UNIT 15 PLANNING STRATEGIES - I

Structure

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- 15.2 Definition of Planning
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15.0 OBJECTIVES

The objectives of this lesson are to introduce you to the concept of economic planning and how this has been carried out in the Indian context. After this lesson you will understand:

how the planning process has evolved in India the objectives and strategy of Indian planning the success and failure of planning how planning affects us all.

15.1 INTRODUCTION

Before we go into the question of planning strategy, it is necessary to understand why planning in the first case was felt to be necessary. Here, we shall take up only some of the more salient points. For this, we will have to look at the structure of third world countries. These economies are heavily dependent on imports. Exports, on the other hand, comprise primarily of agricultural raw materials and minerals. This structure did not evolve naturally but was designed and manipulated by the colonial powers to suit their own ends. British and other industrially developing countries imported raw materials from the colonies under their control, processed them and exported the finished production back. Even the agrarian economies were in a shambles with a backward agrarian system supporting a large destitute population along with a large number of intermediaries (like zamindars in India). The surplus of the agricultural sector supported the colonies, British administration in different countries and also provided the bulk of exports. Given the colonial legacy, it was difficult for former colonies to transform themselves into modern economies without active state intervention. They required infrastructural and basic and heavy industries development. The private sector could not provide a strong industrial base in the areas either due to lack of resources or its unwillingness to

invert in such segments due to the risks and long gestation involved. Therefore, the political leadership of these countries realised that in the task of reconstruction of national economies, the state would have to play an active role. The absence of an entrepreneurial class which could initiate rapid industrialization led to the state having to initially assume the role of an entrepreneur.

It was of against this background that the example of the former Soviet Union's industrialization strategy by which the state initiated rapid modernisation of the Soviet economy preceded by a comprehensive planning process, the Gosplan, emerged as an alternative.

15.2 DEFINITION OF PLANNING

Planning, as a term in itself, implies formulation of a strategy for the future. It can be the immediate future or a distant one in economic parlance, it implies the assessment of one's resources at present and its allocation among different uses so as to meet some specific goals in the future. For example, an individual might plan for a secure income in his old age by allocating his income between present consumption and saving in various schemes like taking an insurance policy-buying units or simply depositing in bank. A business firm might also undertake planning to double production in, say, three years time in which case it has to decide how much resources it can raise internally, how much to borrow, what equipment to buy and so on. When a nation plans its economy, it is more or less a similar exercise, though on a much larger scale. The national economy has to assess its resources and allocate these resources among different contending uses, depending on the specific priority of each use. These resources are of three types-- physical, financial and human. The planning authority has to assess how much of these resources are available and how they are to be exploited and further developed for meeting the goals it sets for the economy. The planning authority has also to fix the time-frame by which these goals are to be met. However, planning in an underdeveloped economy also attempts to fulfill the objective of transformation of the economy from a low level of production and productivity to a higher level of self--sustained growth. This is done by planning for a more effective use of existing resources, developing resources for future use and dismantling institutional and other constraints which hamper the growth of the resource base of the economy.

Check Your Progress I

	ii)	Use the space given below for your answer. Check your answer with that given at the end of the unit.		
1)	What are the various types of resources in an economy?			
2)	Briefly	y define planning in your own words.		

- 2) Which of the following statements are true? Mark (T) for true and (F) for false.
 - Planning is a waste of time and money and, hence, it should be scrapped. ()
 - ii) Planning authorities only set out the goals an economy is to achieve and not how it is to be done. ()
 - Planning for an underdeveloped economy is necessary to overcome institutional constraints. ()

15.3 FUNCTIONS OF A PLANNING COMMISSION

The order establishing the Planning Commission could have its specific functions as follows:

To make an assessment of all material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of those resources as are found to be deficient in relation to the nation's requirement;

To formulate a plan for the most effective and balanced utilisation of the country's resources;

To define, on determination of priorities, the stages in which the plan should be carried out and propose the allocation of resources for due completion of each stage,

To indicate the factors which are tending to retard economic development, and determine the conditions which, in view. of the current social and political situation, should be established for the successful execution of the plan;

To determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the plan in all its aspects;

To appraise from time to time the progress achieved in the execution of each stage of the plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and

To make such interim or ancillary recommendations as appear to be appropriate either for facilitating the discharge of duties assigned to it; or in consideration of the prevailing economic conditions, current policies, measures and development programmes; or on examination of such specific, problems as may be referred to it by central and state governments.

