23

NEED FOR PLANNING IN INDIA

23.1 INTRODUCTION

You have so far studied some of the important concepts used in economics, tools of economic analysis as well as their applications without reference to any specific economy. In lesson No. 3, you were familiarised with the characteristics of the Indian economy. In this lesson you will learn about the state of the Indian economy, the need for growth in the economy and the means adopted to ensure that economy moves on a path of rapid economic growth.

23.2 OBJECTIVES

After going through this lesson, you will be able to :

- enumerate some of the problems of the Indian economy at the time of Independence;
- reason out the need for economic development;
- distinguish between economic growth and economic development;
- point out some of the measures of economic development;
- explain the meaning of economic planning;
- state the objectives of economic planning in India;
- give an account of the planning process in India;
- indicate how economic planning is better than free market;
- outline the specific tasks of Planning Commission in India.

23.3 STATE OF THE INDIAN ECONOMY AT THE TIME OF INDEPENDENCE

1. Mass poverty

Let us begin by noting that the per capita income of an Indian around the time of independence (1950-51) was estimated to be Rs.238 in terms of the then prevailing prices. In other words, the average income of an Indian per day was nearly 65 paise (i.e. Rs.238/365). This was an average. There were many who were getting much more than the average income. Also there were a large number who were getting less than this average income. We can easily conclude that not only was the overall level of per capita income low in India but was also accompanied by a large number of people getting much less than was this low averge income. Indian economy would obviously be characterised as a poor country with mass poverty.

2. Inadequate medical facilities

The country had been experiencing famines. Expected average age was low. There was a high infant mortality rate. The incidence of communicable and contagious disease was also very high.

3. High rate of growth of population

Population was increasing at a rapid rate. Birth rate was quite high.

4. Low level of literacy

Level of literacy was low. In 1951 the literacy rate was only 16.7 percent.

5. Industrial growth was negligible

The economy derived more than half of its domestic product from agriculture and nearly 70% of the working people derived their income from agricultural activities. Industrial growth was negligible.

6. Backward technology

Technology was backward. Techniques of production were old and traditional. Productivity was therefore low.

7. Traditional attitudes

The economy was also marked by rigid and traditional social attitudes. Caste rigidities were a hindrance to change in occupational structure. Food habits were guided by tradition. Attitudes towards technological change were also traditional.

Females, which constitute nearly half of the total population were largely illiterate because of the rigid attitudes towards their education. All these and several other factors were not only adding to the problems of poverty but were also acting as a hindrance to any progress or change.

8. Social and economic problems created by the partition of the country

Moreover, with independence came the partition. This artificial political division not only created social tensions but also aggravated some economic problems. Scarcity of food was increased because some of the food surplus areas were now in Pakistan. Similarly jute growing areas were in East Pakistan (now Bangladesh) but the jute factories were on the Indian side. Railway system was also suddenly disrupted. There was also the immediate and huge problem of rehabilitation of a huge mass of population which migrated from one part of the undivided India to the other parts after division.

9. Low per capita income as compared to other countries

Compared to some of the other countries of the world India's economic situation was dismal. Per capita income in India was less than even 1/30th of the per capita income in USA. Even in comparison to some other countries, namely Japan, England, France, Germany, Australia, New Zealand, the per capita income and the standard of living in India was very low.

10. Independence raised expectations of the people

After independence the expectations of the people were raised. With the end of colonial rule there was a hope of rise in the standards of living and end to poverty and misery which had marked the life of a large number of people in India. This required that national product must grow. It should grow at a rate faster than that of the population. Only then the per capita income can rise. It was also necessary that national income of India grows at a rate faster than the rate of growth of income in some of the rich industrial countries like UK, USA, France, Germany, Japan etc. so that the country can catch up with their levels of living in a reasonable period of time.

Conclusion

Thus Indian economy at the time of independence was an economy marked by mass poverty inequality, illiteracy, backward technology, high degree of dependence on agriculture and rapidly growing population. There was an urgent need to eradicate poverty, build up industry, improve technology, eliminate illiteracy, reduce inequalities and bring about a change in the overall outlook. This required massive resources.

INTEXT QUESTIONS 23.1

1. Tick (✓) mark the correct answer.

   (i) Per capita income in India in 1950-51 was:

   (A) Rs.2238 (B) Rs.1238 (C) Rs.238 (D) Rs.38

   (ii) In 1950-51, per capita income of USA as compared to India was more than:

   (A) 30 times (B) 23 times (C) 13 times (D) 3 times

2. Fill in the blanks with suitable words out of those given in the bracket:

   (equally, low, inequality, more, advanced, backward, literacy, illiteracy)

   (i) Indian economy was marked by high degree of............ at the time of independence.

