



# KHAN GLOBAL STUDIES

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## Economics

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### Five Year Plans

#### First Five Year Plan (1951-56)

- ❖ The first five-year plan was presented in the parliament by Prime Minister Jawaharlal Nehru in December 1951. This plan promoted the idea of a self-reliant closed economy and was developed by Prof. P. C. Mahalanobis. The plan had heavily borrowed ideas from USSR's five-year plans developed by Domer. Due to this, the first five-year plan is also called Domer-Mahalanobis Model.
- ❖ In this plan, the highest priority was given to the Agriculture, Irrigation & Power Projects. Total plan budget of Rs. 2069 Crore was allocated to seven broad areas: irrigation and energy (27.2 percent), agriculture and community development (17.4 percent), transport and communications (24 percent), industry (8.4 percent), social services (16.64 percent), land rehabilitation (4.1 percent), and other (2.5 percent). The plan was successful due to favorable monsoons and relatively higher crop yields.

#### **Some Key notable points of the First Five Year Plan:**

- ❖ Many irrigation projects including Bhakra Dam and Hirakund Dam were started in the first five-year plan.
- ❖ At the end of the plan period in 1956, five Indian Institutes of Technology (IITs) were started as major technical institutions.
- ❖ University Grant Commission was set up to take care of funding and take measures to strengthen higher education in the country.

#### **Critical Assessment of First Five Year Plan**

- ❖ At the time of Independence, India faced several problems such as partition and influx of refugees, severe food shortage, mounting inflation, and disequilibrium in the economy due to the Second World War.
- ❖ First five-year plan ushered India into the planned economy with a socialist aim. Its key objective was to achieve self-sufficiency in food production, so the highest preference was given to agriculture. The total outlay of this plan was Rs. 2069 Crore which was later increased to Rs. 2378 Crore.
- ❖ But this plan was more or less a haphazard venture because at that time there were no concrete data and reliable statistics. The plan was basically a patchwork of so many

projects which were isolated from each other. However, the plan was a great success thanks to the two continuous good harvests and emphasis on agriculture & irrigation.

- ❖ The country was able to achieve the targeted growth and was able to increase national income. However, the per capita income did not increase substantially because the increase in national income was offset by the increase in population. Indian Government had collaborated with the WHO to address infant mortality and this also contributed in the growth of the population.

#### Second Five Year Plan (1956-1961)

- ❖ The success of the First Five-year plan boosted the confidence of the leaders. The agriculture growth target in the first plan was achieved, so the government quickly started looking beyond agriculture. The second five-year plan focused on industry, especially heavy industry. The target of a 25% increase in national income was set through rapid industrialization.
- ❖ The second five-year plan is based on the so-called Mahalanobis model. This was the USSR model Indianized by PC Mahalanobis, the founder of the Indian Statistical Institute and a close aide of Nehru. This model is known to have set the statistical foundations for state-directed investments and created the intellectual underpinnings of the license raj through an elaborate input-output model.
- ❖ This Model suggested that there should be an emphasis on the heavy industries, which can lead the Indian Economy to a long-term higher growth path. India's second five-year plan and Industrial policy Resolution 1956, which paved the way for the development of the Public Sector and license raj, were based upon this model.

#### **Some Key notable points of the Second Five Year Plan:**

- ❖ Steel mills at Bhilai, Durgapur, and Rourkela were established in the second five-year plan.
- ❖ Enhanced coal production and more railway lines were introduced in this plan.
- ❖ Atomic Energy Commission was formed in 1957 with Homi J. Bhabha as the first chairman.
- ❖ Tata Institute of Fundamental Research was established as a research institute.

- ❖ In 1957 a talent search and scholarship program was begun to find talented young students to train for work in nuclear power.

#### **Achievements of Second Five Year Plan**

- ❖ The second five-year plan, based on socialistic pattern, had targeted an increase of 25% in National Income by Rapid industrialization, however, the achieved target was only 20%. Further, per capita income grew by 8% only.
- ❖ Domestic production of industrial products was encouraged, particularly in the development of the public sector.

