

**Indian Economy: Some Contemporary Perspectives**  
**Professor Wasim Ahmad**  
**Department of Economic Sciences**  
**Indian Institute of Technology, Kanpur**  
**Lecture-02**  
**Indian Economy: Economic Planning 2**

So, welcome back. So, in the last lecture we appraised the First Five Year Plan and Second Five Year Plan. Now, we are going towards a quite volatile situation, in that Third Five Year Plan we really had an interesting phase where we were facing unprecedented situation from our neighboring countries, and as a result we had to resort to a different set of planning process.

(Refer Slide Time: 0:59)

The slide is titled "Indian Economic Development: Some Historical Perspectives" and contains a list of four bullet points. The first bullet point states that the Third five-year plan (1961-1966) has special reference to India's economic history due to the following reasons: the plan was interrupted by the Wars with China and Pakistan; India faced severe drought, with a major shortage of food reported in Bihar; the Third FYP had a target growth rate of 5.6% but achieved only 2.4%; and three annual plans were introduced during the period 1966-1969, called 'Plan Holiday'. The slide also features a small circle icon in the top left, a logo of four slanted lines in the bottom right, and the text "INDIAN ECONOMY: SOME CONTEMP. PERSP." and the number "18" at the bottom.

- Third five-year plan (1961-1966) has special reference to India's economic history due to the following reasons:
  - The plan was interrupted by the Wars with China and Pakistan
  - India faced severe drought. Major shortage of food was reported in Bihar.
  - The Third FYP had the target rate of 5.6% but it achieved the growth rate of 2.4%.
  - Three annual plans were introduced during this period 1966-1969, called 'Plan Holiday'.

We had to drop the idea, we had to discontinue the planning process for certain years, that we call it as Plan Holiday. And the period was from 1966 to 1969. So, here the Third Five Year Plan was from 1961 to 1966. And this plan also helped a lot in terms of understanding, I would say, growth process of India's economy. So, Second Five Year Plan, whatever we had in terms of heavy industrialization, it helped continue the high growth path.

And unfortunately, it was interrupted by the wars with China and Pakistan. And at that time, since Second Five-Year Plan did not pay that much attention to agriculture, and due to bad monsoon, we had a severe drought situation in certain parts of the country, especially in Bihar,

the drought situation was so intense that there actually the death rate had gone up, and the food shortage was really high.

So, at that point of time, even India had a tough time to negotiate with the U.S. and the IMF and the World Bank to give at least some support. And given the external situation that we had, it was really difficult to procure that support also. So that is why this particular period became really a challenging period for policymakers.

So, India faced severe drought, major shortage of food was reported in Bihar. So, the death rate in Bihar had gone up by 34 percent also. So, the third Five Year Plan had the target rate of 5.6 percent. But it was again a failure and it achieved the growth rate of only 2.4 percent. And that was not because we were not capable of doing, but because circumstances were not that favorable, and even the domestic economic setup that we had, it was not very good.

So, the war ultimately had an impact on the budget allocation of different sectors. And as a result, the agriculture, even manufacturing and certain other sectors were also not doing good.

And the Third Five Year Plan is known for its landmark achievement in terms of agriculture, that this was the process when M.S. Swaminathan and Norman Borlaug came together and then they began the Green Revolution in the country to make India self-reliant on food production.

And then at that point of time, because of the excess distribution of high yielding varieties of seeds, the Green Revolution took off and it also created a lot of buzz in the different parts of the country in terms of growing inequality. But keeping that aside, Third Five Year Plan also gave a special emphasis on agriculture, especially food production.

One important note that everyone asks in most of the exams that when India had to go for a Plan Holiday, so it was a period when we were facing extreme situation, 1966 to 69, so this was a period when we call it as Plan Holiday.