Check Your Progress 2

i)

Note:

Note:	i) Use the space given below for your answer.				
	ii)	Check your answer with that given at the end of the unit.			
1)		ut five sentences describe what are the factors considered by a planning commission before of is formulated?			
	• • • • • • • • • • • • • • • • • • • •				

2)	Can a planning commission review its earlier policy?				

15.4 FORMULATION OF PLANS

The plan formulation process commences much before (3 years in case of India) the ensuing plan actually comes into operation. First, an approach to the plan is adopted for consideration. This involves an appraisal of the state of the economy, identification of social, economic and institutional weaknesses and review of trends in the rate of economic growth. The commission submits its preliminary conclusions on these and related matters to government. After considering these conclusions, the government indicates the target rate of growth to be achieved for the plan period as well as the objectives and considerations deserving special emphasis.

In choosing the targets for growth, the planning process has to ensure that intermediate inputs are adequately available, from internal and external sources, to support the targets. In case they are not, the planners have to set aside resources for investing in these intermediate inputs so as to bring about consistency with targeted outputs of the final products. Finally, the total outlay has to be within the limits set up by the availability of resources.

15.5 STRATEGY OF INDIAN PLANS

The strategy of plans is based on a number of factors. The first challenge is to modify and change the institutional factors that constrain growth and development. Among institutional factors are land relations, concentration of wealth and income on one hand and abject poverty on the other, low level of educational and technical skills, low level of work-organisations, etc. The second most important factor is the development of the capital and technological base of the country's productive system. Thirdly, the strategy has to identify measures to overcome structural bottlenecks which prevent efficient use of resources including human resources. Finally, an important aspect of the strategy is to identify thrust areas where direct state intervention through investment and production activities would lead to the economy achieving self-reliant growth.

Thus, a plan contains the action scheme for industrial and agricultural development. Also it attempts to provide employment to the manpower in the economy. These three aspects, as can be found in the Five Year Plans of India, are given below.

15.5.1 Industrial Policy

The Industrial Policy Statements in India announced from time to time broadly define the parameters of industrial policy. Following the understanding that the state had to play am important role in the industrialisation process, it was decided to reserve certain industries of basic and strategic importance, or in the nature of public utility services, for the public sector. The state has a monopolistic control in these types of industries. The broad categorisation of the industries were as follows:

- 1) Industries whose future development was the exclusive responsibility of the state;
- 2) Industries which were to be progressively state-owned, in which case the state was generally to take initiative in establishing new undertakings, and private enterprise was expected to supplement the efforts of the state; and
- 3) All other industries, whose future development was left to the initiative and enterprise of the private sector.

In addition to the state's monopoly in atomic energy, defense industries, railways and air transport, the first category included some 13 industries like iron and steel, heavy electrical, coal and lignite, mineral oils, mining of certain ores and processing of specified metals, aircraft, ship-building, specified communication equipment, and electricity generation and distribution, etc. However, already approved private units were permitted to come up and even cooperation with private enterprise was envisaged, subject to official guidance of their policies and control of their operations. The second category covered some 12 industries, viz., major minerals and non-ferrous metals not covered above, machine tools, ferro-alloys and tools, essential drugs, dye-stuffs and plastics, fertilizers, synthetic rubber, chemical pulp, and road and sea transport. With regard to all other industries, falling in the third category, the role of the state was to facilitate and encourage their development through the creation and expansion of the requisite infrastructures, and by appropriate fiscal and other measures. This categorisation was not envisaged to be water-tight; possibility of overlap between the public and private sector was explicitly recognised. There was also stress on the role of cottage, village and small scale industries. The aim here was to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and competitive through improvement and modernisation of techniques. In this connection, the starting of industrial estates and rural community workshops was envisaged.

