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STUDY OF FIVE YEAR PLANS IN INDIA

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ABSTRACT
Economic development, achieved largely through productivity growth, is very important to both developed and developing nations. However, even though we know that higher productivity leads to improved economic outcomes (for example, higher income, more choices to the consumers, better quality products, etc.), there has been no consensus among researchers about either the desired path of development or the role of state in economic development. Concerning the path of development, Lal (2001) says that the appropriate strategy for any country depends not only on its objective economic situation but also on its government policies and national views regarding the appropriate role of the state.

INTRODUCTION

Regarding the appropriate role of the state, it seems that for every argument in favour of a smaller government role one can find a counter argument in favour of a more active government role. The role of the state in economic development began to change dramatically with the advent of the Industrial Revolution. In the West, the resulting industrialization and economic development were based on the establishment of individual property rights that encouraged the growth of private capital. Competition and individual enterprise thrive in this environment because individuals pursue their self-interest of survival and wealth accumulation. The instinct to survive under competitive pressures yields innovation and productivity increases, which eventually lead to both increased profits for business and lower prices to consumers.

REVIEW OF LITERATURE:

Economic Development has been the prime concern of the Indian state since the inception of India's independence in 1947. India was born independent with mass poverty, illiteracy, unemployment and disease. It faced the challenge of growth and change to catch up with the developed countries. It had to decide on vital issues such as its development strategy for the future, the industrial policy it had to adopt to achieve the goals of the development strategy, the corporate action that had to follow as a consequence of such industrial policy, the need for setting up the State Owned Enterprises (SOEs) as an instrument of implementing the public policy and to provide a fillip to the private sector to make India a mixed economy. The purpose of this paper is to narrate, in brief, a historic overview of evolving development strategies and industrial policies in India, discuss at length the experience over recent decades with assigning SOEs with public policy objectives in pursuit of developmental goals, focus on state-controlled alternatives to SOEs in detail and, finally based on the Indian experience outline lessons for other countries that have embarked on the path of economic development.

INDIA'S STRATEGY OF ECONOMIC DEVELOPMENT

Thus the strategy of economic development in India meant (1) direct participation of the government in economic activities such as production and selling and (2) regulation of private sector economic activities through a complex system of controls. In addition, the Indian economy was sheltered from foreign competition through use of both the "infant industry argument" and a binding foreign exchange constraint. Imports were limited to goods considered essential either to the development of the economy (such as raw materials and machines) or to the maintenance of minimal living standards (such as crude oil and food items). It was further decided that exports should play a limited role in economic development, thereby minimizing the need to compete in the global market place. As a result, India became a relatively closed economy, permitting only limited economic transactions with other countries. Domestic producers were sheltered from foreign competition not only from abroad but also from within India itself. Over time, India created a large number of government institutions to meet the objective of growth with equity. The size of the government grew substantially as it played an increasingly larger role in the economy in such areas as investment, production, retailing, and regulation of the private sector. For example, in the late 1950s and 1960s, the government established public sector enterprises in such areas as production and distribution of electricity, petroleum products, steel, coal, and engineering goods. In the late 1960s, it nationalized the banking and insurance sectors. To alleviate the shortages of food and other agricultural outputs, it provided modern agricultural inputs (for example farm machinery, irrigation, high yielding varieties of seeds, chemical fertilizers) to farmers at highly subsidized prices (World Economic Indicators, 2001). In 1970, to increase foreign exchange earnings, it designated exports as a priority sector for active government help and established, among other things, a duty drawback system, programmes of assistance for market development, and 100 per cent export-oriented entities to help producers export (Government of India, 1984). Finally, from the late 1970s through the mid-1980s, India liberalized imports such that those not subject to licensing as a proportion to total imports grew from five per cent in 1980-1981 to about 30 per cent in 1987-1988 (Pursell, 1992.

The policy of price ceilings, along with the quantitative restrictions on production and consumption, led to an economic environment ripe for corruption (Amal Sanyal). Specifically, because of the general scarcity of products and services, individuals competed to receive the privilege of economic rights to produce or consume. The implementing authority responsible for allocating these economic rights – politicians, government officials and businesses – enjoyed monopoly power in this situation and, as might be expected, were susceptible to bribes and other illegal favours. The result was an informal and illegal market in which the desired economic rights could be traded. Also, the lure of higher profits led producers and sellers (1) to have little concern for quality such that many deliberately produced and sold inferior quality products, and (2) to resort to the creation of artificial shortages by not releasing to the market all of the products that were available for selling. The complex system of government controls, including price ceilings, along with the resultant corruption, meant that decision making was arbitrary and the transactions non-transparent. The result was an increase in transaction costs. For example, businesses had to spend more to "stay connected' with appropriate government officials and politicians. And consumers, in addition to waiting in line to purchase needed products and services, also made illegal payments for what they should have received at a reasonable price in the first place. It has already been explained how India's government grew in size as it played an increasing role in controlling the economy. It grew even further in trying to be appropriately vigilant in dealing with the increased corruption among government officials, businesses, and other participants. Price controls were only one example of the regulated economic environment. Another example of a harmful policy was the control of ownership of private capital (both income and wealth) by Indian nationals in India and also by foreign nationals doing business in India. Such policies, coupled with high individual and corporate income tax rates and high customs and excise duties, led to outcomes similar to those resulting from price ceilings namely, increased corruption and higher transaction costs. In conclusion, this section has shown how individuals guided by their self-interests, will act in a regulated environment. Government controls based on arbitrary and ad hoc administrative decisions lead not only to greater concealed income and wealth but also to diminished productivity, particularly due to the resulting higher transaction costs.