(Refer Slide Time: 3:58)

0

### Indian Economic Development: Some Historical Perspectives

- In agriculture, High Yielding Varieties (HYV) were introduced in 1963.
- Production of wheat and paddy increased due to widespread adoption of Mexican varieties of hybrid wheat in 1963 and Taichung native I of paddy in 1965.
- To monitor the progress of Green revolution, some regulatory bodies were set-up. For instance, Agro-industries Corporation in states, The Cooperative Development Corporation and the National Seeds Corporation.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 11

So, in agriculture, High Yielding Varieties were introduced in 1963. And this led to, in certain part, especially Punjab, Haryana and western part of the Uttar Pradesh, these HYVs were distributed and this particular region became prosperous in terms of high yield and in terms of productivity, which means the agriculture productivity had gone up.

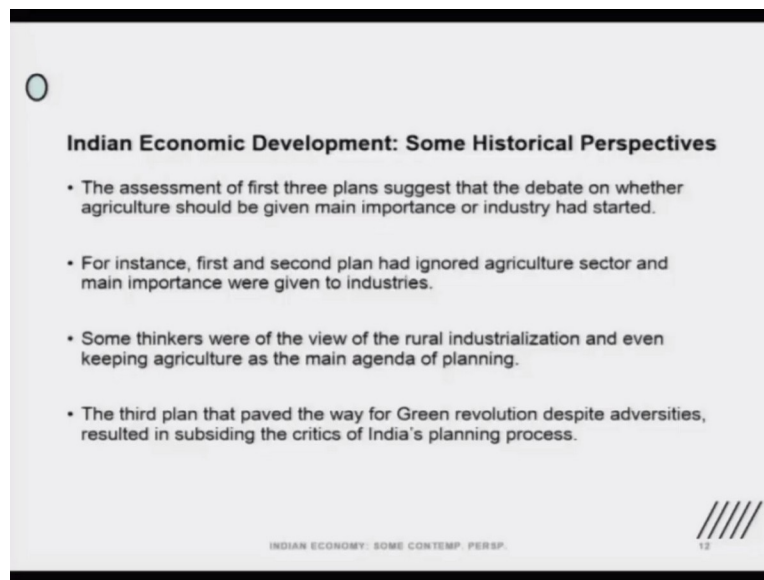
So, production of wheat and paddy increased due to adoption of Mexican varieties in wheat, and Taichung native I of paddy in 1965. So, these two varieties were quite popular at that time and especially in Mexican variety there were different others, and it really helped in India to come out from the food shortage. And then the focus was completely shifted to agriculture, to industry and the services and other sectors.

One of the important developments that also took place was the setting up of the regulatory framework, regulatory architecture for the agriculture sector. So certain bodies were set up, for example, Agro-industries Corporation in every state, then there was a Cooperative Development Corporation, then the National Seeds Corporation.

So, these corporations helped in the smoothing the process of agriculture development in the country. And this helped a lot in terms of not only making the country self-reliant in terms of food grain production, but also making, I would say, rural areas more prosperous. So that is why the Third Plan is more known for such contributions. But at the same time, Third Plan is also

known for drought that was felt in certain part of the country very acutely. And that is why it is also important to note.

(Refer Slide Time: 5:48)



If we stop here for one moment, and if we try and see that how we can simply understand or we can go for some kind of appraisal of first three Five Year Plans, then we find that first plan had focused on the capacity, second plan had set the framework or it had led down the industrialization process. The third plan focused mostly on the agriculture capacities, food grain production and health.

So, first and second had ignored the agriculture sector, and the importance were given to industries. Some thinkers were of the view that rural industrialization, even keeping agriculture as the main agenda. So, after that, there were political developments, the political parties and politicians affiliated to agriculture sector, they also came in power and then they also emphasized more on the agriculture sector, because of the Second Five Year Plan impact. So, the Second Five Year Plan is known for that. So, Third Five Year Plan completely gave the region to re-joy the rise of agriculture sector as self-sufficient sector in terms of food planning process.