15.5.2 Policy on Agriculture

Agriculture has a major role in the Indian economy, not only in terms of its contribution to the national economy, but also because of the large proportion of the population it supports. Though the country has made enormous progress in terms of the volume of agricultural production, its per capita consumption of food is still one of the lowest in the world.

The government, after independence, passed various legislative measures aimed at bringing about reforms in the agricultural sector. The foremost was abolition of the zamindari system, whereby, feudal intermediaries who appropriated a share of the agricultural produce because of the rights conferred on them by the British, were denied these rights. The second was land reform which aimed at ensuring tenurial rights for cultivators. Also re-distribution of land among the landless by taking away surplus lands above a ceiling from large land owners formed a pan of land reform. Another aspect of land reforms was scaling down of rents to one fourth or one-fifth of the total produce.

The food crisis in the mid-sixties and the subsequent dependence on foreign food aid prompted the government to go in for a technology-led foodgrains production strategy, leading to the by now well known Green Revolution. Some selected regions in the country, such as districts in Punjab, Haryana, U.P. and Tamil Nadu were chosen and a package of inputs consisting of high-yielding variety seeds, dosages of fertilizers and pesticides and water management was introduced in these areas. This resulted in a significant increase in food grains production. The country can now claim to be generally self-sufficient at the present levels of food consumption.

15.5.3 Employment Policy

We have observed on many occasions, able-bodied men and women appearing before us with a begging bowl pleading for some money or food. These people have no income. They have taken to begging since they have no employment opportunities. This is the more visible form of unemployment. There are millions of others who do not beg but remain idle otherwise. In the rural areas, the unemployment problem is disguised in the sense that far more people are working on the same job than is necessary. There is also a seasonality aspect to this. Labour finds employment mainly during the ploughing, planting and harvesting periods while for the rest of the year they may remain without work. In the urban areas, lack of job opportunities render many unemployed or underemployed. This problem gets compounded by migration from the rural areas. Unemployment affects the young new entrants to the labour force more severely.

In India unemployment is sought to be tackled by specific employment-oriented schemes, and by rapid industrialisation, which would directly and indirectly absorb the backlog of unemployed. in the rural areas some of the employment schemes are the Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP) and the Rural Labour Employment Guarantee Programme (RLEGP). These schemes seek to build up infrastructure in rural areas in addition to providing employment for landless labour in addition, the government offers incentives to industries to be located in backward and rural areas so that they may absorb a part of the unemployed labour force in these areas. In the urban areas, stress is on self-employment with incentives like bank loans, vocational training, etc. The employment strategy also gets linked with the industrialisation strategy. The government has sought to encourage small scale industries, and cottage industries which are labour-intensive.

Check Your Progress 3

Answer in 50 words only.

Note:	i) ii)	Use the space given below for your answer. Check your answer with that given at the end of the unit.		
1)	State the main factors involved in the strategy of Indian Planning.			
	••••			
2)	What	is the role of the public sector as envisaged by the planning process?		
	•••••			

What were the various legislative measures taken immediately after Indian independence to bring about reforms in agriculture?