#### **Critical Assessment of Second Five Year Plan**

- ❖ The second five-year plan was a big leap forward and it laid a heavy emphasis on the heavy industries.
- ❖ During this plan period the Industry policy resolution was amended and the primary responsibility for development was left to the Public Sector. The private sector was more or less confined to the consumer industries only.
- ❖ The small and cottage industries remained sluggish during this plan.
- ❖ The imports increased and lot and this uncovered India's Sterling Balances. The results were seen in the third plan when India was forced to devalue its currency twice.

#### **Third Five Year Plan (1961-1966)**

- ❖ The first two plans developed an institutional structure to take the country on the path of a developed economy. The third plan for the first time rode on the wave of high expectation following the overall growth of the economy of India. In this plan, India made efforts to achieve self-reliance in food production and industry. However, the plan period saw lots of political and economic problems.
- ❖ The Indo-China war 1962 and Indo-Pak War 1965 etc. exposed the weakness of the country. These conflicts substantially shifted the focus towards defense production.
- ❖ The country's morale was down due to the death of Jawaharlal Nehru in 1964 and Lal Bahadur Shastri soon afterward. Further, 1965-66 was a near-famine year, and the problem became more severe due to a lack of buffer stocks.

#### **Critical Assessment of Third Five Year Plan:**

- ❖ During the third five-year plan, the country was reeling under a high budget deficit. In 1966 the third plan was struck because of the more and more borrowing from the International Monetary Fund. Foreign aid was cut off and there was international pressure to devalue the Rupee. When the rupee was devalued in 1966, it had its own impact on the economy. The growth rate was targeted at 5%,

however, achieved only 2.2%. Much of the achievement was null and void because of 36% inflation and devaluation of the rupee in 1966.

- ❖ Due to bitter experience, the demand for a planned holiday was raised from various sectors and the planning commission admitted that this plan was a failure. Accordingly, the government declared a planned holiday for the next three years and due to this, the fourth plan started in 1969. The government mobilized all available resources for stepping up food production and establishing buffer stocks to meet the contingency. In this way, the economy had so much degenerated that planning was now made annual with three annual plans to take on the short-term objectives.
- ❖ However, there were positive achievements also. The years 1965-66 ushered India into Green Revolution and advanced agriculture. The construction of dams continued. Many cement and fertilizer plants were also built. Punjab began producing an abundance of wheat. Many primary schools were started in rural areas. In an effort to bring democracy to the grassroots level, Panchayat elections were started and the states were given more development responsibilities. State electricity boards and state secondary education boards were formed. States were made responsible for secondary and higher education. State road transportation corporations were formed and local road building became a state responsibility.

#### **Fourth Five Year Plan (1969-1974)**

- ❖ Fourth Five Year Plan was the first plan launched by the Indira Gandhi government amid the pressure of drought, devaluation, and inflationary recession. The country was fighting with population explosion, increased unemployment, poverty, and a shackling economy. In addition, the situation in East Pakistan (now independent Bangladesh) was becoming dire as the Indo-Pakistani War of 1971 and Bangladesh Liberation War took place. Funds earmarked for industrial development had to be used for the war effort. The result was that this plan period was also no better than the third five-year plan.

#### **Some Key notable points of the Fourth Five Year Plan:**

- ❖ India fought yet another war with Pakistan and helped in the creation of Bangladesh. Needed to tackle the problem of Bangladeshi refugees after the 1971 war.
- ❖ Nationalization of 14 major Indian Banks was a key event during this war. This boosted the confidence of the people in the banking system and started greater mobilization of private savings into the banking system.

- ❖ At the end of this plan, India also performed the Smiling Buddha underground nuclear test in 1974. This test was partially in response to the US deployment of the Seventh Fleet in the Bay of Bengal to warn India against attacking West Pakistan and widening the war. The international community took several harsh measures against India, which affected the domestic economy.
- ❖ The Oil Crisis of 1973 skyrocketed the oil and fertilizer prices leading to very high inflation.

#### **Critical Assessment of Fourth Five Year Plan**

- ❖ The Fourth plan when it was introduced after a gap of three years, was an ambitious plan with an aim of 5.5% growth as the previous plans had a growth target/achievement of a maximum of 3.5%.
- ❖ But the Indo-Pakistan war, the liberation of Bangladesh and problem of Bangladesh refugees, successive failures of monsoon, Asian Oil Crisis of 1973 marred the objectives of this plan. The international economic turmoil due to Oil crisis upset the calculations for Fourth Plan. So only 3.4% growth could be achieved.