The Role of Entrepreneurship in India Future Economic Development:

The economic reforms of the early 1990s set the stage for substantial improvements in the Indian economy. As was stated earlier, India's economy grew at an average of 6.3 per cent from 1992-1993 to 2000-2001 (Acharya, 2001). Further, its rate of inflation and fiscal deficit both decreased substantially (Bhalla, 2000). Improved exchange rate management led to improved financing of the current account deficit and higher foreign exchange reserves. Finally, India's GDP and per capita income both increased substantially from 1990-1991 to 1998-1999. Given India's economic progress in recent years, the country may now be ready for the implementation of microeconomic policies that will foster entrepreneurial activities. Fortunately, in addition to the macroeconomic reforms mentioned earlier, India has taken other steps to lay the foundation for the type of economic growth that can be fostered only by entrepreneurial activities and appropriate economic policies that reflect individual rights and responsibilities. For example, in recent years India has made several important structural changes, including the construction of telecommunications networks and the implementation of a nationwide road-construction programme (Solomon, 2003). Further, several thousand "new economy" businesses – the types of businesses especially suited for entrepreneurship efforts-were started in 2000 alone.

However, more than just opportunities should lead India to consider entrepreneurial activities as a way to economic growth. At least one major threat, a growing population, also should motivate it to consider entrepreneurial effort as an economic policy. Specifically, the country's population is expected to increase by 110 to 130 million people over the next 10 years, with approximately 80 to 100 million of those new citizens seeking jobs that do not currently exist (Gupta, 2001). Entrepreneurial efforts can help to provide those jobs. Recent research on entrepreneurship around the world indicates that the cultural characteristics that can foster successful entrepreneurial activities and its related economic benefits are a strong education base, the necessary financial support, opportunities for networking among entrepreneurs, and a well-defined, minimal role for the government. In the case of India specifically, an emphasis upon entrepreneurial activities in the information technology sector also seems relevant.

DEVELOPMENT STRATEGIES AND INDUSTRIAL POLICIES

Development Strategy The objective of India's development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be achieved within a democratic political framework using the mechanism of a mixed economy where both public and private sectors co-exist. India initiated planning for national economic development with the establishment of the Planning Commission. Since Independence, the Indian economy has been premised on the concept of planning. This has been carried through the Five Year Plans (FYP), developed, executed, and monitored by the Planning Commission. The Eleventh Plan completed its term in March 2012 and the twelfth plan is currently underway.

First Five Year Plan (1951 – 1956)

India launched its First FYP in 1951, immediately after independence under socialist influence of first Prime Minister Jawaharlal Nehru. FYPs are centralized and integrated national economic programs. The first Five-Year Plan was one of the most important because it has a great role in the launching of Indian development after the Independence. Thus, it strongly supported agriculture production and it also launched the industrialization of the country. It built a particular system of "Mixed economy", with a great role for the public sector, as well as a growing private sector.

Second Five Year Plan (1956 – 1961)

The plan attempted to determine the optimal allocation of investment between productive sectors in order to maximize long-run economic growth. The plan assumed a closed economy in which the main trading activity would be centered on importing capital goods. Hydroelectric power projects and five steel plants at Bhilai, Durgapur, and Rourkela were established. Coal production was increased. More railway lines were added in the north east. The 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. The total amount allocated under the second five-year plan in India was Rs 48 billion. This amount was allocated among various sectors: Power and irrigation, Social services, Communications and transport. The target growth rate was 4.5% and the actual growth rate was 4.27%

Third Five Year Plan (1961 – 1966)

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 grass-root 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. The target growth rate was 5.6%, but the actual growth rate was 2.4%. Due to miserable failure of third plan the government was forced to declare "plan holidays" (from 1966 – 67, 1967 – 68, and 1968 – 69). Three annual plans were drawn during this intervening period. During 1966-67 there was again the problem of drought. Equal priority was given to agriculture, its allied activities, and industrial sector. The main reasons for plan holidays were the war, lack of resources, and increase in inflation.

