rate declined very fast.** From 49 in 1921 the birth rate declined **to 17.163 in 2022** while during the same time period, death rate declined from 49 to 7.3. Hence the population growth was very rapid in India.

## 3.3 Dependence on Agriculture

**Majority of India's working population depend on agricultural activities** to pursue their livelihood. In **2011** about **58 percent of India's working population** was **engaged in agriculture**. In spite of this, the **contribution of agriculture to India's gross domestic product is a little over 18 percent.** A major concern of agriculture in India is that **productivity** in this sector is **very less**. There are many reasons for this. There is **heavy population pressure** on land to sustain huge number. Due to population pressure on land the **per capita availability of land area is very low** and not viable for extracting higher output. Two, since per capita land availability is less, a **majority of people are forced to become agricultural labour** working at low wages. Three, Indian agriculture suffers from **lack of better technology and irrigation facilities**. Four, mostly people, who are **not educated or not trained properly, are engaged in agriculture**. So, it adds to low productivity in agriculture.

**Concept Check**

**Q. With reference to Indian economy, the term jobless growth refers to**

(a) increasing GDP coupled with high unemployment.
(b) high inflation rate pushing up the rate of unemployment.
(c) declining GDP coupled with high unemployment.
(d) high inflation pushing down the rate of unemployment.
(e) none of the above

**Answer: A**

## 3.4 Poverty and inequality

Another very disheartening thing about India is that **it has world's largest number of poor people**. **Poverty** goes with **inequality in income and wealth distribution**. Another issue **linked to poverty** is the **problem of unemployment.** As per the fourth Annual Report being brought out by NSO in June 2022 on the basis of Periodic Labour Force Survey conducted during July 2020-June 2021, the unemployment rate in the country is 4.2%

### 3.5 Higher rate of capital formation or investment

At the time of **independence**, one of the major problems of Indian economy was **deficiency in capital stock** in the form of **land and building, machinery and equipment, saving** etc. In order to **continue the cycle of economic activities** such as **production and consumption**, a **certain ratio of production** must go towards **saving and investment**. However, the **required ratio was never generated in the first four to five decades after independence**. The simple reason being **higher consumption** of necessary items by the population of whom most happened to be poor and lower middle-income class. **Collective household saving was very less** due to this. **Consumption of durable items** was also **very less**. But in recent years things have charged. Economists have calculated that in order to **support the growing population, India requires 14 percent of its GDP to be invested**. As per the Economic Survey 2021 -22, Government's policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending has increased **capital formation** in the economy lifting the **investment to GDP ratio to about 29.6 per cent in 2021-22**, the highest in seven years. This is possible because people are now able to **save in banks, consume durable goods** and there has been **large scale investment** taking place on **public utilities and infrastructure.**

**KEY DEFINITION**
**Capital Formation:** The creation of productive assets that expand an economy's capacity to produce goods and services. Private savings facilitates capital formation by allowing resources to be diverted to corporate investment rather than individual consumption.

### 3.6 Planned economy

India is a planned economy. Its development process has been continuing through five-year plan since the **first plan period during 1951-56**. The advantage of planning is very well known. Through planning the **country sets its priorities** first and provides the **financial estimates** to achieve the same. Accordingly, efforts are made to **mobilise resources from various sources** at least cost. **After every plan a review is made** analysing the achievements and short falls. Accordingly, **things are rectified** in the next plan. Today India is a **growing economy** and recognised everywhere as a **future economic power**. The **per capita income of India is growing** at a higher rate than before. India is seen as a **big market** for various products. All these are **possible due to planning** in India.

## 4 Concerns facing the Indian Economy

The major concerns, facing the Indian economy, are as under:

### 4.1 Achieving and Sustaining Higher Growth

Though India can boast of having one of the **highest growth rates in the world**, we should not forget that our **population** is also **growing** and we are set to become the most populous country in coming years. This **curtails the per capita GDP growth rate** to miserable levels. India needs a **much higher growth to take care of its growing population.**

The challenge facing the Indian economy is to **revive and sustain the investment cycle**. In recent years, India is facing a **balance-sheet slowdown** and it seems imperative to consider the case for **reviving public investment** as one of the key engines of growth going forward, not to replace private investment but to revive and complement it.

The **sustainability of growth** is likely to be affected not only by **global economic scenario** but also by the **concerns relating to ecology**.

**Concept Check**
**Q. Which one of the following is the correct sequence in the decreasing order of contribution of different sectors to the Gross Domestic Product of India?**
(a) Services - Industry - Agriculture
(b) Services - Agriculture - Industry

(c) Industry - Services - Agriculture
(d) Industry - Agriculture – Services
(e) None of the above
**Answer: A**

### 4.2 Expanding the Process of Economic Reforms

**Economic reforms are crucial for sustainable growth and development**. Though **passing of GST** by the parliament and its implementation from July 1, 2017 is considered to be a great achievement, crucial reforms in the areas of **land procurement, taxes, labour, foreign investment and energy are pending.**

### 4.3 Improving the Infrastructure

**Infrastructure** sector is a **key driver for the Indian economy**. Lack of infrastructure and its poor quality, be it power generation or distribution facilities, roads, ports, railways, airports, irrigation facilities, access to telecom infrastructure or even basic housing and sanitation infrastructure has long affected the Indian economy.