(Refer Slide Time: 7:01)



0

### Indian Economic Development: Some Historical Perspectives

- Fourth five-year plan was introduced in 1969 (1969-1974).
- The fourth plan also had surprising developments which include the India-Pakistan war of 1971, creation of Bangladesh, oil crisis of 1973 and the nationalization of major banks.
- On 19<sup>th</sup> July 1969, 14 major banks with the deposits of over Rs. 50 Crores were nationalized.
- The plan achieved the growth rate of 3.5%, lower than the target rate of growth of 5.5%.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 12

Now, fourth Five Year Plan was introduced in 1969. And the duration was from 1969 to 74. The fourth Five Year Plan also had a surprising development, because then at that time there was the Pakistan controversy and the creation of Bangladesh, and then we had a war with Pakistan at that time also. Then we had OPEC oil embargo, under that we had to import the crude oil at a higher price. As a result, the import cost went up and then we had to pay a lot in terms of foreign exchange. So that was also one outflow that we had to see just because of these disturbances.

And one major thing that had happened, which was very positive for the country development was the nationalization of banks, because nationalization of banks was one of the important things. On 19th July, 1969, 14 major banks were nationalized.

So, what happened, after independence when we look at the banking sector, then we find that in the banking sector we had almost more than 470 banks operating in different sectors and most of these banks were required fragmented. And to implement the planning process, which is at the national level, government wanted some dedicated institutions to support. And they were not very confident with the way these banks were functioning.

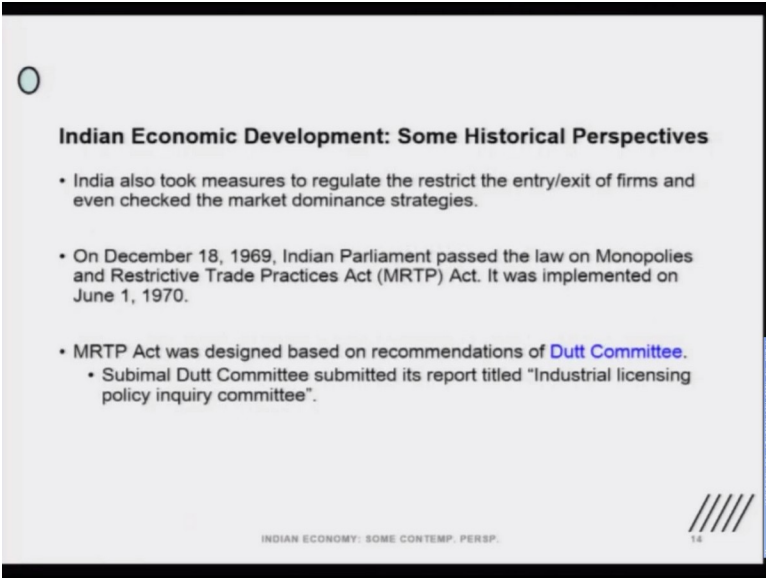
So, business houses had personal banks, they were more interested in giving loans to their relatives and the known people compared to the common and commoners. So, as a result,

government had to think about how they have to support this planning process, when you have the commitment of achieving the growth rate of more than 5 percent.

So, as a result, we saw that on 19th July, 1969, 14 major banks with deposits of Rs. 50 cores were nationalized. So, we had Punjab National Banks and all those banks were nationalized, but it was all with the setting up of the RBI and then the SBI and then it continued. But these 14 major banks played really instrumental role in implementing the planning process quite efficiently and supporting or providing support in terms of credit support, not just from the perspective business-meant, also from the household side. So, these banks helped.

And then, as I mentioned that we had a post India-Pakistan war of 1971, then subsequently we had a creation of Bangladesh. And then here also the total growth rate that we had, the overall growth rate, five years' growth rate that we achieved during this period was 3.5 percent, which was lower than the target rate of growth of 5.5 percent. So, this particular exercise helps understand that how we can understand the fourth Five Year Plan.

(Refer Slide Time: 10:06)



0

### Indian Economic Development: Some Historical Perspectives

- India also took measures to regulate the restrict the entry/exit of firms and even checked the market dominance strategies.
- On December 18, 1969, Indian Parliament passed the law on Monopolies and Restrictive Trade Practices Act (MRTP) Act. It was implemented on June 1, 1970.
- MRTP Act was designed based on recommendations of **Dutt Committee**.
  - Subimal Dutt Committee submitted its report titled "Industrial licensing policy inquiry committee".

