# PLANNING IN INDIA: RETROSPECT AND PROSPECT

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The topic for discussion in this National Seminar, namely "Planning in India: Retrospect and Prospect" is of utmost importance to the country today. The Indian National Congress which was in uninterrupted sway of the union government for the first twenty seven years of the Republic had even before freedom established a National Planning Committee. The Committee could not function effectively because of the outbreak of the World War II and the Congress engaging itself in Freedom Struggle. The Constitution of India, embodied articles in The Directive Principles of State policy such as the citizens, men and women equally shall have the right to an adequate livelihood, "the ownership and control of the material resources of the community are so distributed as best to serve the common good and the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment". This envisages a positive role to the State in the management of the economic and political affairs of the nation. These mandates to the State clearly require an instrument to carry out the objectives.

WHY PLANNING

At the dawn of Independence, India faced acute shortages of food, raw materials, savings (domestic and Public) capital and a viable stock market. Food rationing was necessary for saving the lives of underprivileged sections, controlled distribution of raw materials for diversification of industries and for keeping alive the small industries. Scanty financial resources had to be employed in productive uses of items of national priority. Besides India, under colonial administration missed the industrial revolution that was then overtaking the world. We had to telescope the scientific and technological advances of two hundred years within a period of thirty years so that we might catch up with the ever advancing developed countries. Later day critics of Planning did not realize the pitiable condition that India was in 1950. The following figures will clearly establish how the Private Sector was totally unequal to the gigantic tasks which it had to shoulder.

| | 1950-51 | 1978-79 |
|---|---|---|
| Gross domestic savings | 10.4% | 23.2% |
| Gross domestic capital Formation | 10.2% | 23.0% |

These figures clearly establish that the Private Sector could not have established Steel mills of million ton capacity, fertilizer factories, power stations, a Neyveli Corporation etc. within the resources available in the country.

One economist has sneered at the long term (1950-80) Indian rate of growth of national income percentage in real terms at 3.5% and called it the "Hindu rate of growth". It is like taking the height of a boy in each year from the age of 5 to 25 arriving at the growth of the person. Overlooked in this is a fact that the rate of growth had touched 5.6% in 1980 itself.

Infact, Montek Ahluwalia has written a paper in which he stated that by mid 1980s the underlying growth rate of the economy had accelerated from 3.5% to 5% per annum.

A brief review of Indian economic history shows that in the era before the industrial revolution, India's share in the world's manufacturing output was 17.6% while that of UK was 9.3% and that of United States 2.3%. By 1900 India's share had dwindled to 1.7% as against the United States' share of 23.6%. Furthemore, during the period 1871 to 1946 when market economy prevailed, India had registered a growth rate of 1.5% and virtually there was no increase in per capita income. Therefore it is clear that market economy by itself does not bring about growth. It is a lubricant and not the fuel for the engine.

On the positive side, Planning helped diversification of industries, growth of industries in general and small industries in particular, corrected to an extent the regional inbalances and ensured an equitable distribution of plan resources among states. Our food production which was barely 51 million tons in 1950, has increased to over 200 million tons now.

We have falsified the economist of doom, Malthus, who said that population increases faster than production of food and that the prospects for humanity was bleak. From a country unable to feed 360 million in 1950, we have achieved food availability for one billion population. The annual per capita availability of food grains which was 144 kg in 1950 – 51, has increased to 185 kg, which is higher than the estimated norm of 182.5 kg fixed by Indian Council of Medical Reseach.

That the life expectancy has increased from 32 in 1951 to 62 in 1997 is a demonstrable proof of the all round progress in food, nutrition, health, hygiene, preventive and curative medicines etc.

Industrial production, power generation, transport and communication have all shown striking progress. In fact, in 1980, India stood in the tenth place in the world in industrial production.

Even in poverty alleviation we made sizeable advance. Professor Terence Byress of London University in his introduction to the volume; *State, Development, Planning and Liberalization in India*, (page 24) states that "the most recent figures indicate a decline in rural poverty from the peak of, perhaps 56% in 1973 – 74 to the trough of 34% in 1988 – 89 may be 89 – 90" and attributes it to programmes and poverty alleviation schemes such as Integrated Rural Development Programme (IRDP) and Jawahar Rosgar Yojana (JRY). The eminent economist Sukhamoy Chakravorti has stated that " there is a clear ***need for a visible hand of Planning***, as many of the problems involving expansion and modification of the resources farsighted action which is beyond the decision horizon of the Private Sector."

On the negative side, it led to cornering of licenses and creating artificial shortages, stifled growth even after the shortages mentioned earlier, had eased, fostered a sheltered market, thereby promoting inefficiency, and stalled modernisation and technological innovations. Above all it encouraged bureaucratic delays, black market and corruption.