It is estimated that **inadequate infrastructure** acts as a major **barrier to FDI**, hinders the objective of **inclusive development**, and retards **GDP growth** by about 2 per cent.

### 4.4 Issues like Human Development, Financial Literacy etc.

The **demographic factors** in India provide both **opportunities and challenges** for the economy. It is estimated that the **working age population** in India will become about **64% coming years** with the average of about **29 years.**

Improving the quality of **education** is necessary to provide education, **skill** and employment to all for which higher investment is required. A major gap exists in **quality and availability of teachers**, both in rural and urban areas, for which a massive effort and investment is needed. Providing **entrepreneurial opportunities** to the youth of the country is also crucial to achieve the aim of maximum employment. The government has taken several steps to **encourage and facilitate 'start-ups'** in the country to provide opportunities for fulfilling the aspirations of the youth.

Another issue facing the Indian economy is that of **financial inclusion**. A large section of the population remains secluded from the financial mainstream of the economy despite relentless efforts of RBI and the government over the last fifteen years. This has proved to be an avoidable hurdle in expediting the economic development, and eliminating poverty and inequality.

**Concept Check**
**Q. Human capital formation as a concept is better explained in terms of a process which enables**
(a) individuals of a country to accumulate more capital.
(b) increasing the knowledge, skill levels and capacities of the people of the country.
(c) accumulation of tangible wealth.
(d) accumulation of intangible wealth.
(e) none of the above
**Answer: B**

## 5 Underdevelopment

### 5.1 Characteristics of Underdevelopment

#### 5.1.1 Low Per Capita Income

**Low per capita (that is, per head) income** is a major feature of under-development. The difference or gap in this respect is often shocking. India's per capita income at **constant prices for the year 2021-2022 is**

**estimated at Rs 91,481** which is much lower than the per capita income in USA. It is per capita income that is relevant, not so much the National Income.

### 5.1.2 Inadequacy of Natural Resources

One major characteristic of underdevelopment may be **paucity of natural resources**. Several developed countries, like the USA or Canada have been blessed with an abundance of natural resources that has certainly aided their development process. But this is not a binding constraint to economic development like Britain and Japan are developed even without adequate natural resources, over-abundance of Human Resources Deficient in Nutrition, Education and Skill.

### 5.1.3 Predominance of Primary Sector

**Primary Activities** like agriculture, animal husbandry, fishing and foraging in the forests **predominate** in underdeveloped countries. Secondary Activities like industrial manufacturing, mining, and metallurgy are relatively less important. The Occupational Structure of the work force is thus biased towards the Primary Sector. In India about 58% of the labour force is engaged in agriculture while in the U.S.A., only 1%.

### 5.1.4 Population Pressure

Underdevelopment is usually accompanied by the **pressure of a vast and growing population**. The birth rate in less developed countries is high and the control of the death rate through better medical facilities only increases the rate of growth of population.

### 5.1.5 Chronic Unemployment

**Unemployment is a chronic malady** of underdeveloped countries. Because the **secondary activities do not grow fast enough**, the fast-growing population becomes an increasing burden upon both rural and urban areas. In urban areas the unemployment in Open and even White collared. In rural areas, it takes the form of **disguised unemployment** as well as.

### 5.1.6 Malnutrition and Illiteracy

The population of under–and-less developed countries are usually **under-nourished, rickety and even marked by deformities.** Literacy is low and skill-formation inadequate.

### 5.1.7 Low Urbanization

Urbanization usually goes hand in hand with economic development, though it need not always be so. In most of the under-and-less developed countries, **urban development is low**. Rural, that is, village areas pre-dominate. Industrial activities, infrastructure (roads, railways, energy), educational and medical facilities are inadequate.

### 5.1.8 Low Savings and Capital Formation

**Because of low per capita income and traditional ways of spending** (such as on weddings, funerals, and ritualistic worship), the **saving habit is lacking**, and **capital gets formed only very slowly**. Capital being the mainspring of economic growth, this slows down the overall rate of economic growth. In 1950-51, India's Gross Domestic Saving as percentage of GDP at Market Prices was 8.9 and Gross Domestic Capital Formation was 8.7. As per the Economic Survey 2021-22, Government's policy thrust on quickening virtuous cycle of growth via capex and infrastructure spending has increased **capital formation** in the economy lifting the **investment to GDP ratio to about 29.6 per cent in 2021-22**, the highest in seven years.

### 5.1.9 Poverty, Inequality, Lack of Food Security

**Lack of economic development keeps the masses in poverty, inequality and insecurity about the availability of food**.

Inequality of income as well as income-yielding assets (land, capital) are also blatantly unequal in under and-less developed countries.

### 5.1.10 Low Development of Market and Monetization

**Underdeveloped and less developed countries lag behind the developed ones in the use of money and the functioning of markets**. Economic development is bound up with the use of Money as a medium of exchange as well as a measure, standard and store of value. As markets develop, and feudalistic life changes to capitalistic, the country becomes increasingly monetized. Buying and selling of shares and bonds as well as of commodities and services develop. The Share Market and the Stock Exchange become developed. In underdeveloped or less developed countries the above processes are at a rudimentary level.