#### **Fifth Five Year Plan (1974-79)**

- ❖ The fifth five-year plan was launched with twin objectives of poverty eradication and attainment of self-reliance.
- ❖ The planning commission devised a national program for minimum needs, which included elementary education, safe drinking water, health care, shelter for the landless, etc. The Electricity Supply Act 1975 was enacted to enable the central government to enter into power generation and transmission. Meanwhile, India had seen a substantial rise in the food grain production, and from the fifth plan onwards India achieved self-sufficiency in food grains production.
- ❖ To alleviate the problem of the unequal spread of the green revolution, the government unsuccessfully tried to take over the wholesale trade in wheat. Indira Gandhi government also launched twenty point program and irrigation schemes such as Command Area Development Programme in this plan.
- ❖ However, in 1975, Indira Gandhi imposed an emergency, and planning became subject to much politicization. In 1977, the government changed and the first non Congress Government took over power with Morar Ji Desai at its helm. The new central government was a coalition called Janata Alliance. This government reconstituted the planning commission and announced a new strategy in the planning. This new strategy involved a change in the objective and approach pattern.

- ❖ The new objective laid down was “Growth for Social Justice”. The new approach was “Rolling Plan”. It terminated the fifth five-year plan in 1977-78 and launched its own sixth five-year plan for the period 1978-83 and called it a rolling plan. Later, the Janta government self-destructed itself and Indira Gandhi again became prime minister. She immediately threw the Janta’s rolling plan in the dustbin and launched her own plan for the years 1980-85. The year 1978-79 was restored back to the fifth plan of 1974-79.

#### **Rolling Plans**

- ❖ The Janta Government terminated the fifth five-year plan in 1977-78 and launched its own sixth five-year plan for the period 1978-83 and called it a Rolling Plan.

#### **Meaning of Rolling Plan:**

- ❖ The meaning of the Rolling Plan was that now, every year the performance of the plan will be assessed and a new plan will be made next year based upon this assessment.
- ❖ In the rolling plans there are three kinds of plans. First is the plan for the current year which comprises the annual budget. Second is a plan for a fixed number of years, which may be 3, 4, or 5 years. This second plan is kept changing as per the requirements of the economy (and politics). Third is a perspective plan which is for 10, 15, or 20 years. Thus, there is no fixation of dates in respect of commencement and end of the plan in the rolling plans.

#### **Advantages and Issues with Rolling Plans**

- ❖ The main advantage of the rolling plans is that they are flexible. They are able to overcome the rigidity of fixed five-year plans by revising targets, projections, and allocations as per the changing conditions in the country’s economy. Thus, the rolling plans allow for revisions and adjustments. In rolling plans, the review of a plan becomes a continuous exercise. The effect of changed circumstances and the changing demand and supply conditions can be incorporated in the plan.
- ❖ No doubt in fixed plans, the annual reviews are made, but they are getting information regarding the progress of the economy. While in the case of rolling plans, the yearly reviews are such a nature that they serve as the basis for the revised new five-year plan every year. Such yearly review is the essence of rolling plans.
- ❖ However if targets are revised each year, it becomes very difficult to achieve the targets which are laid down in the five-year period. Frequent revisions make it difficult to maintain the right balances in the economy which are essential for its balanced development.

- ❖ So far, rolling plans have been unsuccessful in underdeveloped economies like Mexico and Myanmar and were later discarded, however in developed nations like Japan & Poland they have been successfully used.

#### **Fate of India's Rolling Plans**

- ❖ Due to political problems, Morar Ji Desai was forced to resign, and his successor Chaudhary Charan Singh (was in office for 170 days) failed to sustain a parliamentary majority as alliance partners withdrew support. The new elections were held and now Indira Gandhi came back to power with thumping success in January 1980. She resumed her own strategy and the new 6th plan was started on April 1, 1980, which continued till March 31, 1985.