The eminent economist Sukhmoy Chakravorti summed up the pros and cons of planning as follows: "while it would be foolish to suggest Indian development planning has been on the whole a great success" , "it would be just as rash to dismiss Indian planning as an essay in failure".

The mistake that we made was that after shortages had eased, savings and capital formation improved, entrepreneurial skill developed in the Private Sector by the end of the three plans, we continued to stick to controls, regulations, licenses, permits and all the paraphernalia of Planning.

In short, we continued to wear the winter clothes in mid summer in Delhi and suffered as a result. At the meeting of the National Development Council in 1965 over which Lal Bahadur Shastri, the then Prime Minister presided I, as Minister for Industries, Madras, suggested that the schedule to Industries Development and Regulation Act be re-examined and a number of items for which regulations were not required like brick making, small castings, production of parts, components and ancillaries be deleted. Lal Bahudar Shastri was impressed with the idea and told the Cabinet Secretary that this method appeared easier than amending the Act. He asked the Cabinet Secretary to meet me and prepare a list of items which may be deleted immediately and others progressively. Shortly thereafter Shastri ji died and the idea followed suit. Later as member Planning Commission, I mentioned this idea to Indira Gandhi. But due to political compulsions, Indira Gandhi did exactly the opposite and introduced more restrictions through Monopolies and Restrictive Trade Practices Act (MRTP).

The country did not adapt itself to the improved economic conditions that warranted less and less rigorous controls, regulations and dogmatism. The politicians and the bureaucrats enjoyed the power that Planning vested in them until the severe exchange crisis of 1991 jolted them from their stupor.

At that time epoch making transformation was overtaking the world. The totally controlled economies of the Soviet Union and East Europe collapsed and were changing over to a free market economy. Rupee trade with these countries, which concealed our foreign exchange shortages, was no longer possible once those countries changed over to market economy and global trade. In this context India could not remain isolated and the economic reforms 1991 became an urgent necessity.

India at the brink of default in payment accepted in 1991 the conditionals stipulated by the IMF, devalued her currency, eased controls and regulations over industries, liberalized imports, reduced customs and excise duties, liberalized royalty payments for technology and foreign investments in equity. These reforms are expected to increase production, reduce cost, improve quality and create surpluses which will “trickle down” increasing employment and incomes, eradicate poverty and improve standard of living of the masses. We have been living under the new dispensation for a decade and I am of the view that it has come to stay. No political party whatever its colour will be able to alter it.

In this context a number of questions arise namely: whether the Planning is relevant to the nation and if so how it should be shaped and modified.

The Government has two functions: one to take care of the year to year problems and the other to take care of the future. In developing countries the burden of clearing the backlog in development of education, health, transport, infrastructural facilities and social services are very heavy and urgent. Besides, the primary function of the Government in India is the eradication of poverty. This can be undertaken only by long term policies and programmes. The trickle down theory does not work speedily in the developing world whatever be its long term effects. The nation cannot wait and as Keynes said “in the long run we are all dead”. Furthermore national objectives enumerated in the Directive Principles of the Constitution referred to earlier require long term action. Hence a Planning Body, appropriate to the context, appears indispensable.

One of the major functions of the Planning Commission is to determine the size of each state plan and to equitably distribute the Central Plan assistance to the states. The Planning Commission has devised a formula for central assistance for the Plans based on certain criteria known as the Gadgil formula.

At the same time, the Constitution of India provides for a quintessential Finance Commission for devolution of assistance to the States to meet the general expenditure. This dichotomy between Plan and non Plan expenditure seems illogical. It appears to me that a merger of these two institutions may be advantageous for streamlining Central assistance to States.

With the globalization of trade and a vibrant market economy, it is now clear that the Public Sector can no longer be assigned the commanding heights of the economy but on the contrary it has no major role to play. It may be confined to strategic areas like atomic energy, oil, security and defense production etc. Therefore, there should not only be a ban on new Public Sector enterprises but also a quick denudation of the existing ones. Areas of national importance beyond the capacity of private enterprise maybe supplemented by State endeavour but very sparingly.

At the same time, the State cannot abdicate its primary responsibility for the welfare of its people. It is an old axiom of political science that the State comes into being for protection of life and liberty but it exists for good life of the citizens. With 38% of our population below poverty line and another 30% at subsistance level, the country can ignore these problems only at its peril. Long ago the ILO enunciated the principle that the poverty anywhere, is a threat to prosperity everywhere.

There is a wrong notion that Market Economy and a Welfare State are mutually exclusive. On the contrary, countries like Sweden and New Zealand whose economy is completely market oriented are the greatest Welfare States providing every kind of social security cover from the cradle to the grave for their citizens.