•••••	 •••••	

15.6 FINANCING A PLAN

The planning process involves mobilisation of resources for investment in different sectors of the economy Attempts to find a solution to the financing problem pass through various stages. Stock-taking or assessing the physical resources available, both actual and potential, precede plan formulation. Given this physical resource base, financial resources are mobilised for investment. Financial planning involves the assessment of total resources available for investment through domestic savings and inflow of capital from abroad. The volumes of domestic savings that could be mobilized depends on how much savings have been generated in the past by the government, households and business firms and by how much it is expected to go up in the future. Overall savings can be increased in the economy by additional tax efforts of the government and offering incentives for private savings. The budgetary resources, apart from taxation and savings of the central and state governments, include deficit financing, external resources and foreign exchange. These are the main components of financial planning. Savings may be from government, deficit financing, external resources and foreign exchange. These are the main components of financial planning. Savings may also be from the government and the public sector, or net capital inflow from abroad. Financial planning involves the mobilisation of resources to match the targeted magnitude of physical investment. It also involves the allocation of the total available savings among major investment sectors according to their respective requirements. Total domestic resource availability is arrived at through projections of sectoral savings, i.e., savings by households, private corporate sector, government and public sector enterprises. Then, given the investment targets of the sectors and allowing for inter-sectoral transfers from industry to agriculture or agriculture to the services sector or vice-versa and the expected inflow of capital from abroad, which may include a certain amount of commercial borrowing from foreign banks and investment agencies, the balance between the sources and uses of funds is worked out for each sector. This gives the amount of savings that need to be mobilised and transferred from the surplus to deficit sectors in estimating the total resources available for plan investment, apart from the public, private and household sectors, there are other sources of source mobilisation. These are inflow of foreign capital, contributions from public enterprises like railways, posts and telegraphs and other central and state enterprises, market borrowing, small savings, state provident funds and miscellaneous capital receipts. Additional inflow of capital for the plan is generated through direct and indirect taxes, net inflow of capital from abroad and deficit financing,

Check Your Progress 4

Note:	i)	Use the space given below for your answer.
	ii)	Check your answer with that given at the end of the unit.
1)	What	do you understand by financial planning? Write in two sentences.

2)	what are the various sources of funds for a plan?		
3)	Decide if True or False. Indicate (T) for true (F) for false.		
	i) Deficit financing is budgetary resources for the central government.	()	
	ii) The volume of domestic savings depend on capital inflow from abroad.	$\ddot{0}$	
	iii) Additional Taxation can increase the government savings.	$\ddot{0}$	

15.7 EXPERIENCE OF INDIAN PLANNING

Has the economic development in India through planning proved to be a better option? For answers, it will not be out of place to look into the achievements in respect of the basic objectives on which planning was initiated. You may recall that Indian planning stressed the need for correcting assets imbalance and eradicating poverty. Banging about a rapid development of the industrial sector and providing gainful employment to its labour force have also been set as important targets, Therefore, an assessment of these problems after execution of eight plans is likely to provide useful information on the performance of Indian planning.

An examination of Indian situation after 50 years of independence from the British rule gives enough scope to argue that planning has largely failed to meet the expectations of its proponents. Many countries which were at the same level of economic development in the early 50s have succeeded in solving their problems like poverty, unemployment and industrialisation remarkably well in comparison with India. Within the Asian region, economies of South Korea, Singapore, Hong Kong, Indonesia and Malaysia have become the important contrasting points to India. All these have overtaken India not only in reducing or eradicating poverty and achieving a higher level of industrialisation but have also shown remarkable capabilities in export. The quality of life has improved significantly in all these countries. In contrast, India is still struggling to tackle some of the basic problems which were identified right at the stage of initial planning. Some discussion on Indian experience will help drive the point home.

Approximately 30% of the Indian population is still below the poverty line. That means, 30 out of 100 people in India do not have the capability to spend enough for minimum food requirements. The growth of population continues to exceed the growth of national income. A reflection of this feature is the repudiation of claims to alleviating poverty. The productivity of labour grows at a low level of 2% only while capital productivity has been declining. The agricultural sector of the country has failed to witness any major technological change. Except for a few pockets, such as, Punjab, Haryana and Tamil Nadu, the green revolution has not been able to spread and transform the agricultural sector into a high productivity occupation. Moreover, better incentives for raising productivity have not been able to bung about a more equitable pattern of land holding.

India, in its planning era, has spent significantly more on higher education as compared to that elementary schooling. Consequently, about half of the population aged 7 and above have remained illiterate upto 1991.

