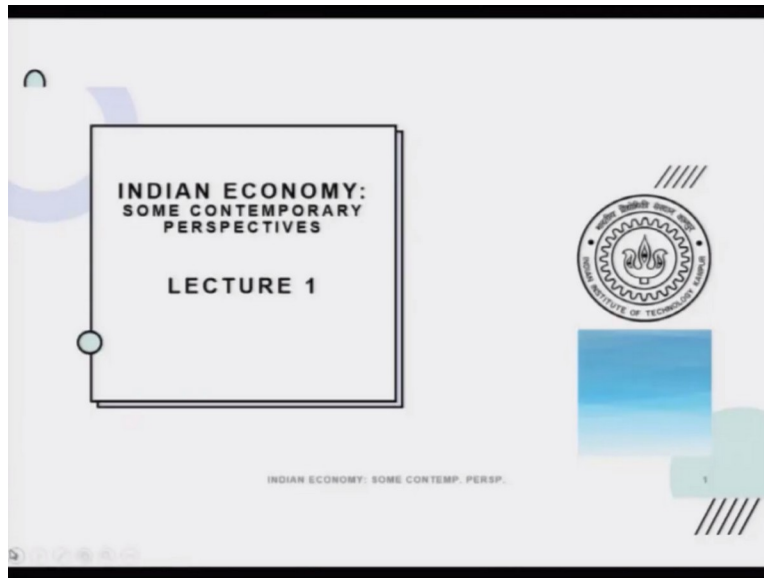


Indian Economy: Some Contemporary Perspectives
Professor Wasim Ahmad
Department of Economic Sciences
Indian Institute of Technology, Kanpur
Lecture-01
Indian Economy: Economic Planning 1

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So, hi everyone. So, we are going to start the course on Indian Economy. I have given the title Indian Economy: Some Contemporary Perspectives, and it talks about how India has reached till this stage that we are seeing, and how we have become one of the fastest growing economies, though the pandemic has caused a lot, and because of that our business cycle has been completely derailed, not just in terms of growth, but in terms of recovery also that how long we will be taking to get back to what we were in 2014 or before 2014, even in in 2012 and 2013.

And we are also trying to see that how we can understand different processes of economic development that India has passed through. After independence, one of the major challenges that India faced was that how we can revive our economy, how we can get back to high growth path. And that is what it is needed for an economist to understand those processes that what led to the great achievement that we say that we are aspiring to become a 5 trillion Dollar economy.

So, keeping in mind that how the economic growth and development have taken place in India, in the context of modern era of whatever we have, a services sector rising economy, but the main

purpose of designing this discourse was that we should have a clear-cut idea about some contemporary developments in Indian economy.

But if we have to understand the contemporary context, then it will not be wise to avoid the historical development. So, I will be going through some development or some measures that we took after independence, and especially the economic planning that we had to go through and how we have understood.

So, most of the people, those who study economics, they always complain that the course, Indian Economy, is quite boring and we are not sure what to study and what not to study. So, I would say, in a systematic manner, I would also say that in a more outlined manner, it will be good to see the progress of different planning's that we had, and then we can analyse certain events that are more important to understand, even in the contemporary context.

So, I have tried to balance both historical developments, plus the contemporary developments, and then we will analyze, so it is left to the audience to analyze that whether the course helped them understand the India's economic history and economic growth process, and how they can use it. So, to begin with, I have also prepared some slides, so I will be showing you, and then then we will have some questions based on that. So, those who will be taking up this course, they will have to go through this complete process.

So, to start, we got independence in 1947. And after independence, the major task was that how to get back to higher growth and development. At that time, the forefathers, the policymakers were quite convinced with the USSR model of development, because we had almost all sectors completely in a very bad shape. So, it was not good to go for a market economy. So, at that time, India had the option to adopt the European model and U.S. model of market-based economy where the firms and the market will be deciding the utilization of different resources.

But the policymakers felt that if we go by the market-oriented model, then it will be very difficult to control on the resource utilization. So, in the marketplace, it is very difficult to go for some kind of a planning. So, that is why they had gone for socialist system of planning. So, they were inspired by the USSR model of economic planning and India also adopted that. Also, there was some development with regard to that.