   (ii) Incomes in India were not only............they were also unequally distributed.

   (iii) Technology in India was..............

   (iv) In 1951 .... rate was only 16.7 per cent in India.

23.4 NEED FOR ECONOMIC DEVELOPMENT

From your understanding of the state of the Indian economy at the time of Independence what do you conclude about the need of the country? There was a dire and urgent need to increase incomes and improve the levels of living, reduce and ultimately eliminate mass poverty. All this implies economic development.

What do you mean by economic development? There is another term 'economic growth'. Do both mean the same? No. There is a difference. Let us note this difference.

Economic growth means rise in only per capita real income over a long period of time. Here real income means physical production. Per capita means total production divided by total population. So economic growth simply means the rise in per capita availability of goods and services over a long period of time.

Economic development, on the other hand, is much more than economic growth. It not only means rise in per capita income, it also means reduction in economic inequality and poverty.

The policy makers in India were clear that India needed economic development. As you know economic development means a sustained rise in national product plus other positive changes.

The economy could not possess more unless it produced more. Increase in production was possible only if more and more resources of the economy were brought into use. More labour could be put into use only if tool and equipment or machinery was made available. More machinery or tools and equipments called for investment. More investment, was therefore, the primary need of the country.

Not only production was required to be raised it was required to be raised at a rate faster than the rate of growth of population so that per capita income could rise. It is only then that people can experience a higher standard of living.

Also was required to reduce the gap between the rich and the poor i.e. to reduce inequality.

Once the process of economic development starts other qualitative changes also start taking place in the economy. Technology improves. Productivity increases. There is a greater role of industries. In the situation of economic growth this may happen in a part of the economy but in a situation of economic development these changes are more evenly spread. Rural areas experience as much growth as the urban areas. If however only the urban areas experience these changes in productivity, technology etc. then economic growth may take place but it is not economic development.

Was India's need at the time of independence economic growth or economic development? We are sure your answer would be economic development. India needed to raise the levels of living of its people. But it was not merely a rise in real per capita income that was needed but also a more equitable or less unequal distribution of income which was also necessary.

Moreover, for better levels of living there are several other things that should also happen. There should be increase in literacy. There should be an easier and quicker access to drinking water, postal services, telephone services, banking services, medical and sanitation services, transport services, educational facilities etc. Economic development results not only from an easier and quicker access to all these and similar services but also from an improvement in the quality of these services over time. For instance if drinking water becomes available in a village it is an improvement in the level of living of the people living in that village. It will be a further improvement if the water taps are available in each residence of the village rather than at one place. Similarly if there are more educational institutions per kilometer of area of a country there is an improvement. There will be further improvement if the number of pupils per teacher also declines. That would mean that a teacher has to pay attention to fewer students and can therefore attend to their individual educational needs. Likewise, if the number of doctors, nurses etc. increases per hundred persons then their is an improvement in medical facilities.

Economic development is thus, reflected in the increase in per capita incomes plus a reduction in inequalities in the distribution of incomes plus an improvement in the levels of living. The improvement in the level of living is reflected in the availability of various types of services to the population of the country and their quality. More people having access to drinking water, high literacy rate, more post offices per kilometer of area, more roads per kilometer area, etc. will reflect the level of living. Improvement in these is an improvement in the levels of living.

INTEXT QUESTIONS 23.2

1. Tick (✓) mark the correct statement.

   (i) Economic growth is the same thing as economic development.

   (ii) Economic growth includes economic development.

   (iii) Economic development includes economic growth.

   (iv) Economic growth and economic development are not related at all.

2. Mention two changes which must take place if economic development is taking place in a country.

   (i) ____________________

   (ii) ____________________

3. Mention two ratios which must decline if the level of living is to improve in an area.

   (i) ____________________

   (ii) ____________________

23.5 PLANNING AND ITS NEED

You have so far studied that at the time of independence there was a need for economic development in India. It means that there was not only an urgency for economic growth but also a need to reduce the inequalities in the distribution of income as well as to improve the levels of living.

Now the question was as to how to achieve economic growth? Should it be left to the free market? Or should there be some regulation of market mechanism? In a free market there is no government interference in the free working of the forces of demand and supply. Only those goods and services are produced which are in current demand. Only those demand these goods and services who have income. Rich people have more income than the poor. So more production takes place for the rich. Why should market produce infrastructural services? Huge investment is required in these services. At the same investors in infrastructural services start getting some return only after a long time. The return is also low. Therefore, if everything is left to the free market total production (i.e. economic growth) may increase but economic development may not take place.