INDIAN ECONOMY: SOME CONTEMP. PERSP. 14

India also took measures to regulate and restrict exit entry and even shake the market dominant strategy. So, as we mentioned that the Industrial Policy Resolution that we had, we had a 1948 and 56, and then in 56 also we allowed certain sectors only for the public and then the licensing norms were introduced.

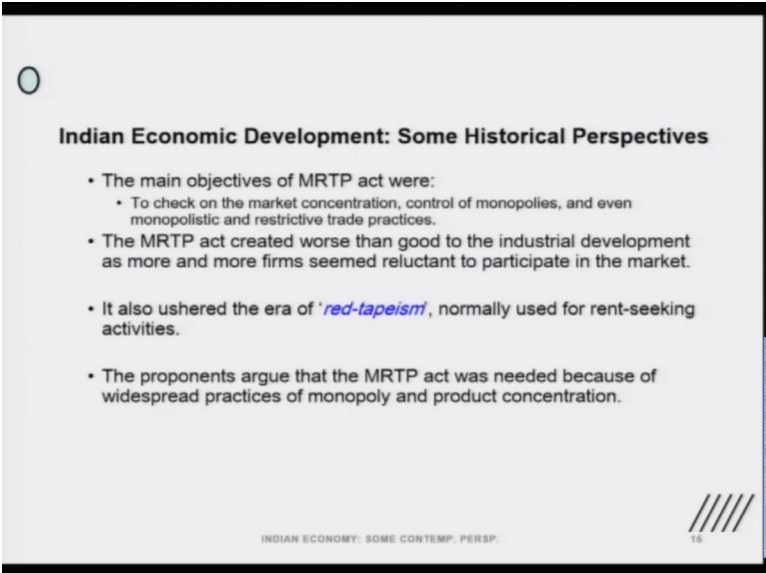
Now, this particular exercise gave rise to what we have the licensing Raj, and then there were certain firms which had complete dominance and there was some kind of monopolistic structure or oligopolistic structure, formation of cartels, then there was some kind of leadership role in certain sectors. Though businessmen which were quite powerful they had a say in a particular sector, even public sectors firms were not shying in terms of taking advantage with the dominance of the market.

So, at that point of time, on December 18, 1969, Indian Parliament passed the law on Monopolies and Restrictive Trade Practices Act, which is called MRTP Act, and it was implemented on June 1, 1970.

So, the MRTP Act has a special, I would say, status in India's industrialization process because this particular act gave rise to a lot of, I would say, it is called a red tapeism; and again, it is called in terms of a rent-seeking, that this particular MRTP Act again gave rise of different or alternative set of firms operating in a quite unusual manner.

So, the Dutt Committee had recommended that and it submitted the report which was titled as; Industrial Licensing Policy Inquiry Committee, and this committee recommended that there should be a complete control and check on the entry, exit of firms, and then whether the firms are opting fair market strategy or not, is there any kind of period pricing happening.

(Refer Slide Time: 12:16)



0

### Indian Economic Development: Some Historical Perspectives

- The main objectives of MRTP act were:
  - To check on the market concentration, control of monopolies, and even monopolistic and restrictive trade practices.
- The MRTP act created worse than good to the industrial development as more and more firms seemed reluctant to participate in the market.
- It also ushered the era of '*red-tapeism*', normally used for rent-seeking activities.
- The proponents argue that the MRTP act was needed because of widespread practices of monopoly and product concentration.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 15

The main objective was to check on the market concentration, whether the particular sector is operated by only one particular firm or there are a large number of firms operating. Control of monopolies, whether there is a single firm a dominating or even monopolistic and restrictive trade practices.

So, monopolistic in the sense that if you have some small number of firms participating with the differentiated product, now the MRTP Act created worse than good for industrial development as more and more firms seemed reluctant to participate in the market. And then the investment process also slowed because it was very difficult to participate.