### 5.1.11 Inadequate and Inefficient Institutions and Agencies

The economic development of a country depends crucially on its institutions and agencies. Indian economic development too has taken place under the guidance of the Planning Commission which, from 1952, has been making Five Year Plans that are comprehensive yet only indicative. The central bank, the commercial banks and other credit and agencies also play an important role in the economic life of a country. In underdeveloped or less developed countries these **institutions and agencies are also underdeveloped.**

### 5.1.12 Political Instability, Social Rigidity, Lack of Dynamism, Self-Esteem and Freedom

Underdeveloped and less developed countries are usually torn by **political uncertainty, social divisiveness, old-fashioned attitudes and diffident outlook**. The India of 1757- 1947, for example, was characterized by colonial domination, the caste system and the joint family system, and belief in the philosophy of Karma. Slowly but surely these systems and attitudes are changing in course of the developmental process. A developed country ultimately has to be a country "Where the mind is without fear and the head is held up high" (Rabindranath Tagore).

### 5.1.13 The Vicious Circle of Poverty

Another important characteristic of underdevelopment is the **Vicious Circle of Poverty** that underdeveloped or less developed countries get caught in. Having **low national income, it has little ability or incentive to save**. **Low saving leads to low investment and low capital formation**. These lead to **low level of productivity per worker**. **Low productivity leads to low-income generation. Low national income thus perpetuates itself**.

# 6 Meaning of Economic Planning

**Economic planning is a process which involves the following steps:**

1. **Preparing a list of the problems facing the economy.**
2. **Rearranging the list on the basis of priority.** The top priority issue which needs to be addressed immediately should be placed at number one and so on.
3. The next step is to identify the **problems** which are to be **solved in the immediate short run** and the other **problems** which are to be **addressed over the long period.**
4. **Fixing a target to achieve the desired goal.**
5. **Estimating the amount of resources needed for achieving the target.** Resources include financial resource, human resource, physical resource etc.
6. **Mobilizing the resources is another important task.** This means that the planners must know the sources of arranging the required resources. For example, in case of **financing the plan**, the planners must make the **budget** and spell out the different sources of finding. Use of the **human resource** is another important task to execute the plan proposal. The planner must estimate the **type of manpower and the number** of persons required to carry out the task.
7. **Once the resources are arranged, implementation and execution process start** in an organised manner to achieve the desired goal. To make sure that everything is running smoothly and to **rectify mistakes** if any or to modify the style of working to accommodate any change, **periodic review** must be done till the **final achievement** is realized.

# 7 Types of Economic Planning

## 7.1 Democratic Planning

- Democratic Planning implies a system of economic order in which the **authority that vests in the state is based on the support of common masses.**
- In democratic planning, the **state does not control all the means of production** and **does not regulate economic operations of the private economy directly.**
- In democratic planning, the **plan is fully debated in the Parliament, state legislature and in the private forums.**

## 7.2 Totalitarian (Authoritarian) Planning

- When planning is adopted **under a dictatorship**, it is called totalitarian planning.
- Under this planning, **state fully controls the economic affairs, productive resources and economic decisions.**
- The **state is the final authority** in **allocating the productive resources** and it determines in accordance with the **directions of the central authority.**
- The **profits or production** instead of being pocketed by the private capitalists **go to the state** for **ameliorating the problems of the poor** lots in the country.
- Totalitarian planning shows the complete socialization of entire national economy. Under such planning, plans are formulated, controlled, financed and executed by the state and people have to do nothing in it.

### 7.2.1 Democratic planning Vs Totalitarian Planning

- Regarding choice between democratic and totalitarian planning, some regard **democratic planning** as better because it gives **complete freedom to consumers and producers**.
- But **democratic planning accelerates the pace of economic development slowly.**
- Others regard **democratic planning** as **imaginary** since the **interference by the government** is **indispensable**.
- On the other hand, under **totalitarian planning**, there are **big sacrifices by the public**. But the **pace of economic development is very fast**.

## 7.3 Centralized Planning

- The **framing, adopting, executing, supervising and controlling** the plan is done by **central planning authority.**
- **Planning authority determines targets and priorities**. It is the duty of the planning authority to bring harmony in the planning process.
- This type of planning comes from the **top to the bottom**. This plan determines the equality and cohesion. The central planning authority **determines the basic policies** in view of the regional and local needs.
- Scholars criticized centralized planning as it is **not democratic in nature and character**. The complete process of planning is regulated and controlled by authority.
- This planning is **inflexible** due to which it has **less adaptability**. There is **no economic freedom at all**. Further, the disequilibrium arising on account of centralized planning cannot be easily corrected.

## 7.4 Decentralized Planning

- Under this planning, **responsibility lies with local and regional officials** who take economic decisions about the plan. In other words, this **planning starts from the grass roots.**
- In other words, this type of planning is from **bottom to top**. Under this, plan is framed by the central planning authority by **consulting different administrative units** of the country.
- The plan incorporates plans under **central, state and local schemes**. Also plans are prepared for **different industries** too. But **individual firms are free to take their own decisions** about investment

and output. **Prices are determined by market mechanism** even though there are government controls.

- There is **complete economic freedom** in consumption, production and exchange.
- The main defect of decentralized planning is that there is **no uniformity and coordination** among different sectors of the economy. This plan has been adopted in England and France.