Government intervention is necessary to initiate the process of economic development. Government, through its actions, can divert resources towards the production of goods and services needed by common man. She can invest in infrastructure. She can reduce inequalities. So, it was not desirable to leave everything to the free market.

It was on account of the above reasons that government chose economic planning as a means to economic development so that alongwith economic growth standard of living improves, poverty and inequalities reduced. Economic planning implies best mobilization, allocation and utilization of available resources to the benefit of the people.

Economic Planning vs. Free Market

In a free market resources are used for earning profit and not for public welfare. This is why, keeping in mind the objectives of economic planning, government decided to regulate the market. Economic planning is considered better than the free market sysem on account of the following reasons :

1. It will help in quickly building the productive capacity in the economy.
2. It will help in producing goods and services not only for current consumption but also for future production.
3. It will help in mobilising more resources for increasing productive capacity.
4. It will help in reducing the economic inequalities over time.
5. It will help in developing the backward regions of the economy.
6. It will help the government to keep a control over the economy and direct it for the rapid economic development.

Tasks before the Planning Commission

Thus a Planning Commission was set up in March 1950 by the Government of India. It was expected to prepare a plan for the country's economic development. The specific tasks before the Planning Commission in India are the following :

1. assessing the quantity and quality of the resources of the country - physical, financial as well as human - and preparing plans for their effective utilisation.

2. preparing five year plans to fulfil the targets of economic planning over a long period of time.
3. laying down priorities of each five year plan in the light of overall objectives.
4. allocating the available resources for achievement of the objectives of the plan in accordance with the priorities.
5. specifying guidelines for achievement of the objectives of the plans.
6. co-ordinating with the state governments for the execution of the plans.
7. appraising the progress of the plans and recommending adjustments in them.

It should be noted that five year plans are prepared to fulfil the overall objectives of economic planning in India. Each five year plan lays down certain targets, prepares a plan of investment for their achievement and sets into motion the mechanism for fulfilling the targets. At the end of the five year plan an appraisal of the achievements during the plan period is made. The next five year plan to fulfil the overall objectives is made after taking into account the achievements of the past plan and the tasks yet to achieved.

INTEXT QUESTIONS 23.3

1. Choose the correct alternative.

   (i) Economic planning in India was adopted because -

   A. it was considered superior to the market system.

   B. there was a desire to eliminate market system.

   C. it was the only system that existed in the developed economies.

   D. it was required to remove certain defects of the free market.

   (ii) Which of the following is an advantage of the economic planning?

   A. It enables maximisation of the satisfaction of the consumers.

   B. It enables the producers to maximise their profits.

   C. It enables the country to quickly build its productive capacity.

2. Fill in the blanks with appropriate words out of those given in the bracket:

   (objectives, planning, control, market-system)

   (i) Government prepared to adopt....................as a means of achieving rapid economic development.

   (ii) Economic planning was considered helpful in keeping .... under control.

   (iii) Five year plans were prepared to fulfil the........................ of economic planning.

23.6 OBJECTIVES OF ECONOMIC PLANNING IN INDIA

As studied so far in this lesson economic planning was adopted to ensure rapid economic development and to avoid the weaknesses of the market system by regulating and controlling it. In view of the problems that the economy was facing at the time of independence the system of economic planning aimed at overcoming those problems. It therefore had certain objectives which were to be fulfilled over a long period of time. To fulfil these objectives plans were prepared. Each plan was a step towards fulfilling the objectives of planning in India.

The overall objectives of economic planning in India are the following:

(a) Accelerating economic growth

As stated earlier the per capita income in India was low. It had to be raised. This required an increase in production at a rate faster than that of the growth of population. Planning Commission had expected that the rate of growth will be fast enough in the economy so that the real per capita income will be doubled in about 20 years time.

(b) Reduction of economic inequalities

Indian economy is not only marked by low incomes but also by large inequalities in the distribution of incomes. Those who are rich are very rich. The poor are so poor that they could not meet even their food requirements. They either remain hungary and died of hunger and malnutrition or live on charity of others. Economic planning aims at reducing the inequalities of income by raising the income levels of the poor.

In fact these two objectives of economic planning are considered equally important. 'Growth with equity' (i.e. growth with equality of income distribution) is considered as the main objective of economic planning in India.

(c) Self-reliance

This is another important objective of economic planning in India. This implies that instead of exporting minerals and agricultural raw materials the country could use them to manufacture the goods that it imports from other countries. The economy would thus be able to increase its industrial production. The objective of self-reliance also meant that the economy would be increasing its productive capacity to pay for its imports.