So, most of the forms which were relying on the import from, or import of input from outside, even the import of technology, it was not easy. So, that is why the services sector firms, if you go through the history, you will find that most of the services sector firm report that it was very difficult for them to compete.

It also ushered in the era of red-tapeism, normally used for rent-seeking activities where there is a collusion between firm and the politician or the bureaucrat. If the bureaucrat is giving extra favor then firms also in return give extra favor, and there is some kind of collusion happening so that we always mentioned in terms of political connection of firms, so politically connected firms. So those firms which were politically connected, they had a complete say in the market dominance, even restrictive trade practices.

The proponents argued that MRTP Act was needed because of widespread practices of monopoly and product concentration. In certain areas, in certain segments, the firms were producing a certain amount of product, but with a certain change of labelling, they were participating in other markets also. And as a result, the domestic market in different parts of the countries were completely dominated by a particular set of firms. So, MRTP Act was not also successful in terms of restricting, in a good sense, in terms of market development. It basically helped the large firms to dominate.



(Refer Slide Time: 14:28)



0

### Indian Economic Development: Some Historical Perspectives

- Large business houses had the disproportionate share in operational licenses and had even controlled the market through firms and their control.
- Even Monopolies Inquiry Commission in 1965 reported the excessive practices of monopoly and oligopolistic market structures.
- The Commission found that out of 1298 products, almost 88% firms were oligopolists, 437 monopolists and 229 duopolists.
- The MRTP was repealed in 2009 by the Competition Act, 2002.
- Competition Commission of India (CCI) now overlooks on market characteristics and restrictive trade practices.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 15

Large business houses had the disproportionate share in the operational licenses and it had even controlled the market through firms and their control, which means that these large firms, basically big business houses had a complete say in terms of tractor, in terms of you have a whole lot of other automobile sectors. So, this particular MRTP Act also gave rise to this.

Even in 1965, before the implementation of this MRTP Act, Monopolies Inquiry Commission in 1965 reported the excessive practices of monopoly and oligopolistic market structure. Oligopolistic market structure means a small number of firms participating.

Now, the Commission found that out of 1298 products produced at that point of time, almost 88 percent firms were oligopolists, 437 were monopolists, which means there were only one seller; and 229 duopolies, means two sellers. So, this shows the distribution of market at that point of time. And that is why the MRTP Act was needed.

Lately, in 2009, MRTP Act was repealed and it was replaced by the Competition Commission Act of 2002. Now, in India, we have a Competition Commission of India to look after such differences with respect to market dominance, monopolies and restrictive trade practices. In the modern era, in the contemporary context, Competition Commission of India looks after such kind of market violations where if a firm finds that the competitors are not following certain market regulatory norms, then they can report to Competition Commission of India, Competition

Commission of India then tries to go through in detail and report it to the Appellate Tribunal. Appellate Tribunal again takes it into consideration and it imposes certain fines or whatever the decisions are being taken.

So, the CCI is now a popular institution in India. To consider, you may be reading in newspapers that how DLF was found, how National Stock Exchange was not following the norms of market and how MCX with the National Stock Exchange for not following in the ForEx derivatives market. So, those are the important details that is one I wanted to share with this particular exercise, that we are offering a course on the Indian economy.

(Refer Slide Time: 16:55)