But before that, I would also like to highlight some reference materials that one has to go through. So, in the Indian context, if you read books on Indian economy, then you find that one textbook which is widely popular in Delhi University and all other colleges, it is by Uma Kapila and then there is a book by Misra and Puri. But apart from these two books, there is one recent book by Ashima Goyal, so I have given the references.

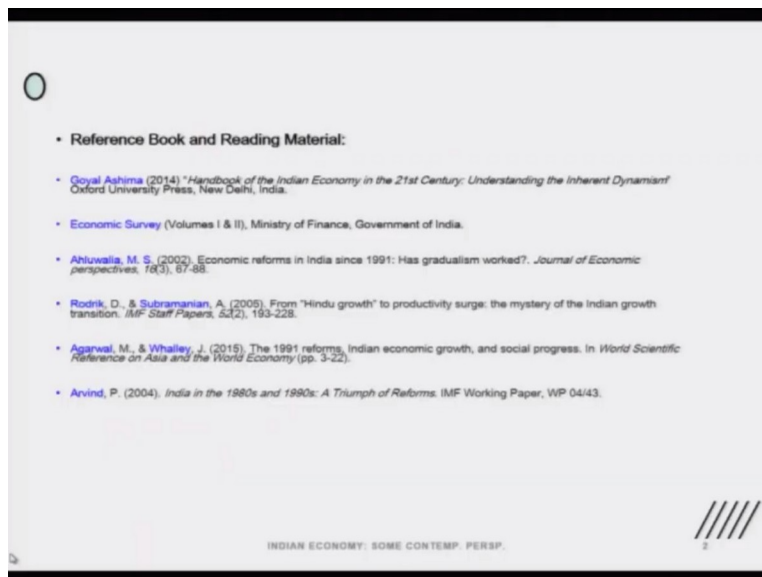
And the second most, I would say, credible source to understand India's economy, especially the contemporary or the recent developments is the Economic Survey published by Ministry of Finance, and it is written by a Chief Economic Adviser every year. So, before budget, this economic survey comes out, and then it becomes a part of the debate and discussion and people participate in those and they try to understand what we have achieved in the last one year, and where we lagged and how we can improve upon.

So, that is why economics survey begins. So, there will be whole vision of the government, it comes in Volume 1 and 2. So, Volume 1 keeps in mind different policy processes that government has undertaken and they are planning to continue, there will be also some vision for the government that how government is going to prioritize in future. So, there will be signaling mechanism working in this Volume 1.

Volume 2 is complete appraisal of what we have done in last one year and how we will be going forward. So, there will be each and every sector covered in this Volume 2. And that is why this particular document becomes really important for an economist to go through. And even those who prepare for Civil Services, those who are non-economists, they also feel that Economic Survey is really important.

So, maybe after once I cover certain historical development, then we will be fully devoting to at least three to four years of Economic Survey and we will see recent developments and try to analyze the India's economy in the contemporary context.

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Then we have the paper by Montek Singh Ahluwalia, Economic Reforms in India Since 1991: Has Gradualism Worked? It appeared in Journal of Economic perspective and this particular paper talks about certain developments that were worth mentioning and worth highlighting after 1991.

Now, then there is a, there is an economist, Dani Rodrik, he works a lot with Arvind Subramanian, he was the Chief Economic Adviser, his works are quite popular and he has extensively worked on India's economy. And IMF Staff Paper is one that I thought I should be mentioning.

From social point of view, there is a very good document written by Agarwal and Whalley, earlier it was NBER paper, but later it has been incorporated in the World Scientific Reference on Asia and the World Economy. The title is: The 1991 reforms, Indian economic growth and social progress. So, this particular paper is really worth going through if you want to understand the complex social processes that India has to go through.

So, these are the list of papers and textbooks that one should be keeping in mind. And whatever we are going to discuss in the later slides, it will be from these documents, plus some things that I have added from different sources. So, wherever possible, I will cite those tables and references, and then it is up to the audience to pick up these materials for their understanding.

