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# Planning in India

**Need for Planning in Newly Independent India**

When India gained independence in 1947, the newly formed government faced enormous socio-economic challenges. The country was burdened with

- Widespread poverty
- Lack of access to proper healthcare
- Absence of health insurance
- Weak industrial base
- Private sector was underdeveloped
- Inflation in food prices, combined with inadequate food storage systems.
- High levels of illiteracy

To address these multifaceted issues, the Indian leadership turned to economic planning as a tool for development. Inspired by the Soviet model—which had successfully weathered the Great Depression—India adopted planning as a structured approach to uplift the economy and improve living standards.

**History of Economic Planning in India**

- **The Impact of the Great Depression (1930s)**
  The global economic crisis of the 1930s devastated many countries, but the Soviet Union remained largely unaffected, thanks to its centralized planning system that began in 1928. This success drew attention worldwide, including in India, where the idea of planned development began to take root.
- **M. Visvesvaraya's Ten-Year Plan (1934)**
  The first formal proposal for economic planning in India came from M. Visvesvaraya, a renowned engineer and statesman. In his book "Planned Economy for India", he presented a ten-year blueprint for national economic growth, focusing on industrialization and modernization.
- **Formation of the National Planning Committee (1938)**
  In 1938, the Indian National Congress, under the presidency of Subhash Chandra Bose, established the National Planning Committee. Jawaharlal Nehru was appointed its chairman. However, due to the resignation of INC-led provincial governments, the committee's progress was limited.
- **The Gandhian Plan (1944)**
  Proposed by S.N. Agarwal, this plan reflected Mahatma Gandhi's vision of a self-reliant India. It advocated for a decentralized economy based on self-sufficient village communities, with a strong emphasis on small-scale industries and agriculture.
- **The Bombay Plan (1944)**
  A group of prominent industrialists from Bombay, including J.R.D. Tata, Purshottamdas Thakurdas, and G.D. Birla, came together to formulate a long-term development plan. It aimed to double India's per capita income over 15 years and recommended state intervention to support domestic industries and protect them from foreign competition.
- **The People's Plan (1945)**
  Drafted by M.N. Roy, this ten-year plan emphasized collective agriculture and development of consumer goods industries. It also proposed extensive nationalization, especially of land and key industries, to ensure state-led industrialization.
- **The Sarvodaya Plan (1950)**
  Jaiprakash Narayan developed this plan, drawing inspiration from the Gandhian Plan and Vinoba Bhave's philosophy of Sarvodaya (welfare for all). It prioritized rural development, land reforms, and promotion of cottage and village industries. The plan called for participatory and decentralized planning mechanisms at the grassroots level.

**Planning Commission and Five-Year Plans**

After gaining independence, India opted for a centrally planned economic model. To implement this vision, the Planning Commission was established in 1950 through a government resolution. The Prime Minister was appointed as its Chairperson, reflecting the importance of the institution in national development. The Commission was responsible for formulating five-year plans to guide the country's economic progress. The First Five-Year Plan was introduced in 1951, marking the beginning of structured planning in India.

**Objectives of the Five-Year Plans:**

1. Development

   Aimed to achieve consistent and long-term increases in the country's Gross Domestic Product (GDP) and overall output.
2. Innovation

   Focused on introducing advanced technology along with progressive social and institutional changes.
3. Self-sufficiency

   Emphasized reducing dependency on imports by strengthening domestic production and promoting local industries.
4. Inclusivity

   Ensured that the benefits of economic development were fairly shared, especially by the poorer and disadvantaged sections.
5. Employment

   Targeted large-scale job creation to address unemployment and underemployment, particularly in rural areas.

**First Five-Year Plan (1951–56)**

- This plan was inspired by the Harrod-Domar Model, a Keynesian economic growth theory which states that growth is determined by the investment rate and the incremental capital-output ratio (ICOR).
- The plan primarily focused on agriculture, price stability, power, and transport.
- In 1952, the Community Development Programme was introduced as a key initiative.
- Growth Target: 2.1%
- Actual Growth: 3.6%

**Second Five-Year Plan (1956–61)**

- Formulated using the Mahalanobis Model, this plan placed emphasis on rapid industrialisation, especially in heavy and basic industries, marking a shift from agriculture.
- The Industrial Policy Resolution of 1956 established state control over the economy's commanding heights.
- To support industrial growth, the plan encouraged large-scale imports funded by foreign loans.
- This period saw a significant price rise of approximately 30%.
- Growth Target: 4.5%
- Actual Growth: 4.27%

**Third Five-Year Plan (1961–66)**

- This plan aimed to transform India into a self-reliant and self-generating economy.
- Given prior experiences, agriculture was again prioritised to support exports and industrial development.

- However, the plan faced major setbacks due to external conflicts and natural calamities: the 1962 Chinese aggression, the 1965 Indo-Pak war, and a severe drought in 1965–66.
- Growth Target: 5.6%
- Actual Growth: 2.8%

**Three Annual Plans (1966–69)**

- Also known as the Plan Holiday, these short-term plans replaced the Fourth Plan due to the failure of the Third Plan and an inflationary recession.
- They focused heavily on agriculture in response to a food crisis.
- A new agricultural strategy was introduced, promoting HYV seeds, fertilizers, and irrigation—laying the foundation for the Green Revolution.
- Actual Growth (Average): ~3.9%

**Fourth Five-Year Plan (1969–74)**

- Triggered by the refusal of allies to supply essential materials during the Indo-Pak war, this plan adopted the twin objectives of growth with stability and self-reliance.
- It aimed to enhance agricultural growth to support overall economic progress.
- The plan also promoted Family Planning Programmes as a key focus.
- A major issue during this period was the influx of Bangladeshi refugees around the 1971 Indo-Pak war and rising prices due to poor monsoons.
- Growth Target: 5.7%
- Actual Growth: 3.3%