### 7.4.1 Centralized Vs Decentralized Planning

- **Decentralized** planning is **superior to centralized** planning.
- It provides **economic freedom and flexibility** in the economy.
- But **dependence on market mechanism in decentralized planning** results into **shortages or surpluses** in the production of goods and services. The **adjustment** can be made only through **government**. If there are **shortages** of goods, it will lead to **inflationary pressures**.
- Again, **decentralized planning** provides **economic freedom and incentives** to the market economy while **centralized** planning provides **cohesiveness** to the economy.

## 7.5 Functional Planning

- Under functional planning, there is **no need to build up new structure**, rather the **existing structure is corrected and modified.**
- According to Zweig in his "The Planning of Free Societies' has stated "Functional planning **will only repair, not build a new**, it **will improve** the wave of the existing order, but **not supersede** it.
- It is a **conservative**, or rather **evolutionary** type of planning which will **not over turn the existing structure** and moves only within its narrow border".
- Thus, functional planning brings **no change in the economic and social set up**.

## 7.6 Structural Planning

- In this type of planning the **present social and economic structure is changed** and a new structure emerges.
- In the developing countries, there is a structure planning. **Big economic and social changes** are brought about to usher into a new system.
- For instance, **shift from capitalist to socialist economy can** be called a structural change. Structural planning can help in **accelerating the pace of economic development**. The Communist countries like Russia and China followed structural planning.

### 7.6.1 Structural Vs Functional Planning

Indian planning is both structural and functional because under public sector, a new economic structure is built up whereas under private sector, the existing structure is modified. There is not much difference in structural and functional planning. After sometimes structural planning turns into functional planning.

## 7.7 Perspective Planning

- Perspective planning is a **long run planning** where **targets are fixed for long periods**, for example **20 to 25 years.**
- But a perspective plan cannot mean one plan for the complete period. In a true sense, **broader objectives are to be achieved in a fixed period** by dividing the perspective plan into **short-run plans of 4 to 6 years.**
- The long-run objectives are so divided into short- run that one by one all the objectives are achieved in the long-run. In other words, **short run plans pave way for the achievement of long run motives.**
- The perspective plan has so many administrative difficulties due to which the fulfillment of the objectives becomes difficult.

## 7.8 Annual Planning or Prospective Planning

- Annual Planning or **short-term planning** refers to **4 to 6 years plans** which are further **divided into annual plans** so that each **annual plan may fit in short-run plan** and **each short-run plan may ultimately fit in the long-run plan.**
- Plans are further divided into **regional and sectional plans**. Regional plans are linked with regions, district and localities which are further divided into sectional plans for agriculture, industry, transport, foreign trade etc.
- The sectional plans are again divided for different branches like iron and steel, food-grains, exports etc.

## 7.9 Indicative Planning

- Indicative plan is **not imperative but flexible**.
- Indicative planning is **peculiar to the mixed economy of France**. But this is quite different from the type of planning which exists in other mixed economies.
- By mixed economy, we mean simultaneous working of public and private sector. It is the state which controlled the private sector in different ways, i.e., by quotas, price, licenses, etc.
- But under indicative planning, the **private sector is not rigidly controlled to achieve the targets and priorities of the plan.**
- The **state gives full assistance to private sector but does not control it**. It, rather, directs the private sector in certain areas to implement the plan.
- This plan was **used in France from 1947-50 as Monnet Plan**. France's experience shows that the firms do not play the game when development programme does not coincide with profit expectations.
- Generally **monopolistic firms do not bother about government policies** and use their power for personal benefit. Same way **under inflationary pressures**, the **government resorts to direct controls** rather than maintaining prices mechanism through monetary and fiscal policies.

## 7.10 Imperative Planning

- It refers to that where **all economic activities and resources** of the country operate under the **direction of the state**. The resources are optimally used by the state in order to achieve the targets of the plan. **Consumer's sovereignty is sacrificed** under this type of planning.
- The **consumers get fixed quantities at fixed prices**. The government **policies are rigid** which cannot be changed easily. Any change can adversely affect the economy.
- In reality, such type of planning does not exist.

## 7.11 Rolling Planning

- Rolling plan was advocated by **Prof. Myrdal** for the development of **developing countries**. **India** experienced it for the first time in **April 1978 under Janata Party rule and continued up to April 1980**.
- In the rolling plan, <u>every year, **three new plans** are made</u>:
  - There is a **plan for the current year** which includes annual budget and the foreign exchange budget.
  - There is a **plan for number of years for example 3 to 5**. It is changed every year keeping in view the needs of the economy.
  - A **perspective plan for 10 to 20 years** or more is presented where broader goals are stated. The annual plan is fitted into same year's new 3 to 5 years plan and both are framed in the light of perspective plan.
- Rolling plan is framed with a **view to remove rigidities**. It considers the **unforeseen changes** like natural calamities or economic changes. Under this plan financial allocation and physical targets are revised.
- In this way, the rolling plan gives the **benefits of both perspective and flexible planning**.

- But under rolling plan, **long-term objectives cannot be achieved since the targets are revised every year.** Such changes cannot maintain proper balances in the economy so as to achieve balanced development.