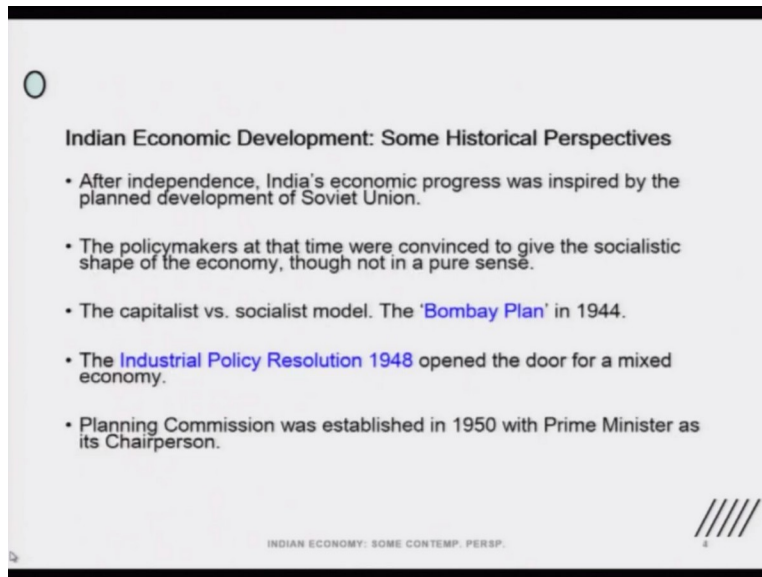
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So, the key learning objective is that we will be trying to go through the India's economic history since independence that how and why we had to go through such economic planning process, understand the developments and the planning process, then we will also review that how different planning's helped India avoid certain awkward moments and how even with those difficult times, India came out successfully in terms of high growth and development, so pre and post scenario that we have.

In case of India, there is one landslide moment that we had, it was 1991 period when we were facing really a tough time in terms of reviving our economy. But at that time, we also had capable people to take the economy forward from those shocks. So, also in a good sense it is really important to understand.

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Now, so as I mentioned in the beginning that when we got independence, so after independence we had adopted something called Industrial Policy Resolution 1948. What was this resolution? So, this resolution was that we divided different sectors into four groups, Group A, Group B, Group C and Group D.

So, in Group A, we had various strategic sectors like for example, arms and ammunition, and then there were certain sectors that were of national importance, strategic importance, that were kept only for the public sector.

Then we had Group B sectors, under that we had a shipping and all, even highways and infrastructure development. So, those sectors were also kept in the government hand, so government had a complete say.

In Group C, we had sectors for example, automobile, tractors and all, these sectors were open for private sectors.

So, India, whatever we say, India is a mixed economy. So, mixed economic setup was given by this Industrial Policy Resolution 1948. And it was with the consent of public and private, so both firms were happy, because in the Bombay Plan that was introduced by a group of businessmen, surprisingly, despite being private sector, they supported the government move and then they

mentioned that a government should go for a heavy nationalization of core sectors, and then at later stage these firms will be given freedom in terms of participation.

So, in the beginning of or in the formative years when we had, these firms had complete support to the government in terms of planning process. So, that is why we find that in case of India, it was very smooth ride for the policymakers to adopt the planning process, because under market economy it would have been really difficult. So, this is what.

And if you ask a question that why we did not adopt the U.S. model, because at that time USSR was a really powerful economy, and it used to interfere regularly in global economic order. And the way we see these days, U.S. and China, at that point of time it was USSR. And most of the policymakers at that time were quite convinced with the centralized planning, so that is why they opt for it.

And then with this set up, they started the overall process. And then we set up the Planning Commission in 1950. And the Prime Minister at that time, Pandit Jawaharlal Nehru was the Chairperson, and then the Vice Chairperson, of course, it is appointed by the Prime Minister and associates. So that is why the whole idea behind the planning process was that how we can utilize the resources for the elevation of poverty, for better standard of living. So, that was the initial idea.

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Indian Economic Development: Some Historical Perspectives

- The First Five Year Plan (1951-1956) was drafted by the **K. N. Raj**.
- It was based on the **Harrod-Domar model**, higher savings enable greater investment.
- The plan achieved the growth rate of **3.6%**, higher than the target rate of growth of **2.1%**.
- The major focus of first five-year plan was agriculture and energy.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