#### **Sixth Five Year Plan (1980-85)**

- ❖ From the sixth five-year plan onwards, there was massive investment in the Social Services. These social services included Education, Health and Family Planning, Housing & Urban Development, and other services. From the 6th Plan onwards, the role & scope of the Planning Commission also increased.
- ❖ The plan objectives were poverty alleviation and higher economic growth. Special attention was paid to the removal of poverty through rural development schemes such as Integrated Rural Development Programme (IRDP), National Rural Employment Programme (NREP), and Rural Landless Employment Guarantee Programme (RLEGP), etc.
- ❖ The poverty was 47% at the beginning of the plan and a target of 30% was fixed to achieve. The actual target achieved at that time was 37%.
- ❖ Training of Rural Youth for Self-Employment (TRYSEM) was started in 1979.
- ❖ Integrated Rural Development Programme (IRDP) was launched on October 2nd 1980 all over the Country.
- ❖ The National Rural Employment Programme (NREP) was launched in October 1980 and became a regular Plan program from April 1981.
- ❖ Till recently, 37% population of India was below the poverty line, which has now come down to 20.9% as per the government.

#### **7th Five Year Plan (1985-90)**

- ❖ A long-term plan was outlined for 1985-2000 and the 7th five-year plan was announced in this backdrop on November 9, 1985. This plan was started by the Rajiv Gandhi government when Dr. Manmohan Singh was Deputy chairman of the planning commission. The basic objectives were: Speedy development, modernization, self reliance,

and social justice. Seventh Plan also envisaged the continuance and expansion of the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) which was started in the Sixth Plan.

- ❖ The 7th Five Year plan was considerably big. The outlay of Rs. 1, 80,000 Crore was not only double of the previous plan but also had a broader scope and the actual spending of Rs. 218700 Crore was 21.5% more than the plan outlay. The outlay on Rural Development was doubled in this plan.

#### **Annual Plans: 1990-92**

- ❖ The unsustainable fiscal deficit of the 1980s along with the excessive external borrowing accumulated and culminated in the crisis of 1991. The Foreign exchange reserves were left a just one billion Dollars in January 1991, which was sufficient to finance three weeks' worth of imports.
- ❖ So, the country was on the brink of default on its external obligations. The immediate response of the caretaker government under Chandrasekhar was to secure an emergency loan of \$2.2 billion from the International Monetary Fund by pledging 67 tons of India's gold reserves as collateral. This triggered the wave of national sentiments against the rulers of the country.
- ❖ After the assassination of Rajiv Gandhi in 1991, a nationwide sympathy wave secured the victory of the Congress. The new Prime Minister was Narsimharao and his finance minister was Manmohan Singh. This new government started several reforms which are collectively called "Liberalization". This process brought the country back on track and after that India's Foreign Currency reserves have never touched such a brutal low.
- ❖ During the period of 1990-92, two annual plans for 1990-91 and 1991-92 were launched. They were worth Rs. 58,369.30 Crore and Rs. 64,751.20 Crore. The Eighth Plan could not start because of politico-economical turmoil in the country during 1990-92.

#### **Eighth Five Year Plan (1992-1997)**

- ❖ Due to political turmoil at the centre as well as the global economic changes and fiscal imbalances of the country in the late '80s, the Eighth Plan could not take off in 1990. The National Development Council ratified the format of the plan. It was decided that Eighth Five Year Plan would commence on April 1, 1992, and that 1990-91 & 1991-92 have to be treated as separate Annual Plans formulated within the framework of the earlier approach to the 8th Five-year Plan 1990-95.

### **Major Objectives**

- ❖ Creation of employment, to check population growth, and overall human development.
- ❖ Primary health facilities, Drinking Water & Vaccination in all villages.
- ❖ Growth and diversification of agricultural activities.
- ❖ Strengthen the basic Infrastructure.
- ❖ 8th plan was a plan for managing the transition from a centrally planned economy to a market-led economy through indicative planning.
- ❖ By 1992, India was a party to WTO, and the decision of opening of Indian Economy was taken to correct the increasing deficit and foreign Debt.

### **Critical Overview**

- ❖ The eighth five-year plan can be called a “Rao and Manmohan Plan”. This was a reform period and the following took place during the reform period. In 1991, Rupee was once again devaluated. Due to the currency devaluation, the Indian Rupee fell from 17.50 per dollar in 1991 to 45 per dollar in 1992.
- ❖ The Value of the Rupee was devaluated 23%. The Government announced the new Industrial Policy whereby it delicensed most industries, reduced import tariffs, opened the door for foreign direct investment, introduced a market-determined exchange rate system.
- ❖ The Eighth plan started in April 1992. One of the major highlights was the modernization of the industries. The plan was launched with twin objectives of alleviation of poverty and unemployment.
- ❖ This plan period saw the launching of many flagship programs. In the 8th five-year plan, the growth rate achieved was 6.8% against the target of 5.6%. In the first two years, the achieved growth rate was in the tune of 7.7%. Later it decreased due to mounting pressure on Asian Economies which later culminated in the Asian Financial Crisis of 1997.