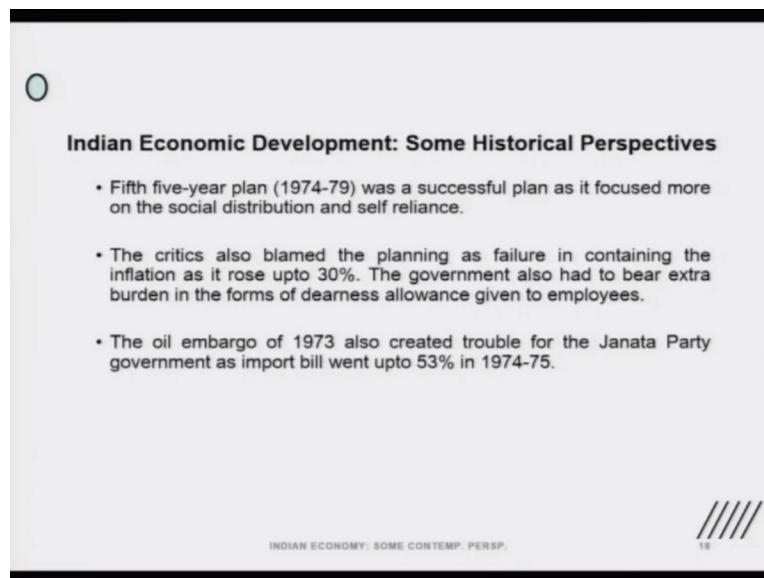
The fifth Five Year Plan, which was from 1974 to 1979 was a successful plan because it also focused more on the social distribution and the self-reliance. As I mentioned that self-reliance was more to do with agriculture because we were sufficient in food grain. The plan was a success, because fifth Five Year Plan achieved the growth rate of 5.7 percent compared to what we have, 5.2 percent.

During this period, the foundation of first and second Five Year Plans started reflecting. So, whatever foundation that were laid down, the fruits of that we started seeing and it yielded in a higher rate of growth that we see. India became a self-sufficient country in food production with the capacity of 118 million tones. So, this became really an important contribution in terms of

how we can think about self-reliance that we have in terms of food production. Exports also increased by 15 percent. And India also had ForEx reserves going up, and we had a good amount of foreign investment coming in.

So, overall, it looks that by fifth Five Year Plan, despite we had to face war, and we had unprecedented wars with Pakistan, and then we had with China despite those disturbances, then oil embargo of 1973, despite these challenges, India still able to achieve a higher growth, and it registered a growth rate of 5.7 percent in fifth Five Year Plan.

(Refer Slide Time: 8:43)



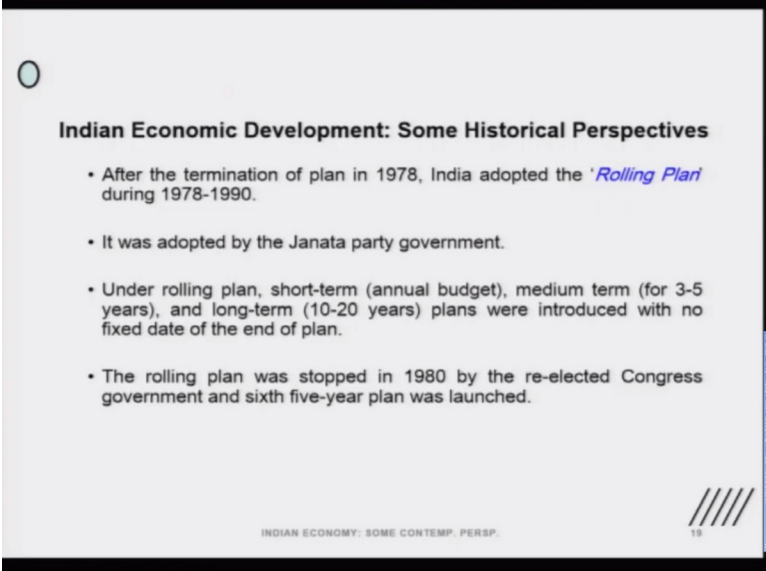
The fifth Five Year Plan was also successful, it focused more on social distribution. The critics also blamed the planning as a failure in containing and the inflation went up by 30 percent. And this was because of the oil, in terms of crude oil embargo that we had to see. And that is why we had seen the increase in our import bill. Import bill went up by 53 percent.

At that time, we had a non-Nehru government, so it was Janta Party Government, and Janta Party Government worked a lot in terms of improving the infrastructure and then also giving more weightage to small scale industries. So, this particular government is known for that. At the same time, this government is also known for introducing something called Rolling Plan. So, that is also one important topic that is often asked to the students when they prepare for any kind of exams and all.