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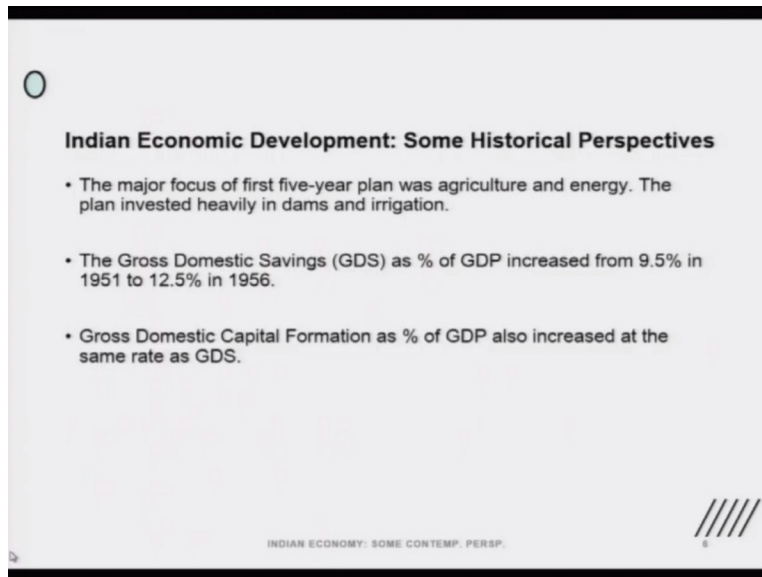
The first Five Year Plan which has the tenure from 1951 to 1956, it was drafted by K.N. Raj. And K.N. Raj was the powerful economist among the policymakers at that point of time and he was quite young to adapt. So, since we had all sectors lagging behind in terms of growth and development, and we had a really low savings rate, so keeping in mind that whatever capital we have and how much rate of capital we can generate for investment, it was conceived that we should go for a Harrod-Domar kind of model.

So, James Meade Keynes had an idea that until unless government intervenes in the economy, it is very difficult to have a high growth rate. So, his followers, Harrod and Domar, gave the idea that if you can simply add the value in the savings, we then this high savings or if you have the higher savings in the economy, then this higher saving will translate into higher investment, and as a result, you will have a better growth scenario.

So, keeping that in mind, the first plan was conceived with a focus on agriculture and the basic infrastructure development. So, the first plan was basically focused on agriculture and the energy. And in terms of energy, the hydel power generation was the focus. And then we found that in the first Five Year Plan, the construction of major dams was undertaken. And then it became one of the milestones to have such type of gigantic development that we had seen during first plan.

And first plan, in terms of growth and target, it was a success, because in first plan the target was to achieve the economic growth rate of 2.1 percent, but economy actually achieved the growth rate of 3.6 percent.

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Indian Economic Development: Some Historical Perspectives

- The major focus of first five-year plan was agriculture and energy. The plan invested heavily in dams and irrigation.
- The Gross Domestic Savings (GDS) as % of GDP increased from 9.5% in 1951 to 12.5% in 1956.
- Gross Domestic Capital Formation as % of GDP also increased at the same rate as GDS.

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Now, at that point of time, if you compare in terms of, since the focus was on savings and investment, so if you compare the savings and investment in a crude sense, then it appears that the planning helped these indicators to grow at a higher rate.

So, for instance, in terms of two indicators that I have taken, one is called Gross Domestic Savings as a percentage of GDP I have taken, it increased actually from 9.5 to 12.5 in 1956, which can be said as a marginal increase, but still it was showing an upward trend. Which means that there was employment generation, people had money, they saved certain amount of money and it resulted in increase in savings.

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Indian Economic Development: Some Historical Perspectives

- In the organized sector, the gross rates of capital formation and savings were quite low.

Year	Gross Capital Formation			Gross saving		
	Public sector	Private Sector	Total	Public sector	Private Sector	Total
1950-51	2.7%	2.2%	4.9%	1.8%	0.9%	2.7%
1955-56	4.9%	2.1%	7.0%	1.7%	1.3%	3.0%

Source: Capital formation and saving in India: 1950-51 to 1979-80, RBI
Link: http://mospi.nic.in/sites/default/files/publication_reports/raj_1982.pdf

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Then we had a Gross Domestic Capital Formation, which is the other indicator of investment, and it also went up by almost by the same amount. So, we had a document on this, which is the capital formation and saving in India in 1950-1951 to 1979 and 1980.

Now, in this particular document, I find that, if I compare the public and private sector, I find that in case of gross capital formation, which is the indicator of investment, the share of public sector is much higher than the private sector, which means that the public sector had a say in investment. And in terms of gross savings, though the difference is not much, but it appears that public sector is still leading the private sector.

So, for instance, in 1950-1951, the public sector had this investment 2.7, private sector had 2.2. After the first Five Year Plan, it went up by 4.9 percent, and then private sector 2.1 percent. In the same way, gross saving that we had, it also increased, I would say, for the public sector it had a marginal decline, but for private sector it increased actually.