### 7.12 Fixed Planning

- Fixed planning is for some **fixed period, say four or five or six or seven years**. A fixed plan fixes definite objective which has to be achieved during the plan period.
- **Physical targets and financial outlays do not change** except under emergencies. Under this plan, targets are achieved which are laid down in the plan.
- This plan helps in **maintaining proper balance in the economy**.
- Further, there is **no uncertainty in this type of planning.**
- Fixed plan, with given objectives, **ensures public cooperation**. This type of planning **needs political will for its successful implementation.**

## 8 Economic Planning in India before Independence

### 8.1 Economic Study by Dadabhai Naoroji

- The **first authentic economic study** of British India was published by **Dadabhai Naraoji** in his book **'Poverty and the Unbritish Rule in India'.**
- Dadabhai Naoroji's work focused on **the drain of wealth from India into England** through colonial rule.
- One of the reasons that the Drain theory is attributed to Naoroji is his decision to estimate the net national profit of India, and by extension, the effect that colonization has on the country.
- In **Naoroji's book 'Poverty of India'** he estimated a 200–300 million pounds loss of revenue to Britain that is not returned.
- Through his work with economics, Naoroji sought to prove that Britain was draining money out of India.

### 8.2 Royal Commission on Indian Expenditure (1896)

**Naoroji's work on the drain theory was the main reason behind the creation of the Royal commission on Indian Expenditure** in 1896 in which he was also a member. This commission reviewed financial burdens on India and in some cases came to the conclusion that those burdens were misplaced.

### 8.3 Emergence of the Idea of Planned Economy in India

- First of all, the **idea of planned economy was crystallized in 1930s** when our national leaders came under the influence of socialist philosophy. India's Five-year plans were very much impressed by the **rapid strides achieved by the USSR through five years plans.**
- In **1934, Sir M. Visvesvaraya** had published a book titled **"Planned Economy in India"**, in which he presented a **constructive draft of the development of India in next ten years**. His core idea was to lay out a plan to **shift labour from agriculture to industries** and **double up National income in ten years**. This was the first concrete scholarly work towards planning.
- The economic perspective of India's freedom movement was formulated during the thirties between the **1931 Karachi session of Indian National Congress, 1936 Faizpur session of India National Congress.**
- **National Planning Committee**: The first attempt to develop a national plan for India came up in **1938**. In that year, **Congress President Subhash Chandra Bose** had set up a **National Planning Committee** with **Jawaharlal Nehru as its president**. However, the reports of the committee could not be prepared and only for the first time in 1948 -49 some papers came out.

There were various plans that were put forth for economic development of India.

### 8.4 Bombay Plan

In 1944 Eight Industrialists of Bombay viz. **Mr. JRD Tata, GD Birla, Purshottamdas Thakurdas, Lala Shriram, Kasturbhai Lalbhai, AD Shroff, Ardeshir Dalal, & John Mathai** working together prepared "A Brief Memorandum Outlining a Plan of Economic Development for India". This is known as **"Bombay Plan"**. This plan envisaged **doubling the per capita income in 15 years** and **tripling the national income** during this period. Nehru did not officially accept the plan, yet many of the ideas of the plan were inculcated in other plans which came later.

### 8.5 People's Plan

People's plan was **drafted by MN Roy**. This plan was for **ten years** period and **gave greatest priority to Agriculture**. Nationalization of all agriculture and production was the main feature of this plan. This plan was based on **Marxist socialism** and **drafted by M N Roy** on behalf of the **Indian Federation of Lahore**.

### 8.6 Gandhian Plan

This plan was drafted by **Sriman Nayaran**, principal of **Wardha Commerce College**. It emphasized the **economic decentralization** with primacy to **rural development** by developing the cottage industries.

### 8.7 Sarvodaya Plan

Sarvodaya Plan (1950) was drafted by **Jaiprakash Narayan**. This plan itself was **inspired by Gandhian Plan and Sarvodaya Idea of Vinoba Bhave**. This plan emphasized on **agriculture and small & cottage industries**. It also suggested the **freedom from foreign technology** and stressed upon **land reforms** and **decentralized participatory planning**.

## 9 Economic Planning in India after Independence

### 9.1 Planning Commission – Its Origin:

- Immediately 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**, this committee **recommended** forming of a **planning commission**.
- In **March 1950**, the **Planning Commission** was set up by a **Resolution of the Government of India** as an **advisory and specialized institution**.

(**Planning Commission in India has been replaced by the NITI Aayog from 1st January, 2015.** It has been explained in detail in the last section of this document)

### 9.2 Objectives of Planning in India

The **various objectives of economic planning** in India are drawn keeping in view its socio-economic problems. Accordingly, the objectives as follows:

#### 9.2.1 Economic Growth

It refers to **increase in the country's capacity to produce the output of goods and services** within the country. The objective of achieving economic growth implies that the **real national income and per capita income must grow every year at a targeted rate.**

**Real national income** is the measure of national income at a given years price or at a constant price. **Real per capita income** is the average income of individuals in the economy.

#### 9.2.2 Increase in Employment

Employment refers to **engagement of the labour force in gainful economic activity** such as production of goods and services. **Income is generated through the production process** where the **production process involves employment of factors of production provided by the households**.

### 9.2.3 Reduction in Inequality of Income

India is a country with **diverse economic standard of its population**. This means that in terms of income level, India lacks uniformity. A **large section** of India's population belongs to **lower income group** and termed as **poor** whereas a **few** are **very rich** with **very high level of income**.

One of the major reasons of inequality in income is the **unequal distribution of asset holding** such as **per capita land holding**, possession **movable and immovable property** from inheritance etc.

### 9.2.4 Reduction in Poverty

Another major objective of planning in India is "reduction in poverty". **At the time of independence more than fifty percent of India's population was poor.** The poverty has been gradually declining over the period of time.