**Fifth Five-Year Plan (1974–79)**

- This plan targeted poverty removal (Garibi Hatao) and self-reliance.
- It advocated for a high growth rate, fair income distribution, and higher domestic savings.
- Recognising the failure of the trickle-down approach, it directly addressed poverty through various alleviation programmes.
- With the 1975 Emergency, focus shifted to the Prime Minister's 20 Point Programme. The original plan lost priority and was discontinued in 1978 after the Janata Party came to power.
- Growth Target: 4.4%
- Actual Growth: 4.8%

**Rolling Plan (1978–80)**

- This phase featured two Sixth Plans.
- The Janata Government launched a plan for 1978–1983 focusing on employment. However, it lasted only two years.
- After a change in government in 1980, a new plan was introduced by the Congress.

**Sixth Five-Year Plan (1980–85)**

- This plan prioritised increasing national income, modernising technology, and curbing poverty and unemployment, along with population control.
- Growth Target: 5.2%
- Actual Growth: 5.5%

**Seventh Five-Year Plan (1985–90)**

- The plan concentrated on increasing food grain production, expanding employment opportunities, and raising productivity, under the banner of "food, work, and productivity."
- The private sector played a more significant role.
- Growth Target: 5%
- Actual Growth: 6.01%

**Eighth Five-Year Plan (1992–97)**

- Delayed by two years due to political instability, this plan was launched amidst an economic crisis involving a Balance of Payments deficit, high debt, inflation, and industrial recession.
- The government adopted major reforms under Liberalisation, Privatisation, and Globalisation (LPG).
- Despite reduced public investment, the plan saw high growth and marked a shift towards indicative planning.
- Growth Target: 5.6%
- Actual Growth: 6.8%

**Ninth Five-Year Plan (1997–2002)**

- This plan was centred around the theme of "Growth with Social Justice and Equality."
- It leaned heavily on private investment, both domestic and foreign (FDI), while the state focused more on education, health, and infrastructure—sectors with limited private participation.
- Growth Target: 6.5%
- Actual Growth: 5.4%

**Tenth Five-Year Plan (2002–2007)**

- Besides targeting an 8% growth rate, this plan set monitorable goals in key areas such as gender equality in education and wages, health indicators, access to drinking water, and cleaning of polluted rivers.
- Growth Target: 8%
- Actual Growth: 7.7%

**Eleventh Five-Year Plan (2007–2012)**

- Focused on "Faster and More Inclusive Growth," the plan aimed to reduce poverty, expand employment, and improve access to health and education.
- It supported programmes like the National Rural Employment Guarantee and focused on gender equality and environmental sustainability.
- Growth Target: 9%
- Actual Growth: 8.1%

**Twelfth Five-Year Plan (2012–2017)**

- The final Five-Year Plan was built around "Faster, More Inclusive and Sustainable Growth."
- Growth Target: 8%
- Actual Growth: 6.5%

In 2014, the Planning Commission was dissolved and replaced by NITI Aayog, marking the end of the Five-Year Plans.

**Transition from Planning Commission to NITI Aayog**

In 2014, the Government of India dissolved the Planning Commission, which had guided India's economic planning through Five-Year Plans since independence. It was replaced by a new institution—NITI Aayog (National Institution for Transforming India)—with the aim of fostering cooperative federalism, promoting bottom-up planning, and making policy-making more adaptive, dynamic, and responsive to contemporary challenges.

**Key Issues That Prompted the Shift**

- **Imbalanced Fiscal Federalism:** Persistent issues in the allocation of financial resources both between the Centre and the States (vertical imbalance) and among the states themselves (horizontal imbalance) often led to inefficiencies and disputes in fiscal planning.
- **Difficulties in Fiscal Discipline:** The government struggled to meet targets set under the Fiscal Responsibility and Budget Management (FRBM) Act, particularly regarding fiscal deficits and controlling revenue expenditure.
- **Insufficient Tax Revenue Mobilization:** In 2017–18, India's tax-to-GDP ratio stood at 11.6%, much lower than that of emerging market economies (~21%) and OECD nations (~34%), indicating a narrow tax base and gaps in tax compliance.
- **Excessive Public Subsidy Burden:** A significant share of the national budget was allocated to subsidies for food, fertilizers, and fuel, putting pressure on fiscal resources and limiting funds for development spending.
- **Widespread Tax Non-Compliance:** Extensive use of corporate tax exemptions and rising instances of tax evasion resulted in revenue shortfalls and inequities in the tax system.

**Steps Taken to Address These Challenges**

To respond to these issues and enable better fiscal management, several reforms were introduced:

- **Budgetary Simplification and Clarity:** The outdated distinction between plan and non-plan expenditure was eliminated to enhance transparency and streamline the budgetary process.
- **Unified Budget Presentation:** The merger of the General and Railway Budgets marked a major step towards integrated infrastructure planning and rational financial management.
- **Redesign of Central Schemes:** Centrally Sponsored Schemes (CSS) were restructured into three categories—Core of the Core, Core, and Optional—to enhance targeting efficiency, accountability, and state-level flexibility.
- **Subsidy Efficiency Measures:** Measures like Direct Benefit Transfer (DBT) and digital tools were introduced to reduce leakage and ensure that subsidies reached the intended beneficiaries.
- **Enhancing Revenue through Tax Reforms:** New strategies were adopted to strengthen tax collection, including the Long-Term Capital Gains (LTCG) tax, Equalization Levy on digital businesses, and renegotiation of Double Taxation Avoidance Agreements (DTAAs) to curb tax base erosion and avoidance.