The uneducated labour force available for production could engage itself only in unskilled industrial activities. More importantly, the lopsided educational policy has led to a cultural divide between a small group of elite drawn from well-to-do families and the general mass of poor Indians. There is another discernible trend. The best educated groups leave an impression that they are entitled to all kinds of facilities from public funds-- from holiday to home, transportation, food rations, children's schooling, health care in hospitals etc. The semi-literate uneducated mass of people have no effective access to such privileges. A major building block of Indian planning for industrialisation has been the public sector. It, however, has failed to register the expected performance. The important segments of the economy such as infrastructure, capital goods and basic intermediate are under the control of the state. But these do not contribute much to productivity enhancement. While infrastructure bottlenecks have yet to be overcome, the industrial undertakings are drawing a large chunk of public funds for their survival. The accumulated loss of public sector enterprises had already reached the level of Rs. 15,354 crore by 1990-91. Many industries do not run at full capacity and a large number of them have turned sick. As the sector has failed to keep pace with technological advancement, Indian goods have lost in terms of competitive advantage. Consequently, India's share in the world trade is insignificant, at less than one per cent. A related aspect of the Indian way of going for planned development is the emergence of black markets and corruption. The provision of regulating economic activities by the state machinery has resulted in providing incentive to enforcement authorities for indulging in corrupt practices for pecuniary gains. Extra-legal means have been resorted to supply many commodities which are short in supply. In addition, the public sector enterprises have become a good channel for distributing favour to friends and relatives of politicians, whose parties are in power. It is estimated that the public sector is overstaffed to the tune of 25% due to such type of practices. Despite a massive programme of industrialisation, unemployment in India continues to increase. Even the special employment generating programmes in rural areas are pointed out to be not very successful.

The service sector has grown more rapidly than industrial and agricultural sectors. However, it is stated that much of such growth is due to expansion in government service sectors like public administration. The increased employment of this type has led to an improved purchasing power of a sizeable section of the population without a corresponding increase in production of agricultural and industrial sectors. A part of the inflationary pressure in the economy is ascribed to service sector expansion. It is, therefore, apparent that Indian planning has not been successful in meeting the targets of basic objectives. Poverty, unequal asset holding, unemployment and inadequate industrialisation persist even after 40 years of planning Realisation of such a lacuna has prompted India to undertake a massive reform programme in 1991. The emerging thinking now is on reducing the scope of government interventions in the economic activities. The role of planning in such a scheme is set to be narrowed down.

Check Your Progress 5

Answer in five sentences each

Note:	i) ii)	Use the space given below for your answer. Check your answer with that given at the end of the unit.
1)	What a	are the failures of Indian industry in the planning period'?
	• • • • • • • • • • • • • • • • • • • •	

2)	Discuss the failures of planning in the agricultural sector.

15.8 LET US SUM UP

In this unit we have tried to learn about planning and the Indian Planning strategy in particular. We have seen how planning strategy came to be adopted as a response to the need for rapid development and dismantling of colonial institutions and structures which hampered development. The success of the former Soviet Union's planning strategy was the source of inspiration for planning in most of the third world countries. Planning, we have seen, implies the formulation of a strategy to achieve certain goals in the future. In an underdeveloped country, planning also attempts to fulfill the objective of transformation of the economy from a low level of production and productivity to a higher level of self-sustained growth. In many developing countries, planning can be broadly summed up as being a vehicle for growth with social justice and raising the standards of living of the population.

Although the perception of developing the backward economies through the process of planning still remains a major agenda, achievement of expected results cannot be taken satisfactory until now in most of the third world countries. Prevalence of wide spread poverty, unemployment and unequal income distribution are commonly found in these countries. In recent years therefore, changes have been incorporated in the planning process on the basis of experience from the past.

15.9 KEY WORDS

Ancillaries: Those firms which generally produce for and supply to a large industrial unit, which produces the main marketable product.

Basic Industries: Those industries whose output is used as an input either directly or indirectly by many other industries, e.g., steel.

Capital Goods: Those goods that are themselves produced to help the production of other goods, but are not themselves consumed directly as the raw materials of production, e.g. machinery.

Disguised Unemployment: A situation where people are apparently employed, but withdrawing some of them from that employment will not result in a fall in output.

Egalitarian: Equality of economic, social and political status among all individuals.

Feudal Intermediaries: Those individuals or class of people who appropriate a portion of the surplus generated in agricultural production by using extra-economic coercion, without actively participating in the production process, but coming between the state and the tillers of land.

