



सत्यमेव जयते

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THE PLANNING ERA IN INDIA:

A Critical Retrospective

PLANNING COMMITTEE 1938 (1/4)

- ★ In 1938, National Planning Committee was appointed to evolve the development strategy post independence.
Pundit Nehru who chaired the committee provides a vivid account of the discussions.
- ★ On the objective:
 - “to ensure an adequate standard of living for the masses, in other words, to get rid of the appalling poverty of the people”

PLANNING COMMITTEE 1938 (2/4)

- ★ As for the instrument to eradicate poverty:
 - “We calculated that a really progressive standard of living would necessitate the increase of the national wealth by 500 or 600 per cent. That was, however, too big a jump for us, and we aimed at a 200 to 300 per cent increase within ten years.”

PLANNING COMMITTEE 1938 (3/4)

★ On trade

- ““The objective for the country as a whole was the attainment, as far as possible, of national self-sufficiency. International trade was certainly not excluded, but we were anxious to avoid being drawn into the whirlpool of economic imperialism. We neither wanted to be victims of an imperialist power nor to develop such tendencies ourselves. ”

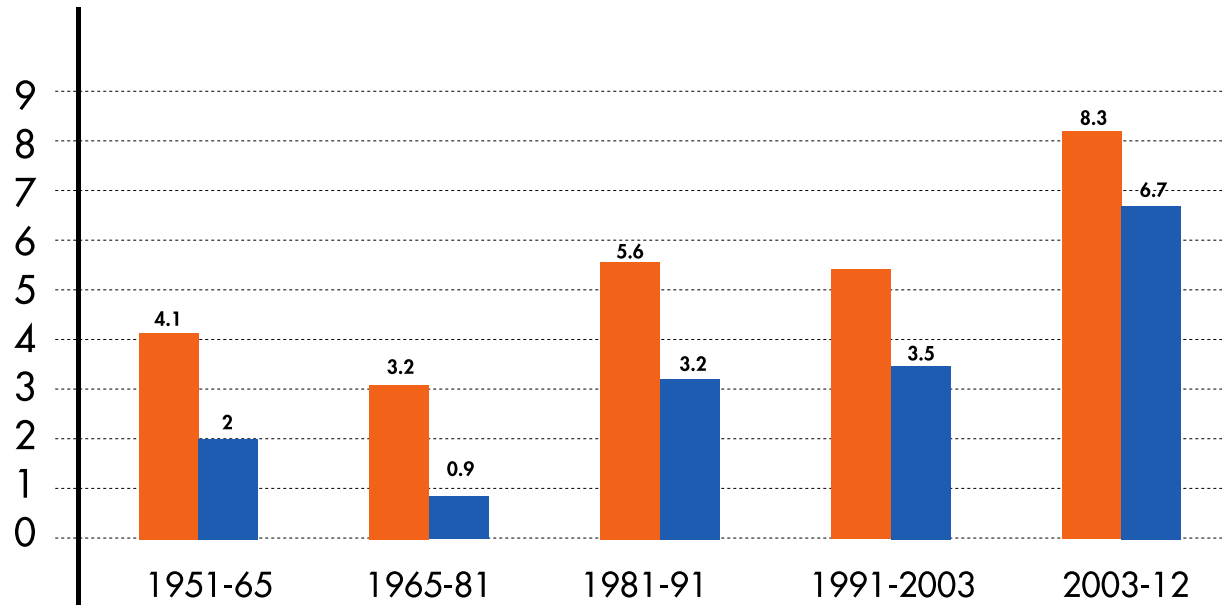
PLANNING COMMITTEE 1938 (4/4)

- ★ On state control and free enterprise
 - “The very essence of ... planning was a measure of regulation and co-ordination. Thus, while free enterprise was not ruled out as such, its scope was severely restricted.
 - In regard to defense industries it was decided that they must be owned and controlled by the state.
 - Regarding other key industries, the majority were of opinion that they should be state-owned, ...
 - Public utilities, it was also decided, should be owned by some organ of the state, ...
 - In regard to other important and vital industries, no special rule was laid down but it was made clear that the very nature of planning required control in some measure, ... ”