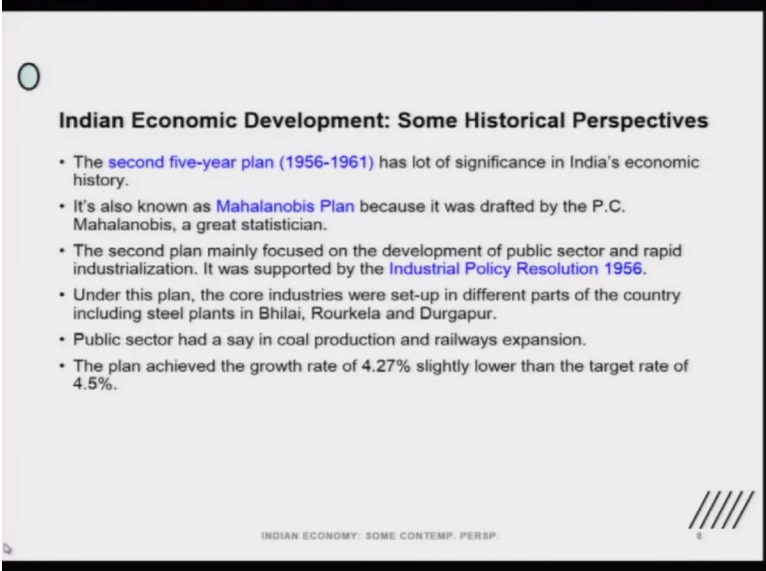
So, which means that this could be because public sector had to go for heavy investment. So, the saving was much lower, but private sector had a limited participation so they may have gone for a cautious measure, and that is why this particular saving increase. But in the positive sense, overall the indicator looks going up, that means that the first Five Year Plan helped in terms of saving and investment.

So, this particular document, I accessed it on the MOSPI website. So, if you want, you can go through this particular document to go in detail and find it out what were the reasons for such major surge.

So, which means that the first plan, which was conceived thinking about the lack of resources, it really helped in adding value. And it also gave immense confidence to the policymaker to take this planning process forward in terms of different sectors, focus on different sectors, generating capacity, going for rapid industrialization. So, the whole process of understanding the India's economic development works on this, that how the first Five Year Plan helped in terms of achieving the agriculture, energy.

In the formative years when we had got independence, at that time our food grain production was really low so we used to spend a lot of money in terms of foreign aid, or we used to also get money from outside to support our food shortage or to minimize the food shortage. And that is why there is a whole lot of debate also on this that why we did not focus only on the food and then we could have gone to the industrialization process later. And at that point of time, we it would depend on PL-480 saga that we always mentioned in India's economic history that we used to rely on the U.S. to get wheat from there and then we used to feed our population.

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Indian Economic Development: Some Historical Perspectives

- The [second five-year plan \(1956-1961\)](#) has lot of significance in India's economic history.
- It's also known as [Mahalanobis Plan](#) because it was drafted by the P.C. Mahalanobis, a great statistician.
- The second plan mainly focused on the development of public sector and rapid industrialization. It was supported by the [Industrial Policy Resolution 1956](#).
- Under this plan, the core industries were set-up in different parts of the country including steel plants in Bhilai, Rourkela and Durgapur.
- Public sector had a say in coal production and railways expansion.
- The plan achieved the growth rate of 4.27% slightly lower than the target rate of 4.5%.

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Then we had a very dynamic person leading the group, which helped a lot in terms of setting up different institutions. For example, we have Indian Statistical Institute, which helps the country in terms of different numbers and the Mahalanobis, in India he is known for his contribution to statistics.

He drafted the Second Five Year Plan, and it was also based on Industrial Policy Resolution which clearly had a major improvement over Industrial Policy Resolution 1948 and it clearly demarked certain sectors where government will have a clear-cut role and then private sector will also be allowed to participate.

So, the mixed economy setup that we continued or we envisaged in 1948, it continued even in 1956. So, the Second Five Year Plan is also known as Mahalanobis Plan, because it was adopted by P.C. Mahalanobis, I would say a noble statistician that we had. And this particular Second Five Year Plan had an immense impact on the industrial landscape of the country.