### 9.2.5 Modernization of the Economy

**British** left the country in **dire poverty** and **underdevelopment** when they handed over power to Indian government in 1947. Because of the historical reasons Indian economy could not rise from its traditional level of functioning. It remained an **agrarian economy** and **industrially backward**. There was **no development in new technology and technological upgradation**. **Lack of modern technology** is a major reason for Indian economy to suffer from **low productivity in agriculture** and **lack of industrial development**.

### 9.2.6 Ensuring Social Justice and Equality

Indian planning also aimed at achieving a **socialistic pattern of society**. It can be achieved by ensuring its population **social justice and equity**. In fact, all the objectives said above are necessary to achieve social justice. But the sufficient condition for sustaining social justice and equitable distribution of income is to **introduce reforms in various sectors by changing the age-old systems which have perpetuated poverty and inequality** and **obstructed development of industrial and service sector** or **caused low productivity in agriculture**. So, the planners thought to introduce reforms in agriculture and economic policy so that they facilitate growth and equitable distribution of the benefits of development.

## 9.3 Five Year Plans in India: An Overview

- The **idea of Five-year planning** was taken from the erstwhile **Soviet Union** under **socialist influence** of **first Prime Minister Jawaharlal Nehru.**
- The **first Five-year Plan** was **launched in 1951** and two subsequent five-year plans were formulated till 1965, when there was a break because of the Indo-Pakistan Conflict.
- Two successive years of **drought**, **devaluation** of the currency, a general **rise in prices** and erosion of resources disrupted the planning process and after **three Annual Plans between 1966 and 1969**, the **fourth Five-year plan was started in 1969.**
- The **Eighth Plan could not take off in 1990** due to the fast-changing political situation at the Centre and the years **1990-91 and 1991-92** were treated as **Annual Plans.**
- The **Eighth Plan** was finally launched in **1992** after the initiation of structural adjustment policies.
- For the **first eight Plans** the **emphasis** was on a **growing public sector** with massive **investments in basic and heavy industries**, but since the launch of the **Ninth Plan in 1997**, the emphasis on the **public sector has become less pronounced** and the current thinking on planning in the country, in general, is that it should increasingly be of an **indicative nature**.

## 9.4 Features of 5-Year Plans in India

| Plan | Objective/Features | Assessment |
|---|---|---|
| First Five year Plan (1951- 56) | Rehabilitation of refugees, rapid agricultural development to achieve food self-sufficiency in the shortest possible time and control of inflation. | Targets and objectives more or less achieved. With active role of state in all economic sectors.Five Indian Institutes of Technology (IITs) were started as major technical institutions. |
| Second Five year Plan (1956-61) | Nehru-Mahalanobis model was adopted.'Rapid industrialisation with particular emphasis on the development of basic and heavy industries'Industrial Policy of 1956 accepted the establishment of a socialistic pattern of society as the goal of economic policy. | Could not be implemented fully due to shortage of foreign exchange. Targets had to be pruned. Yet, Hydroelectric power projects and five steel mills at Bhilai, Durgapur, and Rourkela were established. |
| Third Five year Plan (1961-66) | 'establishment of a self-reliant and self-generating economy' | Failure. Wars and droughts. Yet, Panchayat elections were started.• State electricity boards and state secondary education boards were formed. |
| Annual Plan ( 1966-69) | crisis in agriculture and serious food shortage required attention | A new agricultural strategy was implemented. It involved distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation measures. |
| Fourth Five year Plan (1969-74) | 'growth with stability' and progressive achievement of self-reliance'Garibi HataoTarget: 5.5 pc | Was ambitious. Big failure. Achieved growth of 3.5 percent but was marred by Inflation.The Indira Gandhi government nationalized 14 major Indian banks and the Green Revolution in India advanced agriculture. |

| | | |
|---|---|---|
| Fifth Five year Plan (1974-79) | 'removal of poverty and attainment of self-reliance' | High inflation. Was terminated by the Janta govt. Yet, the Indian national highway system was introduced for the first time. |
| Sixth Five year Plan(1980-85) | 'direct attack on the problem of poverty by creating conditions of an expanding economy' | Most targets achieved. Growth: 5.5 pc.Family planning was also expanded in order to prevent overpopulation. |
| Seventh Five year Plan (1985-1990) | Emphasis on policies and programmes that would accelerate the growth in foodgrains production, increase employment opportunities and raise productivity | With growth rate of 6 pc, this plan was proved successful in spite of severe drought conditions for first three years consecutively. This plan introduced programs like Jawahar Rozgar Yojana. |
| Annual Plans (1989-91) | No plan due to political uncertainities | It was the beginning of privatization and liberalization in India. |
| Eighth Five year Plan (1992-97) | Rapid economic growth, high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. to undertake an annual average growth of 5.6% | Partly success.An average annual growth rate of 6.78% against the target 5.6% was achieved. |
| Ninth Five year Plan (1997-2002) | Quality of life, generation of productive employment, regional balance and self-reliance.Growth with social justice and equality. growth target 6.5% | It achieved a GDP growth rate of 5.4%, lower than target. Yet, industrial growth was 4.5% which was higher than targeted 3%. The service industry had a growth rate of 7.8%. An average annual growth rate of 6.7% was reached. |

