Name: ____________________

Date: __/__/__

Plan

A plan is a detailed set of tasks that need to be performed to achieve a goal or objective.

Five Year Plans

The goals of the five-year plans are: growth, modernisation, self-reliance and equity. This does not mean that all the plans have given equal importance to all these goals. Let us now learn about the goals of planning in some detail.

1. Growth: It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services.

   The GDP is the market value of all the goods and services produced in the country during a year. You can think of the GDP as a cake: growth is increase in the size of the cake. If the cake is larger, more people can enjoy it. It is necessary to produce more goods and services if the people of India are to enjoy (in the words of the First Five Year Plan) a more rich and varied life.

2. Modernisation: To increase the production of goods and services the producers must adopt new technology. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones.
3. Self-reliance: A nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations. The first seven five-year plans gave importance to self-reliance which means avoiding imports of those goods.
4. Equity: Now growth, modernisation and self-reliance, by themselves, may not improve the kind of life which people are living. A country can have high growth, the most modern technology developed in the country itself, and have most of its people living in poverty. It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich.

Agriculture

The policy makers of independent India had to address these issues which they did through land reforms and promoting the use of 'miracle seeds' which ushered in a revolution in Indian agriculture.

1. Land Reforms: At the time of independence, the land tenure system was characterised by intermediaries (variously called zamindars, jagirdars etc.) who merely collected rent from the actual tillers of the soil without contributing towards improvements on the farm. The low productivity of the agricultural sector forced India to import food from the United States of America (U.S.A.). Equity in agriculture called for land reforms which primarily refer to change in the ownership of landholdings.
2. Land ceiling was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The abolition of intermediaries meant that some 200 lakh tenants came into direct contact with the government — they were thus freed from being exploited by the zamindars. The land ceiling legislation also faced hurdles. The big landlords challenged the legislation in the courts, delaying its implementation. They used this delay to register their lands in the name of close relatives, thereby escaping from the legislation.
3. The Green Revolution: At independence, about 75 per cent of the country's population was dependent on agriculture. Productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for most farmers. India's agriculture vitally depends on the monsoon and if the monsoon fell short the farmers were in trouble unless they had access to irrigation facilities which very few had. The stagnation in agriculture during the colonial rule was permanently broken by the green revolution: this refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice. The first phase of the green revolution (approximately mid 1960s upto mid 1970s), the use of HYV seeds was restricted to the more affluent states such as Punjab, Andhra Pradesh and Tamil Nadu.

Industry and Trade

Economists have found that poor nations can progress only if they have a good industrial sector. Industry provides employment which is more stable than the employment in agriculture; it promotes modernisation and overall prosperity. It is for this reason that the five-year plans place a lot of emphasis on industrial development.

There were two well managed iron and steel firms — one in Jamshedpur and the other in Kolkata — but, obviously, we needed to expand the industrial base with a variety of industries if the economy was to grow.

Market and State in Indian Industrial Development

The big question facing the policy makers was — what should be the role of the government and the private sector in industrial development? At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy; nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so. It is principally for these reasons that the state had to play an extensive role in promoting the industrial sector.

Industrial Policy Resolution 1956 (IPR 1956)

In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories. The first category comprised industries which would be exclusively owned by the state; the second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units; the third category consisted of the remaining industries which were to be in the private sector.

This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

Effect of Policies on Industrial Development

The achievements of India's industrial sector during the first seven plans are impressive indeed. The proportion of GDP contributed by the industrial sector increased in the period from 11.8 per cent in 1950-51 to 24.6 per cent in 1990-91. The rise in the industry's share of GDP is an important indicator of development. The six per cent annual growth rate of the industrial sector during the period is commendable.

The promotion of small-scale industries gave opportunities to those people who did not have the capital to start large firms to get into business. Protection from foreign competition enabled the development of indigenous industries in the areas of electronics and automobile sectors which otherwise could not have developed. Despite the contribution made by the public sector to the growth of the Indian economy, some economists are critical of the performance of many public-sector enterprises.

It is now widely held that state enterprises continued to produce certain goods and services (often monopolising them) although this was no longer required. An example is the provision of telecommunication service. The government had the monopoly of this service even after private sector firms could also provide it. Due to the absence of competition, even till the late 1990s, one had to wait for a long time to get a telephone connection.

Another instance could be the establishment of Modern Bread, a bread-manufacturing firm, as if the private sector could not manufacture bread! In 2001 this firm was sold to the private sector. The point is that no distinction was made between

(i) What the public sector alone can do and
(ii) What the private sector can also do. For example, even now only the public sector can supply national defence and free medical treatment for poor patients.

And even though the private sector can manage hotels well, yet, the government also runs hotels. This has led some scholars to argue that the state should get out of areas which the private sector can manage, and the government may concentrate its resources on important services which the private sector cannot provide.

Small Scale Industries

In 1955, the Village and Small-scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural development. A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. This limit has changed from Rs.5 lakh to the present Rs.1 crore.

It was believed that small-scale industries are more 'labour intensive' i.e., they use more labour than the large-scale industries and, therefore, generate more employment. But these industries cannot compete with the big industrial firms; it is obvious that development of small-scale industry requires them to be shielded from the large firms. For this purpose, the production of several products was reserved for the small-scale industry; the criterion of reservation being the ability of these units to manufacture the goods. They were also given concessions such as lower excise duty and bank loans at lower interest rates.

Trade Policy: Import Substitution

The industrial policy that we adopted was closely related to the trade policy. In the first seven plans, trade was characterised by what is commonly called an inward-looking trade strategy. Technically, this strategy is called import substitution.

This policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself. In this policy the government protected the domestic industries from foreign competition. Protection from imports took two forms: tariffs and quotas. Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.