So, in case of India, the inflation which resulted in the higher deficits, because if you have higher inflation you are supposed to pay a higher allowance or a high allowance to the employees. So most of the employees had to be compensated by certain increase in D&A allowance. As a result, this puts extra burden on the exchequer, and as a result, we have a higher deficit. So, this high inflation also resulted in higher deficit during this period.

But at that time, there was again political turmoil happening around, because this particular government was not able to complete its term and then there was a change of guard. And this resulted in the overall lot of upheavals in the political setup. But on economic front, the economy was able to at least sail through whatever we had seen, the disturbance of 1973.

(Refer Slide Time: 20:38)



0

### Indian Economic Development: Some Historical Perspectives

- After the termination of plan in 1978, India adopted the '*Rolling Plan*' during 1978-1990.
- It was adopted by the Janata party government.
- Under rolling plan, short-term (annual budget), medium term (for 3-5 years), and long-term (10-20 years) plans were introduced with no fixed date of the end of plan.
- The rolling plan was stopped in 1980 by the re-elected Congress government and sixth five-year plan was launched.

INDIAN ECONOMY: SOME CONTEMP. PERSP. 15

Before the completion of the Fifth Plan, 1974 to 1979, the plan was discontinued, and then the Rolling Plan was introduced. So, India adopted the Rolling Plan, which continued, in 1978 it was planned that it will continue till 1990, but then there was a change in government, Mrs. Indra Gandhi took over and then she discontinued the plan immediately.

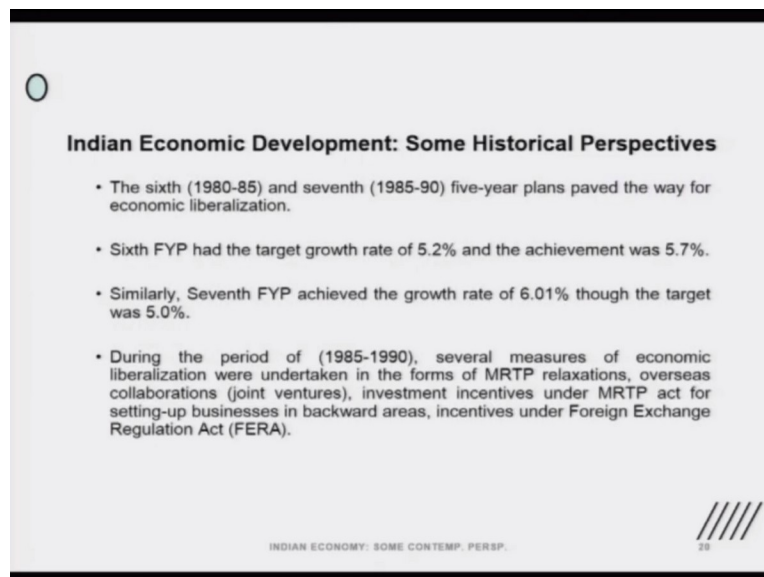
It was adopted by the Janta Party Government. Under this we had three types of planning, one was immediate, one-year budget or one-year plan; then 3, 5 to 10, which is the medium; and the long term 10, 15, 20 years. And the idea was that there will not be any kind of starting and

ending point of the planning, it will just roll over. So, once a period finishes, it will again go to the medium term and then the long term.

So, the idea was good, because we had no botheration about how much rate of growth we are going to achieve in a particular plan. But at the same time, there was a continuous planning process working and it was thought that this Rolling Plan idea will help.

The Rolling Plan was started in 1980 by the re-elected Congress Government and sixth Five Year Plan was launched. So, this particular exercise also gives the idea that in India's history, apart from the Plan Holiday that we had from 1966 to 1969, we also had to adopt the Rolling Plan. And then it also continued only for two years, because in 1980 the then elected government had discontinued and introduced the Sixth Plan.