| | | |
|---|---|---|
| Tenth Five year Plan (2002 – 2007) | To achieve 8% GDP growth rate,Reduction of poverty by 5 points and increase the literacy rate in the country. | It was successful in reducing poverty ratio by 5%, increasing forest cover to 25%, increasing literacy rates to 75 % and the economic growth of the country over 8%. |
| Eleventh Five year Plan(2007 – 2012) | Rapid and inclusive growth.Empowerment through education and skill development. Reduction of gender inequality.Environmental sustainability.<br>To increase the growth rate in agriculture,industry and services to 4%,10% and 9% resp.Provide clean drinking water for all by 2009. | India has recorded an average annual economic growth rate of 8%, farm sector grew at an average rate of 3.7% as against 4% targeted. Industry grew with annual average growth of 7.2% against 10% targeted. |
| **Twelfth Five year Plan(2012-2017)** | "**faster, sustainable and more inclusive growth**".proposes a growth target of 8 percent.Raising agriculture output to 4 per cent.Manufacturing sector growth to 10 %<br>Target of adding over 88,000 MW of power generation capacity. | |

**Concept Check**
**Q. Which of the following Five year Plans laid emphasis on the development of basic and heavy industries for the first time in India?**
(a) First Five Year Plan
(b) Second Five Year Plan
(c) Third Five Year Plan
(d) Fourth Five Year Plan
(e) Fifth Five Year Plan
**Answer: B**

# 10 Economic Reforms in India

In 1991, India met with an economic crisis relating to its external debt — the **government was not able to make repayments on its borrowings from abroad**; **foreign exchange reserves**, which we generally maintain to import petrol and other important items, **dropped** to levels that were not sufficient for even a fortnight. The crisis was further compounded by **rising prices of essential goods**. All these led the government to introduce a new set of policy measures which changed the direction of our developmental strategies.

## 10.1 Background

The **origin of the financial crisis** can be traced from the **inefficient management of the Indian economy in the 1980s**. We know that for implementing various policies and its general administration, the government generates funds from various sources such as taxation, running of public sector enterprises etc. When expenditure is more than income, the government borrows to finance the deficit from banks and also from people within the country and from international financial institutions. When we import goods like petroleum, we pay in dollars which we earn from our exports.

**Development** policies required that even though the revenues were very low, the **government had to overshoot its revenue** to meet challenges like **unemployment, poverty and population explosion**. The continued spending on development programmes of the government **did not generate additional revenue.** Moreover, the government was **not able to generate sufficiently** from internal sources such as taxation. When the government was spending a **large share of its income on areas** which **do not provide immediate returns** such as the social sector and defence, there was a need to utilise the rest of its revenue in a highly efficient manner. The **income from public sector undertakings was also not very high** to meet the growing expenditure. At times, our **foreign exchange**, borrowed from other countries and international financial institutions, was **spent on meeting consumption needs**. Neither was an attempt made to reduce such profligate spending nor sufficient attention was given to boost exports to pay for the growing imports.

In the late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable. **Prices** of many **essential goods rose sharply**. **Imports grew at a very high rate** without matching growth of exports. As pointed out earlier, **foreign exchange reserves declined** to a level that was not adequate to finance imports for more than two weeks. There was also **not sufficient foreign exchange to pay the interest** that needs to be paid to international lenders. Also, **no country or international funder was willing to lend to India**.

India approached the **International Bank for Reconstruction and Development (IBRD)**, popularly known as **World Bank** and the **International Monetary Fund (IMF),** and received $7 billion as loan to manage the crisis. For availing the loan, these international agencies expected India to **liberalise and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries**.

**India agreed to the conditionalities of World Bank and IMF** and announced the **New Economic Policy (NEP)**. The NEP consisted of wide-ranging economic reforms. The thrust of the policies was towards creating a **more competitive environment** in the economy and **removing the barriers to entry and growth of firms**. This set of policies can broadly be classified into two groups: the stabilisation measures and the structural reform measures.

**Key Definition**

**Deficit Financing:** Means generating funds to finance the deficit which results from excess of expenditure over revenue.

**New Economic Policy:** A term used to describe the policies adopted in India since 1991.

**Import Cover:** It measures the number of months of imports that can be covered with foreign exchange reserves available with the central bank of the country. Eight to ten months of import cover is essential for the stability of a currency.

## 10.2 Stabilisation Measures

Stabilisation measures are **short-term measures**, intended to **correct** some of the **weaknesses** that have developed in the **balance of payments** and to bring **inflation under control**. In simple words, this means that there was a need to **maintain sufficient foreign exchange** reserves and **keep the rising prices under control**.

## 10.3 Structural Reform Measures

On the other hand, structural reform policies are **long-term measures**, aimed at **improving** the **efficiency** of the economy and **increasing** its **international competitiveness** by removing the rigidities in various segments of the Indian economy. The government initiated a variety of policies which fall under three heads viz., **liberalisation, privatisation and globalisation**.