THE PLANS

| PERIOD | PLAN |
|-----------|-------------------------|
| 1951-66 | First three plans |
| 1966-69 | Annual Plans (3 years) |
| 1969-79 | Fourth and fifth Plans |
| 1978-80 | Rolling plans (2 years) |
| 1980-90 | Sixth and Seventh plans |
| 1990-92 | Annual Plans (2 years) |
| 1992-2017 | Last five plans |

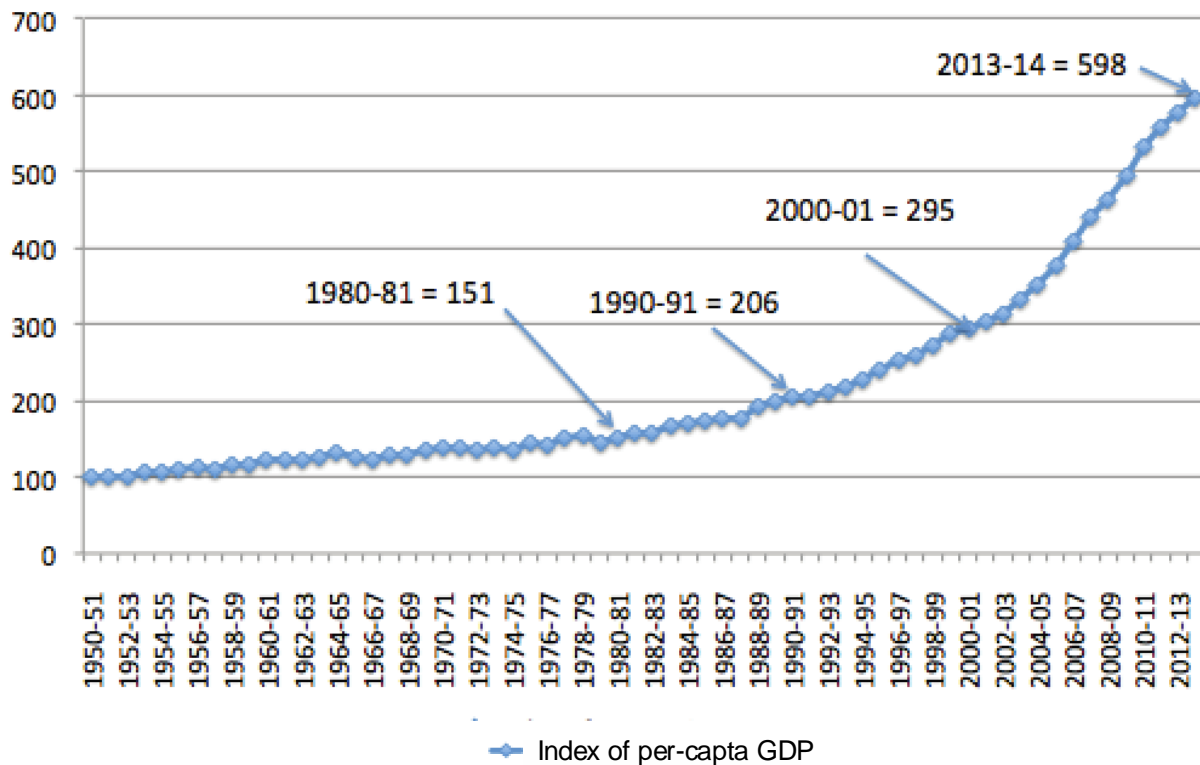
1961-1976: Fifteen-Year Perspective Plan



■ Annual GDP Growth (%)

■ Annual Per-capita GDP growth (%)

Index of real per-capita GDP (1950-51 = 100)