Inflation: A situation where there is a general and steady rising pressure on paces of commodities accompanied by a diminishing purchasing power of money.

Intermediate Inputs: Those which go into the production of a final product, e.g., steel which goes into the production of buses, trucks, etc

Land Reforms: The redistribution of titles to property in land by breaking up large holdings and also ensuring that the actual cultivator is entitled to a larger share of the surplus from land as opposed to the intermediaries. It also aims at ensuring tenurial rights for cultivators.

Marketable Surplus: That pan of the production, usually of foodgrains, which exceeds the producer's own direct consumption requirements and which can be sold in the market.

Poverty Line: It is defined as an income level below which people cannot afford to buy a basket of commodities that are essential to maintain a minimum standard of living. In India, this minimum standard is taken to be the income necessary to buy the food necessary for an adult to survive and work. The levels and definition of poverty line vary from country to country.

Resources: Resources are of three kinds-physical, financial and human. Physical resources are land, water, coal, iron-ore, cattle etc. Financial resources are savings, taxes, borrowings etc. Human resources would mean various skills and abilities of the human beings, which make them productive and useful to society.

Socialist State: A state where the major pan of the means of production is publicly owned and controlled.

Structural Bottlenecks: When one sector, or a crucial pan of that sector, restricts the growth of other sectors, then the economy is said to suffer from structural bottlenecks.

15.10 SOME USEFUL BOOKS

Chaudhary, Pramit, 1985. The Indian Economy, Vani Educational Books, Vikas, New Delhi.

Singh, Tarlok, 1974. *India's Development Experience*, Macmillan, London.

Gadgit, D. R., 1972. Planning and Economic Policy in India, Gokhale Institute, Poona.

15.11 ANSWERS AND/OR HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) There are three types of resources-physical, financial and human. Physical resources are of two kinds, living and non-living and include land, water, minerals and animal resources etc. Financial resources include taxation, savings, borrowings etc. Human resources are manpower with skills.

- Planning means formulating a strategy for the future by assessing one's resources at present and allocating it between different uses. This is done so as to achieve certain goals in the future. In the general case, planning in an economy is done to secure a certain rate of growth of national income, production etc. But in an underdeveloped economy, planning takes m, a broader meaning. It is a strategy to counter an inherited legacy of backwardness and institutional constrains which hamper the transformation of the economy from a low-level of production to a higher level of self-sustained growth.
- 2) i) F
 - ii) F
 - iii) T

Check Your Progress 2

- 1) Read Section 15.4
- 2) Hint: Yes

Check Your Progress 3

- 1) **Hint:** Read first paragraph of section 15.6.
- 2) The public sector was given the exclusive responsibility of investing and developing certain basic and strategic industries This was to ensure that the public sector would capture the commanding heights of the economy and thus play an important role in the industrialisation process.
- 3) **Hint:** Read Sub-Section 15.5.2.
- 4) The Green Revolution was a technology-based food grains production strategy. It led to an increase in the total food grain production and marketable surplus of India. But at the same time it led to an increase in regional disparities in rural India since the Green Revolution covered only a few districts in selected states, while the rest of the country remained unaffected.
- The problem of unemployment in rural India was sought to be tackled through employment oriented schemes, like the Integrated Rural Development Programme, National Rural Employment Guarantee Programme in urban India though no such scheme existed, generally, employment was sought to be increased through self-employment programmes and promotion of labour intensive industries.

Check Your Progress 4

- 1) Financial planning involves estimation of financial resources required for investment and assessing its mobilisation domestically through savings, taxation and aid from abroad-either through intergovernment aids or loans or commercial borrowings from investment agencies and foreign banks. In other words, it involves a balance between the sources and uses of funds for the plan targets.
- 2) The various sources of funds for plan investment are taxation, savings of the government, household and private corporate sector and inflow of foreign capital. Apart from these, there are

also contributions from public enterprises like railways, posts and telegraphs, central and state enterprises, market borrowings, etc. Finally, the government may also resort to deficit financing.

- 3) i) T
 - ii) F
 - iii) T

Check Your Progress 5

See Section 15.7 for your answer.