(d) Balanced regional development

Economic planning also aims at reducing inequalities in the levels of development of different regions. Some regions were more advanced industrially whereas others were very backward. For instance industrial advancement of Maharashtra and Gujrat was in sharp contrast with the neighbouring Madhya Pradesh or with Orissa. There was a need to build up the infrastructure which was necessary for industrial growth in these backward regions. Economic planning aims at reducing the inequalities between different regions of the country.

(e) Modernisation

Modernisation of the economy is another objective of planning in India. Building up new industries, improving techniques of production, improving organisation of production units are necessary for ensuring the economic growth continues to take place over a long period of time. Modernisation aims at increasing the ability of the Indian industries to compete with industries of other countries. Modernisation also aims at changing social attitudes and habits so that productivity and incomes can be increased.

(f) Reduction of Unemployment

Planners felt that economic growth will generate employment opportunities. They aimed at accelerating growth not only to raise incomes but also to generate new employment opportunities in such a way that existing unemployment is reduced and new entrants to the job market also get employment.

Keeping these objectives in view the Planning Commission prepares plans with certain immediate or short term objectives. The objectives of each five year plan are only a means to achieve the overall objectives of planning. These plans are prepared for a period of five years so that there is sufficient time to set up industries and complete projects which take time. After every five year period an appraisal of the achievements is made and fresh plan prepared to move forward towards fulfilment of the objectives.

Economic planning actually commenced in India with the setting up of the Planning Commission in 1950. The first five year plan was put into operation in April 1951. Thereafter planning has been used as the means of ensuring economic development. Occasional breaks in economic plans have been caused by political changes or other disturbances. India has completed its eighth five year plan in March 1997. The ninth plan is in progress.

INTEXT QUESTIONS 23.4

1. Tick (✓) mark the correct statement:

   (i) Growth with equity was the most important objective of economic planning in India.
   (ii) Self-reliance means that country will not have trade with other countries.
   (iii) Reducing population growth rate was an important objective of economic palnning in India.

2. Which of the following is not an objective of economic planning in India?

   (i) Improving technology
   (ii) Raising the levels of living of the poor
   (iii) Balance of trade.

3. Fill in the blanks with appropriate words out of those given in the bracket:

   (imports, exports, more, low, per capita income, national income)

   (i) Indian economy is not only marked by.............per capita income but also a considerable degree of inequality.

(ii) Per capita income can rise if the rate of growth of production is................than the rate of growth of population.

(iii) Self reliance implies that the country would use its agricultural raw materials and minerals to manufacture the goods that it .... from other countries.

WHAT YOU HAVE LEARNT

- At the time of independence, Indian economy was not only marked by low income but also a considerable degree of inequality.
- Excessive dependence on agriculture, backward technology, low productivity and traditional attitudes made the economic situation extremely difficult.
- There was an urgent need for economic development. Economic growth only would not be sufficient as the levels of living of the poor had to be raised.
- Free market system could not have guaranteed the desired rate of economic growth alongwith reduction of inequalities. So, there was a need for planning in order to best utilise the resources for the benefit of the people rather than a few.
- Economic planning could also help in mobilising and allocating resources in the desired manner.
- The objectives of economic planning in India are economic growth, reduction of inequalities, self reliance, modernisation, reduction of unemployment and balanced regional growth.
- Each five year plan aims at achieving certain targets. Five year plans constitute the step towards the fulfilment of the objectives of economic planning.

TERMINAL EXERCISE

1. Give a brief account of the state of the Indian economy at the time of Independence.
2. State the impact of partition on the economy of divided India.
3. Distinguish between economic growth and economic development.
4. Did India need economic growth or economic development at the time of Independence. Explain.
5. Bring out the case for economic planning in India.
6. State the major objectives of economic planning in India.

ANSWERS

Intext Questions 23.1

1. (i) C (ii) A
2. (i) inequality (ii) low (iii) backward (iv) literacy

Intext Questions 23.2

1. (iii)
2. (i) Reduction in inequality (ii) Reduction in poverty
3. (i) Infant mortality rate (ii) Illiteracy rate

Intext Questions 23.3

1. (i) D (ii) C
2. (i) planning (ii) market system (iii) objectives

Intext Questions 23.4

1. (i) and (iii)
2. (iii)
3. (i) low (ii) more (iii) imports

Terminal Exercise

1. Read section 23.3
2. Read section 23.3(8)
3. Read section 23.4
4. Read section 23.4
5. Read section 23.5
6. Read section 23.6