SECTORAL GROWTH RATES

| Period | Agriculture & Allied | Industry | Manufacturing | Services | GDP |
|---------|----------------------|----------|---------------|----------|-----|
| 1 | 2 | 4 | 5 | 6 | 7 |
| 1951-65 | 2.9 | 6.7 | 6.6 | 4.7 | 4.1 |
| 1965-81 | 2.1 | 4.0 | 3.9 | 4.3 | 3.2 |
| 1981-88 | 2.1 | 6.3 | 7.1 | 6.5 | 4.8 |
| 1988-06 | 3.4 | 6.5 | 6.8 | 7.8 | 6.3 |

PERSPECTIVE PLAN 1961-76 BY PITAMBAR PANT (1/3)

- ★ Aimed to eliminate abject poverty by 1975-76.
- ★ 50% of the population was estimated below the poverty line of Rs. 20 per capita per month at 1960-61 prices
- ★ Pant argued that incomes were so low (80% of the population had monthly income less than Rs. 35) that redistribution as the primary option was not available.
- ★ He further argued that in practice redistribution had serious political and economic constraints.

PERSPECTIVE PLAN 1961-76 BY PITAMBAR PANT (2/3)

- ★ So growth had to be the primary instrument of poverty eradication.
- ★ Using a simple model, Pant calculated that 7% annual growth during 1966-76 (4th and 5th Plan period) with some redistribution to the bottom 20% population could bring everyone above Rs.20 per month.
- ★ Therefore, his plan set the goal of 7% growth

PERSPECTIVE PLAN 1961-76 BY PITAMBAR PANT (3/3)

- ★ In terms of strategy to get 7% growth, Pant suggested
 - Construction, trade and services were seen as the main source of employment for the additional 50 million workers who were expected to join the labor force
 - Required investment was 25% of income
 - metals, chemicals, machinery, power and fuel and transportation were identified as the key sectors to promote if savings were to be converted into investment
 - Saw education as an investment and suggested that 'All boys and girls of ages between 6 and 14 years should be in school by 1975'
- ★ **By all accounts, the plan was never actually implemented**

TWO BROAD MISTAKES THAT HAVE PERSISTED TILL RECENTLY (1/2)

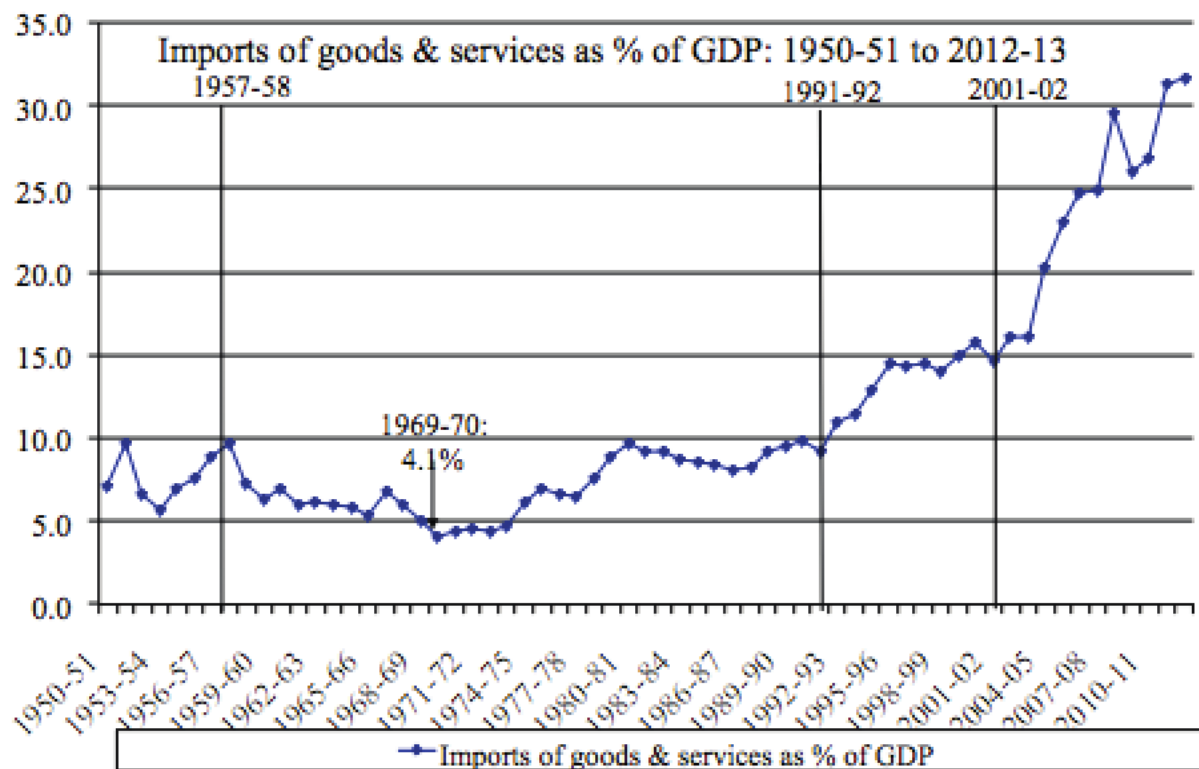
- ★ First, we have repeatedly failed to pay attention to pernicious unintended side effects of policies.
- ★ This has happened repeatedly throughout our post independence history as we will see shortly.