## 10.4 Liberalisation

Liberalisation means to **unshackle the economy from bureaucratic cobweb to make it more competitive.**

**Following are its chief features:**

- To **do away with the necessity of having a license** for most of the industries
  - Industrial licensing was abolished for almost all but product categories — alcohol, cigarettes, hazardous chemicals, industrial explosives, electronics, aerospace and drugs and pharmaceuticals.
- **Freedom** in determining the **scale of business** activities
  - Many goods produced by small-scale industries have now been de-reserved.
- **Removing restrictions** for the **movement of goods and services** from one place to another
- **Freedom to fix the prices** of goods and services
  - In many industries, the **market** has been **allowed to determine the prices**.
- **Reduction** in the **rate of taxes**
  - Since 1991, there has been a **continuous reduction in the taxes on individual incomes** as it was felt that high rates of income tax were an important reason for tax evasion. It is now widely accepted that **moderate rates of income tax encourage savings and voluntary disclosure of income**.
  - The **rate of corporation tax**, which was very high earlier, has been **gradually reduced**.
- **Freedom** from **unnecessary control** over economy
- **Simplifying import-export procedure**
  - In order to protect domestic industries, India was following a regime of quantitative restrictions on imports. This was encouraged through tight control over imports and by keeping the tariffs very high. These policies reduced efficiency and competitiveness which led to slow growth of the manufacturing sector.

    - The trade policy reforms aimed at dismantling of quantitative restrictions on imports and exports, reduction of tariff rates and, removal of licensing procedures for imports.
    - Import licensing was abolished except in case of hazardous and environmentally sensitive industries.
    - Quantitative restrictions on imports of manufactured consumer goods and agricultural products were also fully removed from April 2001.
    - Export duties have been removed to increase the competitive position of Indian goods in the international markets.
- Simplifying the process of **attracting foreign capital and technology**.

### 10.5 Privatization

- In brief, privatization means such an economic process through which **some public sector undertaking** is brought **either partially or completely under private ownership.**
- Broadly speaking, **establishing a new enterprise in private sector** instead of public sector is also privatisation. Not only this, **depriving public sector of the job of production which was earlier reserved for it** or transferring its production, without depriving it, to the private sector also amounts to privatisation.
- Privatisation of the public sector enterprises by **selling off part of the equity of PSEs to the public** is known as **disinvestment**. The purpose of the sale, according to the government, was mainly to **improve financial discipline** and facilitate **modernisation**. It was also envisaged that **private capital** and **managerial capabilities** could be effectively utilised to **improve the performance of the PSUs**. The government envisaged that privatisation could provide **strong impetus to the inflow of FDI**.
- The government has also made attempts to **improve the efficiency of PSUs** by giving them **autonomy** in taking **managerial decisions**. For instance, some PSUs have been granted **special status as maharatnas, navratnas and miniratnas.**

**Its chief features are given below:**

- Reducing the role of public sector and increasing the role of private sector
- Reducing fiscal burden of the government
- Reducing the size of the government machinery
- Speeding up economic development
- Improving management of enterprises
- Increase in government treasury
- Increasing competition by opening industries reserved for the public sector to the private sector.

| **Key Definition** |
|---|
| **Disinvestment:** A deliberate sale of a part of the capital stock of a company to raise resources and change the equity and/or management structure of a company. |

### 10.6 Globalization

**Globalization means integrating the economy with the rest of the world.**

**Following are its chief features:**

- Free flow of goods and services in all the countries
- Free flow of capital in all the countries
- Free flow of information and technology in all the countries
- Free movement of people in all the countries
- The same conflict-solving technique in all the countries.

# 11 NITI Aayog

## 11.1 Origin

- The **National Institution for Transforming India**, also called **NITI Aayog**, was formed via a resolution of the Union Cabinet on **January 1, 2015.**
- 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.
- **The Government of India, in keeping with its reform agenda, constituted the NITI Aayog to replace the Planning Commission instituted in 1950.**
- This was done 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.
- At the core of NITI Aayog's creation are two hubs – **Team India Hub and the Knowledge and Innovation Hub.**
- The **Team India Hub** leads the **engagement of states with the Central government**, while the **Knowledge and Innovation Hub** builds **NITI's think-tank capabilities**. These hubs reflect the two key tasks of the Aayog.
- NITI Aayog is also 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.

## 11.2 Composition

- **Prime Minister of India** as the **Chairperson.**
- **Governing Council** comprising the **Chief Ministers of all the States and Lt. Governors of Union Territories.**
- **Regional Councils** are formed for a specific tenure to address specific issues and contingencies impacting more than one state or a region. The Regional Councils will be convened by the Prime Minister and will comprise of the Chief Ministers of States and Lt. Governors of Union Territories in the region. These will be chaired by the Chairperson of the NITI Aayog or his nominee.
- **Experts, specialists and practitioners** with relevant domain knowledge as special invitees nominated by the Prime Minister.
- The full-time organizational framework will comprise of, in addition to the Prime Minister as the Chairperson:
  - **Vice-Chairperson:** To be appointed by the Prime Minister
  - **Members**: Full-time
  - **Part-time members**: Maximum of 2 from leading universities research organizations and other relevant institutions in an ex-officio capacity. Part time members will be on a rotational basis.
  - **Ex Officio members**: Maximum of 4 members of the Union Council of Ministers to be nominated by the Prime Minister.
  - **Chief Executive Officer**: To be appointed by the Prime Minister for a fixed tenure, in the rank of Secretary to the Government of India.
  - **Secretariat** as deemed necessary.

## 11.3 Objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.

- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long-term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

### 11.4 Functions

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

- Design Policy & Programme Framework
- Foster Cooperative Federalism
- Monitoring & Evaluation
- Think Tank and Knowledge & Innovation Hub