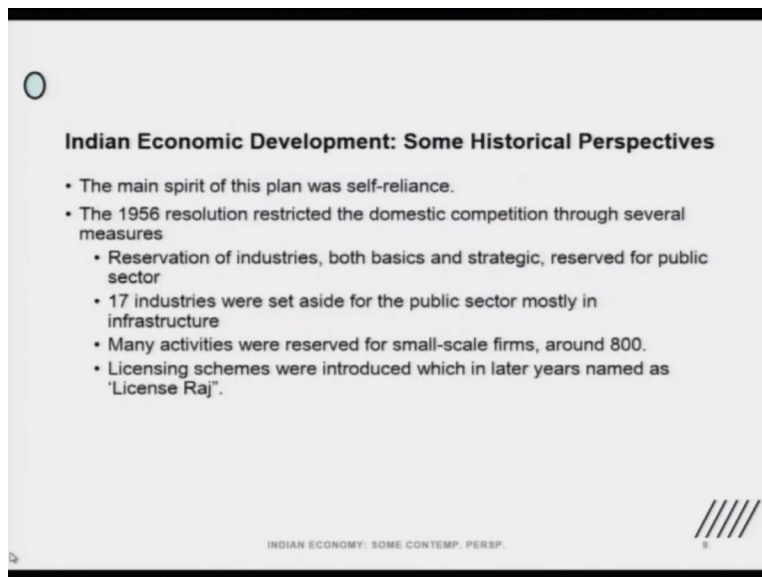
So, across different regions, including rural, urban, semi-urban areas, government took measures on setting of factories, industries, and the core sector in terms of coal, mining and even highways, even transportation, telecom, the government took over and they invested money to drive the capacity of these sectors up.

So, the Second Five Year Plan had a complete say on the public sector, and it also gave rise to the rapid industrialization. Under this plan, in different parts of the country, for example, there was a setting of steel plants in Bhilai, Rourkela and the Durgapur, and all these plants are still functioning. And at that point of time, these industries had a lot in supplying quality steel to different sectors.

Public sector had a say in coal production, railway expansion, because railway was also in the government hand and it is still there and it is continuing. Though in terms of overall performance, it looked that the agriculture sector, which was one of the crucial sectors, this particular plan did not pay that much attention, even in the budget there was a decline by 14 percent to the agriculture and then the amount was passed on to the industrial sector for the expansion.

In terms of growth numbers, the Plan achieved the growth of 4.27 percent, though the target was 4.5 percent. Keeping in mind the success of First Five Year Plan, the policymakers thought that Second Five Year Plan, because the focus is on industries, it may have the similar kind of success that the government is trying to have. So, Second Five Year Plan was not successful in terms of growth numbers, but of course, it laid down the industrialization process of India's modern economic history that we have.

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Then, of course, the vision was that we should not be importing so much raw materials and inputs, and that is why the self-reliance was always in mind. The 1956 resolution reflected that domestic competition through several measures, for example, certain industries, both basic and strategic, were reserved for the public sector.

17 industries were set aside for public sector, mostly in infrastructure. So, as I mentioned the railways, road, transport, then we had telecommunication, arms and ammunition, then we had war related defense equipment, those were all set aside. Some activities were reserved only for the smallest scale firms, and that is the most important things to note, that even at that point of time around 800 activities were reserved for the small scale. So, whatever we have in terms of small-scale sector that we see, a small-scale sector focus, at that time it was also planned.

But keeping in mind these, we have reservations of industry, so the private sector was not allowed. As a result, what happened that government allowed the licensing norms that if I want to participate or if I want to operate in these sectors, then you need to obtain the license, and that led to what we have, the red tapeism and the bureaucratic process, something called License Raj.

So, License Raj is very much known in India's economic history where the government had really tough time in fighting with corruption, bureaucratic hurdles, and trying to see how it is going to work.

So, so far what we have done is that we have tried to understand the idea behind how we can at least have some basic understanding of First Five Year Plan, Second Five Year Plan. And what we saw that, in First Five Year Plan we had an emphasis on agriculture and energy, in the Second Five Year Plan it was completely based on the industrialization process.

So, I hope this will help you understand the progress that we made till 1961. So, you can think in terms of from 51 to 61, so the 10 years of development that we had, we focused on these two, and that is why we are now in a much better position to at least understand that why these industries that we see, and whatever we have gone for modernization, it has started all from here. Thank you so much.