### **Ninth Five Year Plan (1997-2002)**

- ❖ This period saw a change in the government. The Ninth plan was started with the objective of “Growth with Social Justice and Equality”. It also assigned importance to agriculture growth. Regulation of the debt programs was emphasized to improve the government’s financial position. It was developed in the context of 4 important dimensions of the government policy:
  - ❖ Improving the quality of the life
  - ❖ Generation of Productive employment
  - ❖ Creation of regional balances
  - ❖ Self-reliance

- ❖ The average target growth rate was 6.5% but the achieved growth rate was 5.5%. The growth in agriculture fell to 2.1% and manufacturing fell to 4.51% from 4.69% and 7.57 % from the previous plans.

### **Tenth Five Year Plan (2002-2007)**

- ❖ The tenth plan was launched by Atal Bihari Vajpayee Government on December 21, 2002.
- ❖ This plan was prepared in the background of high expectations arising from the better growth rate achieved after the liberalization. Economy accelerated in the Tenth Plan period (2002–03 to 2006–07) to record an average growth of 7.7%, the highest in any Plan period so far.
- ❖ National Income increased by 7.6% and Per capita income by 6% per annum. Industrial production increased at the rate of 8.6% per year. In the last year of the plan, double-digit growth was achieved. This led the Vajpayee government to call for a new election a bit earlier than its scheduled time in 2004.
- ❖ The NDA asked to vote in the name of the “feel-good factor” but somehow, this did not work. Vajpayee was ousted from power and the UPA-I government came at the center. The 61st report of the NSSO for 2004-05 recorded poverty to be 22% from the earlier level of 26.1%. UPA government continued many of the NDA schemes. It launched Bharat Nirman to upgrade rural infrastructure.

### **11th Five Year Plan**

- ❖ India entered the Eleventh Plan period with an impressive record of economic growth. Together with the 10th plan progress, India emerged as one of the fastest growing economies in the world in the initial years of the 11th plan.
- ❖ India’s economic fundamentals have been improving in many dimensions, and this is reflected in the fact that despite the slowdown in 2011–12, the growth rate of the economy averaged 8 percent in the Eleventh Plan period. This was lower than the Plan target of 9 percent, but it was better than the achievement of 7.8 percent in the Tenth Plan.

### **12th Five Year Plan**

- ❖ 12th Five Year Plan of the Government of India (2012–17) was India’s last Five Year Plan.
- ❖ Its main theme is “Faster, More Inclusive and Sustainable Growth”.
- ❖ The Twelfth Five-Year Plan of the Government of India has been decided to achieve a growth rate of 9% but the National Development Council (NDC) on 27 December 2012 approved a growth rate of 8% for the Twelfth Plan.
- ❖ The government intends to reduce poverty by 10% during the 12th Five-Year Plan.

- ❖ The plan aims towards the betterment of the infrastructural projects of the nation avoiding all types of bottlenecks.
- ❖ The document presented by the planning commission is aimed to attract private investments of up to US\$1 trillion in the infrastructural growth in the 12th five-year plan, which will also ensure a reduction in the subsidy burden of the government to 1.5 percent from 2 percent of the GDP (gross domestic product).
- ❖ The UID (Unique Identification Number) will act as a platform for cash transfer of the subsidies in the plan.
- ❖ The objectives of the Twelfth Five-Year Plan were:
  - ❖ To create 50 million new work opportunities in the non-farm sector.
  - ❖ To remove gender and social gap in school enrolment.
  - ❖ To enhance access to higher education.
  - ❖ To reduce malnutrition among children aged 0–3 years.
  - ❖ To provide electricity to all villages.
  - ❖ To ensure that 50% of the rural population has access to proper drinking water.
  - ❖ To increase green cover by 1 million hectares every year.
  - ❖ To provide access to banking services to 90% of households.