(Refer Slide Time: 22:21)



The Sixth Plan and the Seventh Plan that we have, from 1980-1985 and to 1985 and 1990, these two plans have a special place in India's economic history, because these two plans gave rise to what we call the economic liberalization process, how economic liberalization process helped the economy to move from what we had the regulated economy, licensing-based economy to the market-oriented economy.

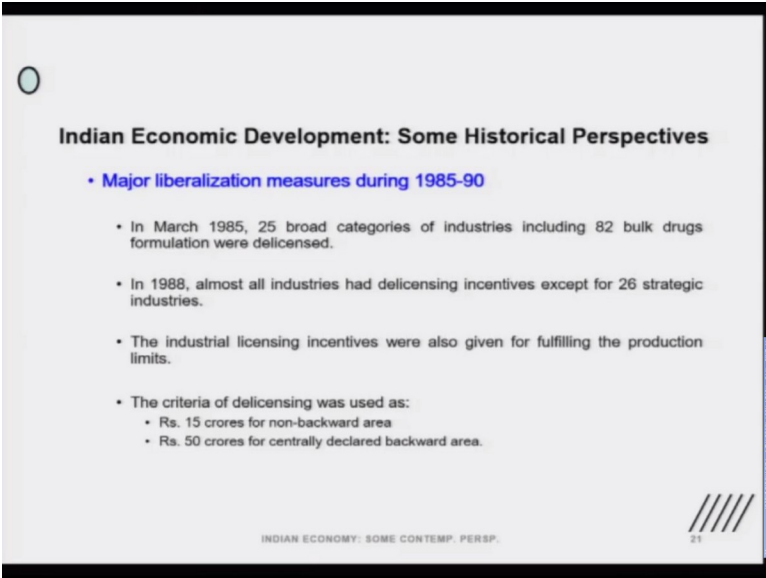
And sixth Five Year Plan had the target growth rate of 5.2 percent and achievement was higher, it was 5.7 percent, which means that this plan had really done well. So, the growth target was 5.2

percent and achievement were 5.7 percent. The Seventh Plan also did well in terms of achieving the growth rate. So, it achieved the growth rate of 6.01 percent against the target of 5 percent, so there was 1 percent increase.

So, in terms of Sixth and Seventh Plan, if we compare, then we find that these two plans were successful. And this could be because the foundation that were laid down in first, second, third and the previous plans, it helped these plans to continue on those enhanced capacities in production and in terms of supply chain.

Now, during the period of 1985 to 1990, several measures of economic liberalization were undertaken in terms of certain norms of MRTP Act were relaxed and some industries were allowed to participate. And if the firms are operating in backward areas, if they set up activities in backward areas, then they will be given incentives. Incentives were also given under the Foreign Exchange Regulation Act, FERA Act, which means that how this particular act helped the sectors to grow.

(Refer Slide Time: 24:23)



0

### Indian Economic Development: Some Historical Perspectives

- Major liberalization measures during 1985-90
  - In March 1985, 25 broad categories of industries including 82 bulk drugs formulation were delicensed.
  - In 1988, almost all industries had delicensing incentives except for 26 strategic industries.
  - The industrial licensing incentives were also given for fulfilling the production limits.
  - The criteria of delicensing was used as:
    - Rs. 15 crores for non-backward area
    - Rs. 50 crores for centrally declared backward area.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

21

Now, if you compare in terms of the major liberalization measures of 1985-1990, then we find that the seeds of economic liberalization were shown in the 1985 period only. And at that time, the Indira Gandhi Government had to take support from other parties, left-wing parties and even the socialist parties. And that is why it was done very silently without so much of noise. So, in

March 1985, 25 broad categories of industries, including 82 bulk-drugs formulations were dedicated.

So, here I will stop now, and I will try to tell you that whatever we have analyzed so far, it gives the idea that we are now in a very comfortable stage and we can say that we know something about India's economic history, how painful it was for the country to move from the perpetuation of underdevelopment to a slightly better position.

And in the next lecture, we will be covering some other aspects and we will continue with this. And then we will also move then towards the post-reform period. So, pre-reform period will also try to see on aspects of economic liberalization. Thank you. Thank you. Thank you so much.