TWO BROAD MISTAKES THAT HAVE PERSISTED TILL RECENTLY (2/2)

- ★ The second, we have been extremely slow to admit and therefore correct our mistakes. This comes out beautifully in a 1986 book by Sharad Marathe, a bureaucrat:
 - “By far the most important reason why this phase [in 1975 and 1976] of liberalization did not add up to much was that there was an unwillingness at the political level to recognize or accept that a change in direction was needed...In the words of a distinguished civil servant who had retired by then, the attempt was ‘to go by stealth’ and necessarily, therefore, the amount of good that could be done had to be modest.”

A MORE DETAILED ACCOUNT OF OUR MISTAKES

- ★ Highly Protectionist Trade and Foreign Investment Policies
 - Strict import licensing; ultra-high tariffs beginning mid 1980s
 - Near prohibition on foreign investment from early 1970s
- ★ Industrial Control (License-permit Raj)
 - **To evolve a Socialistic Pattern of Society:** Expansion of public sector (often with state monopoly) into areas that were best left to private sector
 - **To provide employment:** Reservation of labor-intensive products for exclusive production by small enterprises
 - To plan private investment: Strict investment licensing (specifying product, quantity, location)
 - To curb monopoly profits: Price and distribution controls (cars, scooters, cement, telephones)



Imports as a proportion of the GDP crossed the 10% mark for the first time in 1992-93

OUR MISTAKES

★ FACTOR MARKET DISTORTIONS

- To protect labor: Rigid labor laws (Social revolution preceding economic progress)
- To release land for public housing and other public projects: The Urban Land Ceilings and Regulation Act (ULCRA), 1976
- To direct allocation of credit: Strict controls on financial markets (until 1990s)

★ MISTAKES IN AGRICULTURE

- To curb profiteering and exploitation of farmers by private middlemen: Government control on agricultural marketing
- To give tenants ownership rights: Persistence of prohibition on tenancy in agriculture
- Unintended Consequence of Fiscal Constraint: Collapse of public investment in the face of rising subsidies

OUR MISTAKES

★ SOCIAL PROGRAMS

- Half-hearted effort at spreading primary education in early years
- A flawed Right to Education Act
- A flawed National Rural Employment Guarantee Act
- A poorly targeted and leaky Public Distribution System (PDS)

HOW DO WE AVOID REPEATING MISTAKES

- ★ Only proper analysis and assessment of proposed policies by experts and specialists can help us anticipate unintended consequences of policies
- ★ This is why preparing the long term vision and strategy documents and placing them in public domain for extensive discussion is extremely important.
- ★ It is also very important to induct more and more experts from different areas in the government.
 - Increased complexity of the economy has meant that as a general rule it is no longer possible for generalists to learn any new subject within matter of weeks or even months
- ★ It is also important that internal criticisms of proposed new policies are given adequate hearing. Without it, critics would have no incentive to offer criticisms.

THANK YOU