Fourth Five Year Plan (1969 – 1974)

During this plan government nationalized 14 major Indian banks and the Green Revolution in India advanced agriculture. In addition, the situation in East Pakistan (now Bangladesh) was becoming dire as the Indo-Pakistan War of 1971 and Bangladesh Liberation War took funds earmarked for industrial development had to be diverted for the war effort. India also performed the Smiling Buddha underground nuclear test in 1974, partially in response to the United States deployment of the Seventh Fleet in the Bay of Bengal. The fleet had been deployed to warn India against attacking West Pakistan and extending the war. The target growth rate was 5.6%, but the actual growth rate was 3.3%.

Fifth Five Year Plan (1974 – 1979)

In 1978 the newly elected Morarji Desai government rejected the plan. The Electricity Supply Act was amended in 1975, which enabled the central government to enter into power generation and transmission. The Indian national highway system was introduced and many roads were widened to accommodate the increasing traffic. Tourism also expanded. It was followed from 1974 to 1979. The target growth rate was 4.4% and the actual growth rate was 5.0.

Sixth Five Year Plan (1980 – 1985)

In contrast to China's strict and binding one-child policy, Indian policy did not rely on the threat of force. More prosperous areas of India adopted family planning more rapidly than less prosperous areas, which continued to have a high birth rate. The sixth Five Year Plan was a great success to Indian economy. The target growth rate was 5.2% and the actual growth rate was 5.4%.

Seventh Five Year Plan (1985 – 1990)

The main objectives of the 7th Five-year Plan were to establish growth in areas of increasing economic productivity, production of food grains, and generating employment. As an outcome of the sixth Five-year Plan, there had been steady growth in agriculture, controls on the rate of inflation, and favourable balance of payments which had provided a strong base for the seventh Five-year Plan to build on the need for further economic growth. The seventh plan had strived towards socialism and energy production at large. The thrust areas of the seventh Five-year Plan were: Social Justice, Removal of oppression of the weak, using modern technology, Agricultural development, Anti-poverty programs, Full supply of food, clothing, and shelter, increasing productivity of small and large-scale farmers, and Making India an Independent Economy. Based on a 15-year period of striving towards steady growth, the seventh plan was focused on achieving the pre-requisites of self-sustaining growth by the year 2000.

Industrial Policy in India

When India achieved Independence in 1947, the national consensus was in favour of rapid industrialization of the economy which was seen not only as the key to economic development but also to economic sovereignty. In the subsequent years, India's Industrial Policy evolved through successive Industrial Policy Resolutions and Industrial Policy Statements. Specific priorities for industrial development were also laid down in the successive Five Year Plans. Building on the so-called "Bombay Plan" in the pre-independence era, the first Industrial Policy Resolution announced in 1948 laid down broad contours of the strategy of industrial development. Important distinctions were made among industries to be kept under the exclusive ownership of Government, i.e., the public sector, those reserved for private sector and the joint sector. Subsequently, the Industrial (Department and Regulation) Act (IDR Act) was enacted in 1951 with the objective of empowering the Government to take necessary steps to regulate the pattern of industrial development through licensing. This paved the way for the Industrial Policy Resolution of 1956, which was the first comprehensive statement on the strategy for industrial development in India.

CONCLUSION

The reasoning here is not new, although it is refreshing to discover that this “tried-and-true” reasoning applies to developing as well as to developed nations. Specifically, reliance upon a free market, with its emphasis upon individual self-interest in survival and wealth accumulation, can yield a wide range of economic benefits. In India those benefits have included, among other things, increased economic growth, reduced inflation, a smaller fiscal deficit, and higher inflows of the foreign capital needed for investment. It is further concluded that India can generate additional economic growth by fostering entrepreneurial activities within its borders, particularly within its burgeoning middle class. Not only has entrepreneurship been found to yield significant economic benefits in a wide variety of nations, but India specifically has reached a point in its development where it can achieve similar results through entrepreneurial efforts. Among other things, India is poised to generate new business start-ups in the high technology area that can help it become a major competitor in the world economy. For example, it has a strong education base suited to entrepreneurial activities, increased inflows of foreign capital aimed at its growing information technology services sector, and a host of successful new business start-ups. To pursue further the entrepreneurial approach to economic growth, India must now provide opportunities for (1) education directed specifically at developing entrepreneurial skills, (2) financing of entrepreneurial efforts, and (3) networking among potential entrepreneurs and their experienced counterparts. Obviously, the government can play a substantial role in helping to provide these types of opportunities. It can also provide the appropriate tax and regulatory. policies and help the citizens of India to understand the link between entrepreneurial efforts and economic prosperity. However, its role overall must be minimized so that the influence of the free market and individual self-interest can be fully realized.

1. Rapid growth at 9 percent that reduces poverty and creates employment.
2. Equality of opportunity
3. Access to essential services in health and education especially for the poor
4. Empowerment through education and skill development
5. Employment opportunities underpinned by the national rural employment guarantee
6. Environment sustainability
7. Reorganization of women agency

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